

Euro wrap-up

Overview

- Bunds were little changed despite a further drop in the Commission's euro area consumer confidence index.
- Despite an upbeat UK retail sales report, Gilts made gains as EU leaders were in no mood to shift their 'red lines' on Brexit.
- Friday will bring the flash euro area PMIs for September and UK public finance data for August.

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Daily bond market movements

Bond	Yield	Change*
BKO 0 06/20	-0.548	-0.004
OBL 0 04/23	-0.176	-0.003
DBR 0¼ 08/28	0.478	-0.009
UKT 2 07/20	0.836	-0.009
UKT 0¼ 07/23	1.183	-0.007
UKT 1½ 10/28	1.590	-0.018

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

Euro area

Consumer confidence extends downtrend

The largest contribution to the euro area's expansion since 2013 has been made by private consumption. But despite solid growth in employment and an acceleration in wages, over the past two years consumer spending in the euro area has taken a noticeably lower growth trajectory than overall economic output. While GDP was up an above-potential 2.1%Y/Y in Q2, private consumption growth was significantly weaker at just 1.3%Y/Y. That tallies with the steady deterioration in consumer sentiment reported in surveys, which has extended into the third quarter. Having risen in January to 1.4, the highest level since 2000, the Commission's consumer confidence index deteriorated steadily, falling to a sixteen-month low of -1.9 in August on downgraded assessments of the economic outlook and labour market prospects, and a diminished readiness to make major purchases. And while there was no detail presented today, the flash estimate of consumer confidence in September fell further to -2.9, still nevertheless the lowest since May 2017. Data related to consumer spending in the third quarter released so far point to a mixed picture, with retail sales off to a soft start but new car registrations surging. But, while the labour market appears to continue to strengthen, the steady deterioration in consumer confidence index suggests that we should not expect any significant improvement from the recent consumption trend for a while yet.

The day ahead in the euro area and US

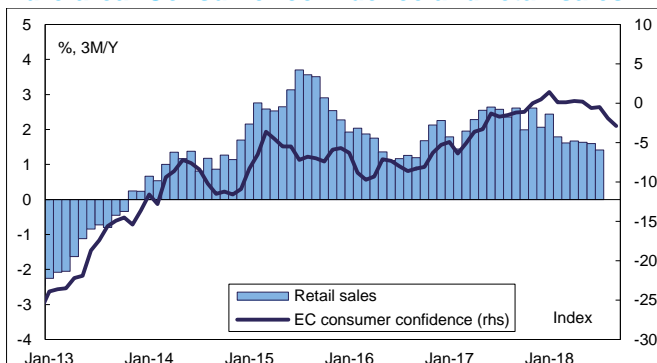
Friday brings the most notable new economic data of the week from the euro area in the shape of the preliminary September PMIs. Tallying with the step down in economic growth from 0.7%Q/Q in Q417 to 0.4%Q/Q in Q1 and Q2, the composite PMI fell back from the multi-year high of 58.1 to less than 55 in May. Since then, it has broadly stabilised, ticking up 0.2pt to 54.6 in August on slightly better readings on output from manufacturing and services. The flash September PMIs are expected to be little changed again, signalling stable momentum and probably another quarter of GDP growth of 0.4%Q/Q in Q3. In the US, Friday also brings the flash market PMIs, which are not as closely watched as their euro area equivalents or the US ISM indices.

UK

Retail sector maintained momentum at the end of the summer

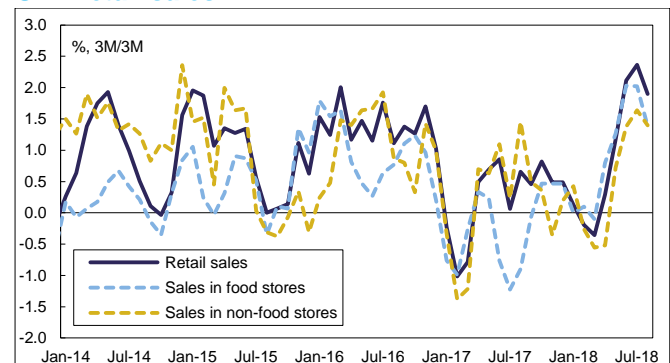
Activity on the UK High Street remained strong in August, with today's ONS figures reporting a 0.3%M/M rise in sales that month. While this represented a slowdown from 0.9%M/M in July, on a three-month basis growth eased only slightly, from

