

Euro wrap-up

Overview

- Longer-dated Bunds made modest gains despite a slightly improved European Commission consumer confidence indicator.
- Gilts were little changed, while an EU document leaked late in the day suggested the UK had still failed to propose an acceptable alternative to the backstop.
- The coming week brings top-tier sentiment surveys from the euro area and UK, while Brexit will continue to dominate the news flow.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.732	+0.002
OBL 0 10/24	-0.720	-0.003
DBR 0 08/29	-0.523	-0.013
UKT 3¼ 09/21	0.525	+0.011
UKT 1 04/24	0.463	+0.007
UKT 0% 10/29	0.627	-0.009

*Change from close as at 4:30pm BST.
Source: Bloomberg

Euro area

Consumer confidence ticks back up

Ahead of a week that will bring several top-tier economic surveys, today's release of the Commission's flash euro area consumer confidence index suggested that sentiment was slightly improved in September. In particular, the index rose 0.6pt to a four-month high of -6.5. This indicator has effectively oscillated around a sideways trend since February. And having fallen by a larger-than-expected 0.5pt in August, today's figure did barely more than reverse that decline. Given persisting uncertainties about the economic outlook and geopolitical risks, we doubt that consumer confidence will break out of its recent range for a while yet. And, in line with the recent pattern, we expect the index to fall back to -7.0 or below next month. And while today's reading left the quarterly average in Q3 at the highest since Q418, we do not expect an acceleration in private consumption this quarter from the 0.2%Q/Q rate recorded in Q2.

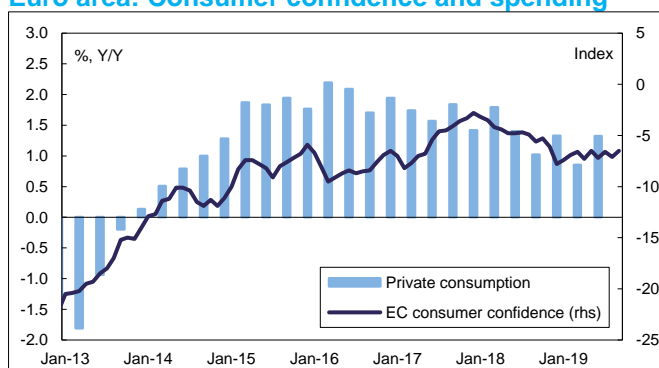
The coming week in the euro area and US

September sentiment surveys will dominate the data flow in the euro area in the coming week, with the most noteworthy coming either end of the week. First up on Monday will be the flash PMIs, which are expected to suggest that the manufacturing sector contracted at a slightly softer pace at the end of the third quarter, while conditions in the services sector weakened somewhat. As such, the composite PMI is forecast to be little changed at 51.9 in September, to leave the quarterly average unchanged from Q2 and consistent with subdued GDP growth again in Q3. The Commission's business and consumer surveys – due Friday – arguably offer a more comprehensive guide to economic activity in the euro area. And while this is expected to show the headline economic sentiment indicator unchanged at 103.1 in September, this would leave the quarterly average at its lowest since Q215. Despite a further slowing in economic momentum, the ECB's latest lending figures – due Thursday – are likely to show continued steady growth to businesses and households alike in August, albeit with continued big differences between the member states.

At the country level, the German ifo and French INSEE business surveys are due Tuesday and likely to confirm that German firms continue to struggle in the face of a more challenging external environment, while conditions among French firms are more stable. Consumer confidence indicators from the largest two member states will follow on Wednesday, while Italy's ISTAT business and consumer sentiment surveys are due Friday. That day will also bring flash inflation figures for September from France, along with consumer spending figures for August.

