

Euro wrap-up

Overview

- Bunds made modest losses at the long end of the curve despite some disappointing flash euro area PMIs.
- Gilts made modest losses on a quiet end to the week for UK economic news.
- The coming week brings several European sentiment surveys and the first estimate of euro area inflation in September, together with UK services output data.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.668	+0.002
OBL 0 10/21	-0.546	+0.006
DBR 0 08/26	-0.341	+0.016
UKT 1¼ 07/18	0.103	+0.025
UKT 3¼ 09/21	0.215	+0.024
UKT 1½ 07/26	0.732	+0.025

*Change from close as at 4.15pm BST.
Source: Bloomberg

Euro area

Flash PMIs signal loss of growth momentum

Today brought the most notable euro area economic data of the week in the shape of the September flash PMIs. While the survey results were not universally disappointing, the headline euro area composite PMI declined 0.3pt to 52.6, the lowest level since January 2015, to flag a possible loss of growth momentum. The deterioration was caused by weakness in the services sector, for which the euro area PMI fell to 52.1, the lowest since end-2014. In contrast, the equivalent index for manufacturers suggested a firmer end to the third quarter, rising to a three-month high of 52.6. And certain other composite indices were also a touch more encouraging, with new orders firmer and the output price index back above 50 for the first time in more than one year. Looking through the monthly volatility, the average euro area composite PMI for Q3 fell to 52.9, the lowest since Q414, suggesting another quarter of GDP growth close to the 0.3%Q/Q rate of the second quarter. And with the average Q3 composite reading for new orders similarly at a seven-quarter low, the near-term outlook for growth appears no more vigorous either.

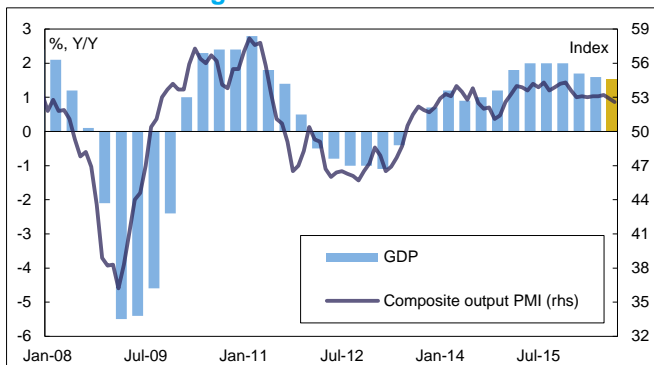
Germany softer, France firmer

The deterioration in the euro area PMIs was caused by Germany, for which the services PMI fell more than one point to 50.6, the lowest in more than three years. So, despite an improvement in the country's manufacturing PMI to a three-month high, the German composite PMI fell to 52.7, the lowest since end-2014, with the Q3 average the lowest since Q215, suggesting no meaningful acceleration in economic growth in the euro area's largest member state from the 0.4%Q/Q rate of Q2. In contrast, the French PMIs provided rare upside surprises, with notable improvements in the headline indices for services. As a result, the French composite PMI rose 1.8pt in September to a fifteen-month high of 53.3. And with the quarterly average inching up to the highest since Q215, the PMIs add to evidence of a return to positive GDP growth in France in Q3 following the 0.1%Q/Q contraction in GDP in Q2 revealed in revised figures also published today.

The week ahead in the euro area and US

Among other things, the coming week in the euro area brings further September economic confidence surveys and first indications of inflation in September and retail sales in August. The sentiment readings include the results of the German Ifo business survey on Monday, consumer confidence indices from the three largest member states on Wednesday, and the Commission's economic sentiment survey on Thursday. The flash inflation numbers are due from Germany and Spain on Thursday and the euro area, France and Italy on Friday – we expect a rise of 0.3ppt to 0.5%Y/Y in the euro area figure, which would be the highest for more than two years, albeit with risks to the downside of that forecast and the core measure unchanged at 0.8%Y/Y. Retail sales figures are due from Germany on Tuesday and Spain on Thursday with French consumer spending figures, similarly for August, due on Friday. Other figures of interest due in the coming week include the latest euro area bank lending numbers on Tuesday and unemployment figures on Friday. Mario Draghi will testify at the European Parliament on Monday. In the bond markets, Italy will sell zero-coupon and inflation-linked bonds on Tuesday and 5Y and 10Y regular bonds on Thursday, while Germany will sell 2Y Bunds on Wednesday.

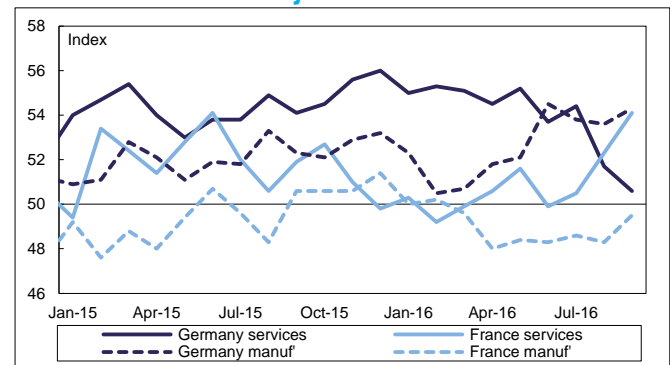
Euro area: GDP growth* and PMIs



*Daiwa forecast for Q316.

