

Euro wrap-up

Overview

- Bunds were little changed as economic surveys were consistent with broadly stable growth momentum in the large euro area member states.
- Gilts were similarly little changed despite comments from a BoE Deputy Governor suggesting that further monetary policy easing remains likely.
- Tomorrow brings the latest European Commission economic sentiment survey, inflation data from Germany and Spain, and UK bank lending figures.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 09/18	-0.695	+0.005
OBL 0 10/21	-0.597	+0.002
DBR 0 08/26	-0.146	-0.007
UKT 1¼ 07/18	0.071	-0.013
UKT 3¼ 09/21	0.175	-0.001
UKT 1½ 07/26	0.678	+0.005

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

Euro area

Consumer confidence broadly stable in Germany and France

With investment and exports subdued, the euro area economic recovery has been highly reliant on consumer spending, which has accounted for more than half of GDP growth over the past two years. And with no signs of a renaissance in business sentiment and the trend in global trade seemingly having weakened further, and fiscal policy set to offer minimal support too, consumption is likely to be required to do the heavy lifting again over coming quarters. So, today's surveys, which suggested that consumer sentiment in the largest member states remains broadly stable, were arguably reassuring. In particular, while the German GfK survey flagged a slight deterioration in consumer sentiment, the headline index fell from a more-than-decade high and remained near the top of the range of the past year. Within the detail, the survey suggested a modest softening in September in income expectations and willingness to spend, the latter to a six-month low. And so, with concerns about Deutsche Bank escalating this week and thus likely to be increasingly weighing on German confidence, we would not expect a sudden acceleration in the spending trend in the coming quarters. Meanwhile, the headline French confidence index was unchanged in September at 97, just shy of May's high for the recovery to-date but nevertheless still below the long-run average (100) to signal the likelihood of ongoing moderate growth of consumption over the near term. Within the detail of the survey, the relevant indices for perceptions of the labour market, living standards and personal financial situation, were all consistent with recent norms.

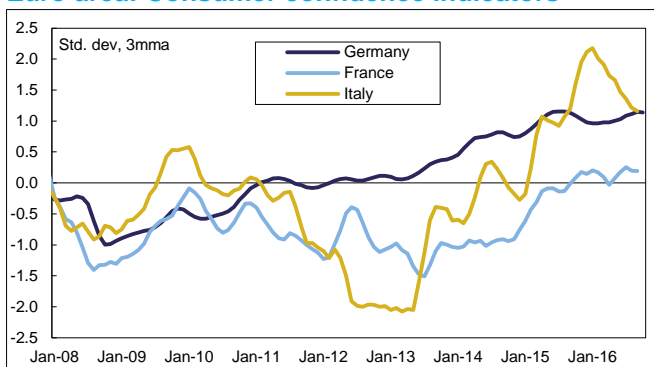
Italian surveys signal loss of momentum

Contrasting with the two largest member states, consumer confidence in Italy has deteriorated steadily since the start of the year, seemingly weighed, among other things, by concerns about the health of the banking sector and increased political uncertainty ahead of the key constitutional referendum on 4 December. Indeed, Italian consumer sentiment fell in September to the lowest level in more than one year, significantly below the decade-high registered in January. There was some slightly better news regarding Italian business sentiment, however, with modest improvements registered in all of the main sectors leaving overall economic sentiment up from August's eighteen-month low. But with sentiment in manufacturing and services still well below the norms of the past year and only construction sector confidence displaying anything resembling an upwards trend, the surveys suggest an economy that has lost significant recovery momentum.

The day ahead in the euro area and US

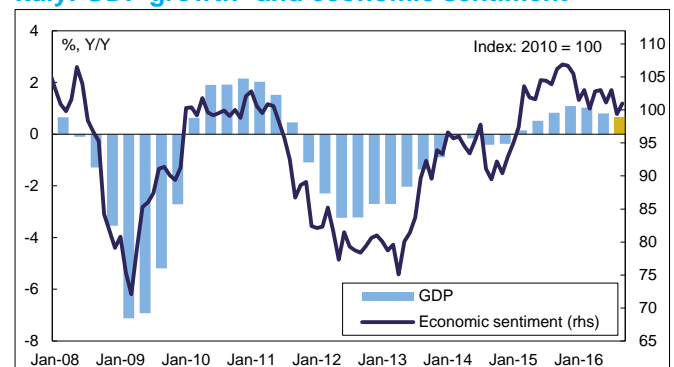
Thursday brings the Commission's comprehensive economic sentiment surveys for September. Notwithstanding the divergence in household confidence among the three largest member states, the aggregate euro area consumer confidence