Euro area: Consumer confidence and retail sales



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Retail sales



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

2.3%3M/3M to 1.9%3M/3M, still one of the highest rates in recent years. In contrast to the previous month, when growth was widespread across a range of sectors, this time food stores reported a decline (-0.6%M/M), while non-food sales were up 1.3%M/M. Overall, today's figures once again highlighted how successful the summer was for some UK retailers, with the ONS citing anecdotal evidence that the FIFA World Cup and very good weather provided a boost, in particular to sales of food, alcohol, and household goods, and items from petrol stations. Indeed, according to the Met Office, 2018 enjoyed the joint warmest UK summer on record with the amount of rainfall down by 44% and number of sunshine hours up by 30% compared to last year. Together with a jump in new car sales last month related to the implementation of a new emissions-testing regime from the start of September, the retail sales figures point to an acceleration to household consumption growth in Q3 from the 0.2-0.3%Q/Q pace seen in recent quarters. But with temperatures now declining, we do not think that momentum in the retail sector will be maintained going forward, not least given that consumer confidence is weak and real wage growth remains very subdued.















A predictably inconclusive EU summit on Brexit

The EU leaders' informal summit in Salzburg, which ended today, predictably made little progress on the key Brexit issues. At least the leaders tried to be upbeat, insisting that the atmosphere in the negotiations has improved in recent weeks and that both sides are working to try to achieve a deal. And as such, and as expected, they pencilled-in to the calendar a special summit on 17-18 November at which a final draft Withdrawal Treaty might be agreed. However, there was no hiding the fact that multiple sticking points remain, with EU leaders most notably, but inevitably, reconfirming that no withdrawal deal will be possible without an agreement on an operational and legally binding backstop plan for the Irish border. And they certainly have no intention to shift their position on that issue in any substantive way. Moreover, to add salt to Theresa May's wounds, the leaders denounced her proposed Chequers framework for future economic cooperation as unacceptable (in the words of EU Council President Tusk, it "will not work"). So, significant uncertainty remains over how the Brexit negotiations will evolve from here. Indeed, May is set to come under further pressure from within her own party at the Conservative conference from 30 September-3 October, and that could make it even more difficult for her to make the kind of concessions on the Irish border required to seal a deal in November.

The day ahead in the UK

The end of the working week brings public finance figures for August. In July, these data reported the highest surplus for that month in eighteen years. While we will most likely see a return to a deficit this time, it is expected to be almost £1.0bn lower compared to the same month a year ago.










European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	 Flash consumer confidence indicator	Sep	-2.9	-2.0	-1.9	-
UK	 Retail sales excluding auto fuel M/M% (Y/Y%)	Aug	0.3 (3.5)	-0.2 (2.4)	0.9 (3.7)	1.1 (4.0)
	 Retail sales including auto fuel M/M% (Y/Y%)	Aug	0.3 (3.3)	-0.2 (2.3)	0.7 (3.5)	0.9 (3.8)
Country	Auction					
France sold	 €3.2bn of 0% 2021 bonds (25-Feb-2021) at an average yield of -0.37%  €3.2bn of 0% 2024 bonds (25-Mar-2024) at an average yield of 0.14%  €1.1bn of 0.5% 2026 bonds (25-Mar-2026) at an average yield of 0.44%  €327mn of 0.1% 2036 index-linked bonds (25-Jul-2036) at an average yield of -0.28%  €685mn of 0.7% 2030 index-linked bonds (20-Sep-2030) at an average yield of -0.57%  €376mn of 0.1% 2028 index-linked bonds (01-Mar-2028) at an average yield of -0.65%					
Spain sold	 €1.1bn of 0.05% 2021 bonds (31-Jan-2021) at an average yield of -0.061%  €1.8bn of 1.4% 2028 bonds (30-Jul-2028) at an average yield of 1.493%  €880mn of 0.45% 2022 bonds (31-Oct-2022) at an average yield of 0.27%  €740mn of 1.6% 2025 bonds (30-Apr-2025) at an average yield of 0.848%					
UK sold	 £2.75bn of 1.625% 2028 bonds (22-Oct-2028) at an average yield of 1.596%					

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 Preliminary services PMI (preliminary composite PMI)	Sep	54.4 (54.5)	54.4 (54.5)
		09:00 Preliminary manufacturing PMI	Sep	54.5	54.6
Germany		08:30 Preliminary services PMI (preliminary composite PMI)	Sep	55.0 (55.4)	55.0 (55.6)
		08:30 Preliminary manufacturing PMI	Sep	55.7	55.9
France		07:45 GDP – final release Q/Q% (Y/Y%)	Q2	0.2 (1.7)	0.2 (2.1)
		08:15 Preliminary services PMI (preliminary composite PMI)	Sep	55.3 (54.6)	55.4 (54.9)
		08:15 Preliminary manufacturing PMI	Sep	53.3	53.5
Spain		09:00 Trade balance €bn	Jul	-	-2.4
UK		09:30 Public sector net borrowing excluding interventions £bn	Aug	3.4	-2.0

Auctions and events

Country	BST	Auction / Event
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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