

Euro wrap-up

Overview

- Despite a much stronger German business sentiment survey, Bunds made gains as concerns about Deutsche Bank weighed on risk appetite.
- Gilts also made gains while data suggested that new UK mortgage lending remained relatively subdued.
- Tuesday brings euro area bank lending figures along with a UK retail survey, while the BoE will commence its new corporate bond purchase scheme.

Chris Scicluna
+44 20 7597 8326

Mantas Vanagas
+44 20 7597 8318

Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.677	-0.005
OBL 0 10/21	-0.565	-0.018
DBR 0 08/26	-0.110	-0.028
UKT 1¼ 07/18	0.088	-0.013
UKT 3¼ 09/21	0.192	-0.020
UKT 1½ 07/26	0.707	-0.023

*Change from close as at 4.30pm BST.
Source: Bloomberg

Euro area

German Ifo Institute anticipates a 'golden autumn'

After Friday's flash German PMIs for September suggested that the services sector was the weakest in three years and that overall growth might have slowed to the softest pace in two years, today's Ifo business survey was closely watched for further evidence of a sudden loss of momentum in the euro area's largest member state. However, the opposite was the case as the main indices surprised significantly on the upside. Strikingly, the headline business climate index rose from August's six-month low and by more than three points, the most in more than six years, to the highest level since May 2014 (109.5). Firms reported an improvement in September and greater optimism regarding the economic outlook too, with the current conditions index reaching the second-highest level of the past twelve months and the expectations index rising the most in more than seven years to the highest level since last autumn. At the sectoral level, the reported improvement was widespread, with wholesale and retail sentiment rebounding following weakness the previous month, manufacturers the most upbeat in seventeen months, and confidence among construction firms at a series high. Based on these results, the Ifo Institute judged that the 'German economy is expecting a golden autumn'. But that is probably overdoing it. Looking through the recent monthly volatility, and following the weaker August, on a three-month average the Ifo business climate indicator remained well within the range of the past year or so. And with the PMIs typically no less reliable a predictor of German economic growth than the Ifo indices, their September flash readings are not to be dismissed out of hand. So, judging from the full body of recent evidence, we continue to think that German GDP growth in Q3 and Q4 will on average, as in Q2, prove to be close to the 0.4%Q/Q average rate of the past three years.

The day ahead in the euro area and US

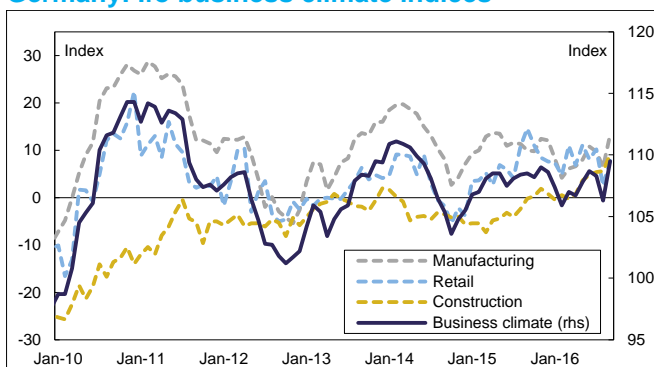
Tuesday's most notable new data from the euro area will be the August bank lending figures, which seem likely to show continued steady growth in loans to households and non-financial corporations. In addition, Italy will sell zero-coupon and inflation-linked bonds. In the US, the Case-Shiller home price figures for July are due for release along with the Conference Board's consumer confidence survey results for September. In addition, the US Treasury will sell 5Y Notes.

UK

Mortgage lending failed to gather momentum in August

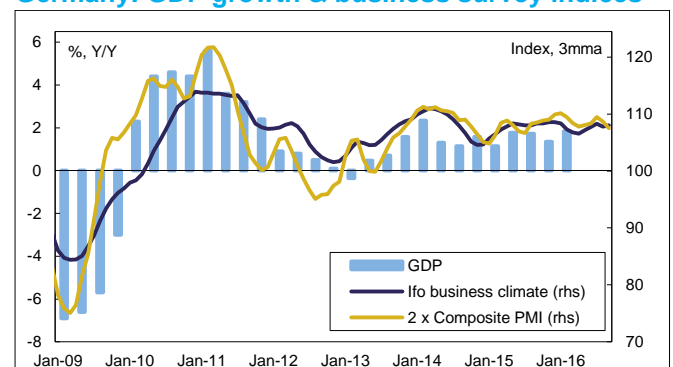
The latest BBA lending data from the major UK retail banks suggested that momentum in the housing market remained on the downside in August. New mortgage lending was little changed for a fifth consecutive month following a surge in activity ahead of stamp duty tax change in April to leave the stock of mortgage lending growing at 2.7%Y/Y, the slowest pace since February.