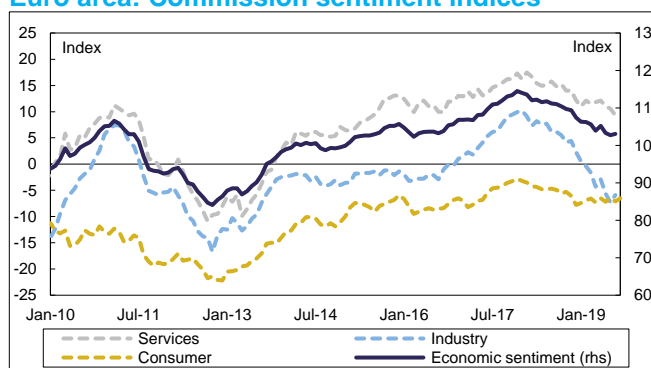
Elsewhere, on Monday Draghi will testify on euro area monetary policy before the European Parliament for the final time as ECB President. Other ECB speakers in the coming week include Villeroy de Galhau (Tuesday), Cœuré (Wednesday), de

Euro area: Consumer confidence and spending



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Commission sentiment indices



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



Guindos (Friday). In the markets, Germany will sell 2Y Schatz on Tuesday and 10Y Bunds on Wednesday, while Italy will also issue fixed-rate and index-linked bonds on Wednesday.

In the US, the first half of the week will be dominated by sentiment and housing market figures, beginning with Monday's release of the Chicago Fed national activity index for August and flash Markit PMIs for September. Tuesday will bring the Conference Board's latest consumer confidence survey, along with the FHFA and Case-Shiller home price indices for July, which will be followed by August new and existing home sales figures on Wednesday and Thursday respectively. Final Q2 GDP numbers – also to be published on Thursday – are likely to confirm annualised growth of 2.0%Q/Q, while advance goods trade and inventories figures for August will be closely watched for economic momentum in Q3. Finally, Friday will see the release of preliminary durable goods orders data for August, along with personal income and spending numbers for the same month, including the monthly deflators.

In addition, among the several FOMC members scheduled to speak publicly in the coming week, Vice-Chair Clarida will give an update of the Fed's review of its monetary policy strategy, tools, and communication practices on Thursday. In the markets, the US Treasury will sell 2Y notes on Tuesday, 2Y floating-rate and 5Y fixed-rate notes on Wednesday and 7Y notes on Thursday.

UK

No shift in EU Brexit redlines

In some quarters, including the forex market where sterling remained relatively elevated today, a Sky News interview with Commission President Juncker yesterday prompted greater optimism that a Brexit deal with the UK could be reached to avoid a no-deal Brexit at end-October. According to him, "we can have a deal", and the Commission was doing "everything to get a deal". He also insisted openness to considering alternatives to the Irish backstop, as long as they remained compatible with an open border on the island of Ireland. Overall, however, we saw nothing new at all in these remarks regarding the EU position. The EU has not shifted, and will not revise its red lines for a deal.

Probability of a Brexit deal remains low despite (misleading) upbeat headlines
















We put Juncker's diplomatic niceties down to a concerted effort on the EU side not to be blamed if and when the talks eventually collapse. Indeed, late this afternoon, a leaked EU document confirmed that a so-called "non-paper" sent to the Commission yesterday with new proposals from the UK Government offered no legally operational alternative to the backstop, and implied the need for a regulatory and customs border on the island of Ireland after Brexit. So, they were clearly incompatible with the EU's red lines. And while UK Brexit Secretary Barclay today met Commission negotiator Michel Barnier and claimed new momentum in the talks, recent developments strongly suggest an administration that is seeking to burn bridges with the EU and provoke a no-deal Brexit. We continue to see a very low probability that a deal will be reached with the EU and passed by the House of Commons and European Parliament in time to allow the UK to leave in an orderly manner at end-October.