Source: Markit, Thomson Reuters and Daiwa Capital Markets

Euro area: PMIs in major economies



Source: Markit, Thomson Reuters and Daiwa Capital Markets Europe Ltd.



In the US, the coming week brings a handful of notable data releases. The week starts with August new home sales figures on Monday followed by the July Case-Shiller house price indices and September Conference Board consumer confidence survey on Tuesday. Wednesday brings preliminary durable goods order figures for August with the advanced trade report for the same month due on Thursday along with the third estimate of Q2 GDP (expected see a slight upwards revision in growth from the previous estimate of 1.1%Q/Q annualised figure). And Friday brings personal spending and income numbers, and the associated PCE deflators, for August as well as the Chicago manufacturing PMI and final University of Michigan consumer sentiment survey. Meanwhile, Yellen will testify on financial regulation on Wednesday, and politics-wise, Monday evening brings the first Presidential Debate ahead of November's election. In the bond markets, the Treasury will sell 2Y Notes on Monday, 5Y Notes on Tuesday, 2Y FRNs and 7Y Notes on Wednesday.

UK








Hawkish Forbes does not support further easing

In her speech yesterday, MPC member Kristin Forbes argued that the Brexit impact on the economy was modest and, therefore, the monetary policy easing package announced by the BoE in August was excessive. Forbes suggested that the measures she supported, a 25bp Bank Rate cut and the introduction of the Term Funding Scheme, were warranted by recent economic data, but that the costs of extending asset purchases, a measure she voted against, exceeded the benefits. She is not going to vote against the purchase programme now it is up and running, and if the data do not signal a further deterioration in economic momentum in the near term, she is not prepared to support additional easing. Her comments should not come as a surprise, given that she made very similar remarks on previous occasions. Certainly, they should not be taken as representative of the collective opinion of the Committee, which, the latest minutes said, will cut Bank Rate further if the economy continues to pan out as it forecast in August. In other news, reports suggest that Governor Mark Carney is likely to continue in his role until the end of his term in 2021, as opposed to leaving the BoE in 2018 as he had originally agreed. This comes on the back of the announcement, which is perhaps not unrelated, from Deputy Governor Minouche Shafik that she will leave the central bank next year, well ahead of the end of her five-year term.

The week ahead in the UK






































After a quiet Friday, the flow of new economic data in the UK is set to pick up in the coming week. The final Q2 GDP figure, due on Friday will grab the headlines. However, it seems unlikely to bring any surprises, with the 0.6%Q/Q growth indicated by previous releases likely to be confirmed. More noteworthy perhaps is the services activity index for July, released alongside the GDP numbers. This will give the first hard data on growth in the services sector in the aftermath of the referendum and, while it is likely to show that growth remained positive, it is expected to show a slowdown from the pre-referendum period. Meanwhile, the GfK consumer confidence indicator, due at the end of the week, is expected to have risen for the second consecutive month in September, while not recovering fully from the sharp fall seen immediately after the referendum. Ahead of Friday's releases, the BoE publishes the latest lending data on Thursday. These will most likely show that mortgage lending was a touch lower in August, with mortgage approvals slightly lower that month too. Meanwhile, the BBA releases a subset of those data from the major retail banks on Monday, while the CBI Distributive Trades survey is due on Tuesday.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Preliminary manufacturing PMI	Sep	52.6	51.5	51.7	-
	 Preliminary services PMI (preliminary composite PMI)	Sep	52.1 (52.6)	52.8 (52.8)	52.8 (52.9)	-
Germany	 Preliminary manufacturing PMI	Sep	54.3	53.1	53.6	-
	 Preliminary services PMI (preliminary composite PMI)	Sep	50.6 (52.7)	52.1 (53.6)	51.7 (53.3)	-
France	 GDP – second release Q/Q% (Y/Y%)	Q2	-0.1 (1.3)	<u>0.0 (1.4)</u>	0.7 (1.4)	-
	 Preliminary manufacturing PMI	Sep	49.5	48.5	48.3	-
	 Preliminary services PMI (preliminary composite PMI)	Sep	54.1 (53.3)	52.0 (51.7)	52.3 (51.8)	-
Auctions						
Country	Auction					
- Nothing to report -						














Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's data calendar

Key data releases						
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
Monday 26 September 2016						
EMU		14:45 ECB public sector asset purchases €bn	Weekly	<u>16.5</u>	16.0	
Germany		09:00 Ifo business climate index	Sep	106.3	106.2	
		09:00 Ifo current assessment balance (expectations)	Sep	112.9 (100.1)	112.8 (100.1)	
Italy		09:00 Retail sales M/M% (Y/Y%)	Jul	0.0 (0.6)	0.2 (0.8)	
UK		09:30 BBA loans for house purchase 000s	Aug	37.1	37.7	
Tuesday 27 September 2016						
EMU		09:00 M3 money supply Y/Y%	Aug	4.9	4.8	
Italy		09:00 Industrial sales M/M% (Y/Y%)	Jul	-	-1.1 (-2.7)	
		09:00 Industrial orders M/M% (Y/Y%)	Jul	-	-2.8 (-4.2)	
UK		11:00 CBI Distributive Trades survey, retail sales	Sep	5	9	
Wednesday 28 September 2016						
Germany		07:00 GfK consumer confidence survey	Oct	10.1	10.2	
France		07:45 Consumer confidence survey	Sep	97	97	
Italy		09:00 Consumer confidence indicator	Sep	108.8	109.2	
		09:00 Manufacturing (economic) confidence	Sep	100.9 (-)	101.1 (99.4)	
Thursday 29 September 2016						
EMU		10:00 Economic sentiment indicator	Sep	103.5	103.5	
		10:00 Services (industrial) sentiment	Sep	10.0 (-4.1)	10.0 (-4.4)	
		10:00 Final consumer confidence	Sep	-8.2	-8.5	
Germany		08:55 Unemployment change `000s (rate %)	Sep	-5 (6.1)	-7 (6.1)	
		13:00 Preliminary EU-harmonised CPI Y/Y%	Sep	0.5	0.3	
Spain		08:00 Retail sales Y/Y%	Aug	4.4	4.9	
		08:00 Preliminary EU-harmonised CPI Y/Y%	Sep	0.2	-0.3	
UK		09:30 Mortgage approvals `000s	Aug	60.2	60.9	
		09:30 Net consumer credit (net lending secured on dwellings) £bn	Aug	1.4 (2.6)	1.2 (2.7)	
Friday 30 September 2016						
EMU		10:00 Unemployment rate %	Aug	10.0	10.1	
		10:00 Flash CPI estimate Y/Y%	Sep	<u>0.5</u>	0.2	
		10:00 Flash core CPI estimate Y/Y%	Sep	<u>0.8</u>	0.8	
Germany		07:00 Retail sales M/M% (Y/Y%)	Aug	-0.2 (1.7)	0.6 (-1.5)	
France		07:45 Preliminary EU-harmonised CPI Y/Y%	Sep	0.5	0.4	
		07:45 Consumer spending M/M% (Y/Y%)	Aug	0.4 (0.9)	-0.2 (0.5)	
Italy		09:00 Unemployment rate %	Aug	11.4	11.4	
		10:00 Preliminary EU-harmonised CPI Y/Y%	Sep	0.1	-0.1	
Spain		09:00 Current account balance €bn	Jul	-	2.0	
UK		00:01 Lloyds business barometer	Sep	-	16	
		00:01 GfK consumer confidence survey	Sep	-5	-7	
		07:00 Nationwide house price index M/M% (Y/Y%)	Sep	0.3 (5.0)	0.6 (5.6)	
		09:30 GDP – second release Q/Q% (Y/Y%)	Q2	0.6 (2.2)	0.4 (2.0)	
		09:30 Index of services M/M% (3M/3M%)	Jul	0.1 (0.3)	0.2 (0.5)	
		09:30 Current account balance £bn	Q2	-30.6	-32.6	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Coming week's events/auctions calendar

Key events & auctions			
Country		BST	Event / Auction
Monday 26 September 2016			
EMU		15:00	ECB's Draghi scheduled to speak at European Parliament in Brussels
UK		14:50	BoE APF operation: To purchase 3-7Y Gilts
Tuesday 27 September 2016			
Italy		10:00	Auction: To sell up to €2.5bn of zero-coupon 2018 bonds (28-Mar-2018)
		10:00	Auction: To sell up to €1bn of 1.25% 2032 index-linked bonds (15-Sep-2032)
UK		10:30	Auction: To sell up to £400mn of 0.25% 2052 index-linked bonds (22-Mar-2052)
		14:50	BoE APF operation: To purchase 15Y+ Gilts
Wednesday 28 September 2016			
EMU		-	ECB's Draghi scheduled to speak in Berlin
Germany		10:30	Auction: To sell €4bn of 2018 zero-coupon bonds (14-Sep-2018)
UK		09.05	BoE's Shafik is scheduled to speak in London
		14:50	BoE APF operation: To purchase 7-15Y Gilts
Thursday 29 September 2016			
EMU		10:00	ECB's Praet scheduled to speak in Halle (Germany)
		15:00	ECB's Constâncio scheduled to speak in Frankfurt
Italy		10:00	Auction: To sell bonds
Friday 30 September 2016			
- Nothing scheduled -			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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