Germany: Ifo business climate indices



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Germany: GDP growth & business survey indices



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

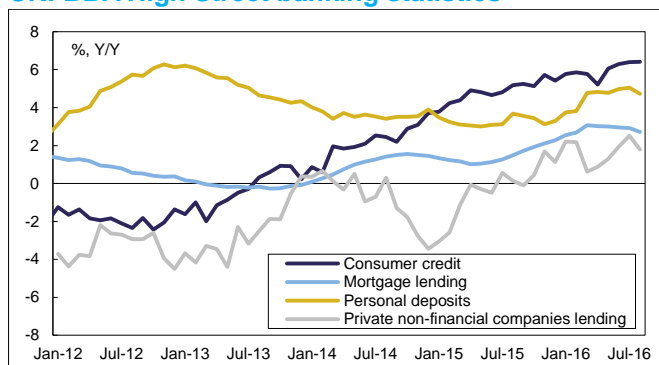


Meanwhile, the number of approved mortgages for house purchase inched down to a level about 20% lower than at the start of the year. However, unsecured lending growth remained much stronger, with the stock of lending up in August by an unchanged 6.4%Y/Y, the highest pace since the pre-crisis years. It is worth noting that the data were collected in early August and therefore do not reflect borrowers' reactions to the MPC decision to that month. Indeed, the decline in mortgage interest rates following the announcement of the BoE's monetary easing measures might well have helped to inject greater optimism into the housing market, with the latest RICS survey suggesting a small pick-up in house price growth in August.

The day ahead in the UK

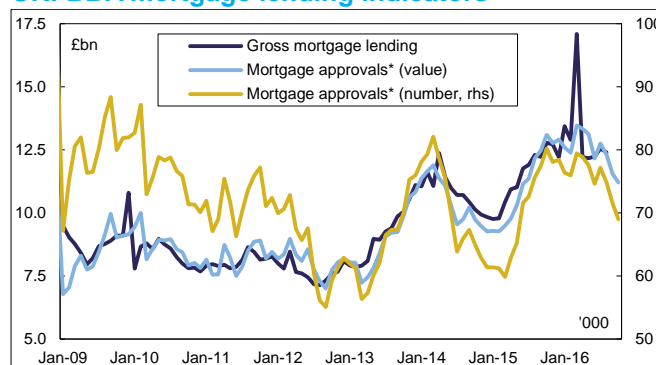
The latest CBI Distributive Trades survey, due tomorrow, is expected to suggest that retail sales growth moderated in September following a strong end to the summer, when the relevant survey indicator reached a six-month high. In addition, the BoE will commence its new corporate bond purchase scheme.

UK: BBA High Street banking statistics



Source: BBA

UK: BBA mortgage lending indicators



*2M lead. The figures include loans for house purchase, remortgaging and other secured lending.

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

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	ECB public sector asset purchases €bn	Weekly	15.4	16.5	16.0	-
Germany	Ifo business climate index	Sep	109.5	106.3	106.2	106.3
	Ifo current assessment balance (expectations)	Sep	114.7 (104.5)	112.9 (100.1)	112.8 (100.1)	112.9 (-)
Italy	Retail sales M/M% (Y/Y%)	Jul	-0.3 (-0.2)	0.0 (0.3)	0.2 (0.8)	0.3 (-)
UK	BBA loans for house purchase 000s	Aug	37.0	37.1	37.7	-





Auctions

Country	Auction
UK	BoE APF operation purchased £1.17bn of 3-7Y Gilts (3.69 cover ratio)





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's data releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
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

Auctions and events

Country	BST	Auction / Event
Italy	 10:00	Auction: To sell up to €2.5bn of 2018 zero-coupon 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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<http://www.uk.daiwacm.com/research-zone/research-blog>



Follow us
[@DaiwaEurope](https://twitter.com/DaiwaEurope)

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.