The coming week in the UK

Brexit will inevitably dominate the UK news-flow in the coming week. But while Johnson will again cross paths with a number of EU leaders, and discussions will continue at official level, we certainly do not expect any significant breakthroughs. Indeed, the submission of any meaningful proposal from the UK side seems unimaginable until the Conservative Party conference, scheduled for 29 September to 2 October, has passed. Meanwhile, the ruling of the Supreme Court on Johnson's shutdown of Parliament is likely to come early in the week. While the judgement cannot be predicted with confidence, on balance we think the greater likelihood is that Johnson's action will be considered unlawful. If so, the next meeting of Parliament could be accelerated from 14 October, which is currently planned. Moreover, the ability of Johnson to prorogue Parliament once again next month in a deliberate attempt to force through a no-deal Brexit should be curtailed.




With respect to economic data, like in the euro area, the coming week will bring a number of September sentiment surveys from the UK, kicking off on Monday with the CBI industrial trends gauge of manufacturing sector conditions. While risks of a no-deal Brexit at the end of October reduced somewhat last month, this survey is likely to signal ongoing going weakness in sector, with further falls in output and orders at the end of Q3. The equivalent retail sector survey – due Wednesday – might suggest a subdued level of sales. However, we note that recent official sales data have been stronger than surveys have implied. The GfK consumer confidence survey, due on Friday, is nevertheless likely to suggest that sentiment among households remains relatively weak. Other data due in the coming week include August public finance data (Tuesday), which are likely to show an increase in net borrowing from a year ago, not least on account of an increase in Brexit-related public spending. UK Finance bank lending data are due Wednesday. BoE speakers include MPC member Tenreyro, who will discuss inflation dynamics in a speech in Frankfurt on Monday. Governor Carney and Deputy Governor Cunliffe will also speak publicly in Frankfurt on Thursday, although their focus will be financial services. MPC Saunders will give a speech in Yorkshire on Friday. In the bond markets, the DMO will sell 30Y linkers on Tuesday.

Daiwa economic forecasts

	2019				2020				2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
GDP forecasts %, Q/Q											
Euro area 	0.4	0.2	0.1	0.2	0.2	0.2	0.2	0.1	1.9	1.0	0.8
Germany 	0.4	-0.1	-0.1	0.1	0.1	0.2	0.1	0.1	1.5	0.5	0.4
France 	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	1.7	1.3	1.2
Italy 	0.1	0.0	0.0	0.0	0.0	0.1	-0.1	-0.1	0.7	0.0	0.1
Spain 	0.7	0.5	0.4	0.4	0.4	0.4	0.4	0.3	2.4	2.2	1.6
UK 	0.5	-0.2	0.2	-0.1	0.2	0.2	0.2	0.1	1.4	1.0	0.5
Inflation forecasts %, Y/Y											
Euro area											
Headline CPI 	1.4	1.4	1.0	1.0	1.2	1.2	1.4	1.2	1.8	1.2	1.2
Core CPI 	1.0	1.1	0.9	1.0	1.1	1.2	1.4	1.3	1.0	1.0	1.0
UK											
Headline CPI 	1.9	2.0	1.9	1.7	2.0	1.7	1.5	1.5	2.5	1.9	1.7
Core CPI 	1.9	1.7	1.7	1.6	1.7	1.8	1.7	1.7	2.1	1.7	1.7
Monetary policy											
ECB											
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate % 	-0.40	-0.40	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.40	-0.50	-0.50
Net asset purchases* 	0	0	0	20	20	20	20	20	15	20	20
Bank of England											
Bank Rate % 	0.75	0.75	0.75	0.75	0.50	0.50	0.50	0.50	0.75	0.75	0.50
Net asset purchases** 	0	0	0	0	0	0	0	0	0	0	0


























*Monthly target €bn, end of period. **Monthly target £bn, end of period. Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results						
Economic data						
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
EMU 	Flash consumer confidence indicator	Sep	-6.5	-7.1	-7.1	-
Germany 	PPI Y/Y%	Aug	-0.5 (0.3)	0.8	1.1	-
France 	Final wages Q/Q%	Q2	0.5	0.5	0.8	-
Auctions						
Country	Auction					
- Nothing to report -						


















Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 23 September 2019					
EMU		09.00 Preliminary manufacturing (services) PMI	Sep	47.3 (53.2)	47.0 (53.5)
		09.00 Preliminary composite PMI	Sep	52.0	51.9
Germany		08.30 Preliminary manufacturing (services) PMI	Sep	44.3 (54.3)	43.5 (54.8)
		08.30 Preliminary composite PMI	Sep	51.4	51.7
France		08.15 Preliminary manufacturing (services) PMI	Sep	51.2 (53.2)	51.1 (53.4)
		08.15 Preliminary composite PMI	Sep	52.5	52.9
Spain		09.00 Trade balance €bn	Jul	-	-1.5
UK		11.00 CBI industrial trends survey - total orders	Sep	-15	-13
Tuesday 24 September 2019					
Germany		09.00 IFO business climate index	Sep	94.5	94.3
		09.00 IFO current assessment (expectations) balance	Sep	97.0 (92.0)	97.3 (91.3)
France		07.45 Business confidence indicator	Sep	105	105
		07.45 Manufacturing confidence (production outlook) indicator	Sep	102 (3)	102 (2)
UK		09.30 Public sector not borrowing £bn	Aug	6.6	-2.0
Wednesday 25 September 2019					
Germany		07.00 GfK consumer confidence indicator	Oct	9.6	9.7
France		07.45 Consumer confidence indicator	Sep	103	102
UK		11.00 CBI distributive trades survey -reported sales	Sep	-25	-49
Thursday 26 September 2019					
EMU		09.00 M3 money supply Y/Y%	Aug	5.0	5.2
Friday 27 September 2019					
EMU		10.00 Economic sentiment (consumer confidence) indicator	Sep	103.0 (-)	103.1 (-7.1)
		10.00 Industrial confidence (services confidence) indicator	Sep	-5.8 (9.4)	-5.9 (9.3)
France		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Sep	1.1 (1.3)	1.0 (1.3)
		07.45 Consumer spending M/M% (Y/Y%)	Aug	0.3 (-0.3)	0.4 (0.1)
Italy		09.00 Economic sentiment indicator	Sep	-	98.9
		09.00 Consumer confidence (manufacturing confidence) indicator	Sep	112.4 (100.0)	111.9 (99.7)
Spain		08.00 Retail sales Y/Y%	Aug	3.0	3.2
UK		00.01 GfK consumer confidence indicator	Sep	-14	-14

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 23 September 2019		
UK		- Over the coming week, PM Johnson meets with EU President Tusk as well as Merkel, Macron and other European leaders
		- UK Supreme Court will rule whether it was legal for PM Johnson to shut Parliament down*
Tuesday 24 September August		
EMU		13.00 ECB Vice-President Guindos speaks in Frankfurt
Germany		10.30 Auction: to sell €5bn of 0% 2021 bonds
Spain		11.30 Bank of Spain publishes its economic forecasts
UK		10.30 Auction: to sell €0.5bn 0.125% index-linked 2048 bonds
Wednesday 25 September 2019		
EMU		08.00 ECB's Coeure speaks in Frankfurt
Germany		10.30 Auction: to sell €3bn of -0.7% 2029 bonds
Italy		10.00 Auction: to sell €2.25bn 5Y bonds
		10.00 Auction: to sell €4bn 10Y bonds
Thursday 26 September 2019		
EMU		09.00 ECB publishes its Economic Bulletin
		14.30 ECB President Draghi speaks in Frankfurt
UK		14.45 BoE Governor Carney & Deputy Cunliffe speak in Frankfurt
Friday 27 September 2019		
EMU		08.15 ECB's De Guindos & Knot speak in Frankfurt
Italy		10.00 Auction: to sell €4bn of 0.96% 10Y bonds
		10.00 Auction: to sell €2.25bn of 0.32% 5Y bonds
UK		08.00 BoE's Saunders to give a speech

*Approximate date of release Source: Bloomberg and Daiwa Capital Markets Europe Ltd.



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