Euro area: Consumer confidence indicators



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Italy: GDP growth* and economic sentiment



*Daiwa forecast for Q316. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.



indicator is expected to align with the flash estimate that showed a modest improvement at the end of Q3. But with business confidence forecast to be little changed in September, the overall economic sentiment indicator is expected to be unchanged at the five-month low of 103.5 hit in August, to leave the average for the third quarter as a whole ½pt lower than in Q2 and the lowest level since Q215. Thursday also brings the first of this week's flash CPI estimates for September, with the German and Spanish EU-harmonised rates expected to rise by 0.2ppt to ½%Y/Y and ½ppt to 0.2%Y/Y respectively, both of which would be the highest rates since 2014. Elsewhere, the ECB's Praet and Constâncio are due to speak at different events in Germany, while Italy will sell 5Y and 10Y bonds, as well as 7Y floating-rate bonds.

In the US, meanwhile, Thursday brings the third estimate of Q2 GDP, which is expected to see a slight upwards revision in growth from the previous estimate of 1.1%Q/Q annualised, which will be accompanied by the advanced goods trade report for August as well as pending home sales figures for the same month. There are also a number of FOMC officials in action, with Fed Chair Yellen set to speak at a banking conference, while voting members George and Powell are also due to speak publicly.

UK







Shafik keeps the door open for another rate cut

On a day bereft of new economic data releases, Deputy Governor Minouche Shafik gave a speech highlighting the key challenges the BoE faces after the EU referendum, the outcome of which she (understandably) could find absolutely nothing positive to say about. On the financial stability side, her comments were in line with remarks made by other BoE officials who have been self-satisfied about the contingency planning and subsequent actions the BoE took to ensure smooth banking system functioning around the referendum. More notably, with regard to monetary policy, while she acknowledged that economic indicators had improved since the MPC policy package was announced in early August, she remained concerned about the outlook, judging that the process of withdrawing from the EU will be painful for the UK economy and, therefore, that more monetary policy easing will likely be required to mitigate the impact. But the most appropriate time for the MPC to act again, according to Shafik, remains data-dependent. We think that she is likely to vote for another cut in Bank Rate in November if the preliminary Q3 GDP estimate, due at the end of October, confirms a notable slowdown in growth and if survey indicators for business investment remain weak.

The day ahead in the UK

The latest BoE lending figures, due for release in the UK tomorrow, are expected to show that mortgage lending was little changed in August and remained significantly lower than in Q1, when the mortgage market was particularly active ahead of the Stamp Duty tax change in April. And the number of approved mortgages, a leading indicator for overall mortgage lending, is likely to continue following the downward trajectory which it has maintained since the start of the year.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 GfK consumer confidence survey	Oct	10.0	10.2	10.2	-
France	 Consumer confidence survey	Sep	97	97	97	-
Italy	 Consumer confidence indicator	Sep	108.7	109.0	109.2	109.1
	 Manufacturing (economic) confidence	Sep	101.9 (101.0)	100.9 (-)	101.1 (99.4)	- (99.5)
Auctions						
Country	Auction					
Germany sold	 €3.2bn of 2018 zero-coupon bonds (14-Sep-2018) at an average yield of -0.7%					
UK	 BoE APF operation purchased £1.17bn of 7-15Y Gilts (3.35 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		10:00 Economic sentiment indicator	Sep	103.5	103.5
		10:00 Services (industrial) sentiment	Sep	10.0 (-4.2)	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	4.5	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)

Auctions and events

Country	BST	Auction / Event
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 up to €4bn of 0.35% 2021 bonds (01-Nov-2021)
		10:00 Auction: To sell up to €2.5bn of 1.25% 2026 bonds (01-Dec-2026)
		10:00 Auction: To sell up to €2bn of 2023 floating-rate bonds (15-Jul-2023)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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