

Euro wrap-up

Overview

- Bunds followed Treasuries lower, while a survey suggested that French consumers were the most upbeat since the start of 2018.
- Gilts made modest gains as a UK retail survey implied weak sales in Q3 and Q4, while the UK Parliament resumed activity.
- Tomorrow will bring the latest ECB lending figures, a German consumer confidence survey and UK car production data.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.748	-
OBL 0 10/24	-0.761	+0.007
DBR 0 08/29	-0.589	+0.015
UKT 3¼ 09/21	0.443	+0.004
UKT 1 04/24	0.363	-0.010
UKT 0% 10/29	0.523	-0.008

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

Euro area

French consumers more upbeat

Unlike Germany, this week's surveys have suggested that business conditions have remained broadly stable in France in the third quarter. Moreover, the latest consumer confidence indices from the euro area's second-largest member state, published today, suggest an ongoing improving trend. Indeed, the headline index unexpectedly increased for the ninth consecutive month in September to 104, firmly above its long-run average and the highest since January 2018. And with consumers the most upbeat about their future financial situation for more than twelve years, and more at ease about the unemployment outlook, the share of households considering it to be a suitable time to make major purchases over the coming twelve months increased slightly in September to its highest in sixteen months. Therefore, today's survey supports our view that household consumption remained supportive to French GDP growth in Q3, and will likely continue to do so in Q4. This might help to explain why Bank of France Governor Villeroy de Galhau disagreed with the ECB decision earlier this month to restart QE. And it further validates President Macron's U-turn on fiscal policy, which has clearly benefited French economic growth so far this year, while Germany's ongoing obsession with a balanced budget is currently coinciding with stagnation.

The day ahead in the euro area and US

Tomorrow will bring the ECB's latest bank lending figures, which, despite the slowing momentum implied by recent economic sentiment surveys, should show another month of growing (if not vigorous) demand from households and businesses alike. Thursday will also bring Germany's GfK consumer survey, which is expected to report a further moderation in confidence to its lowest for 2½ years. Elsewhere, ECB President Draghi will give an opening address at the start of the ESRB's two-day annual conference.

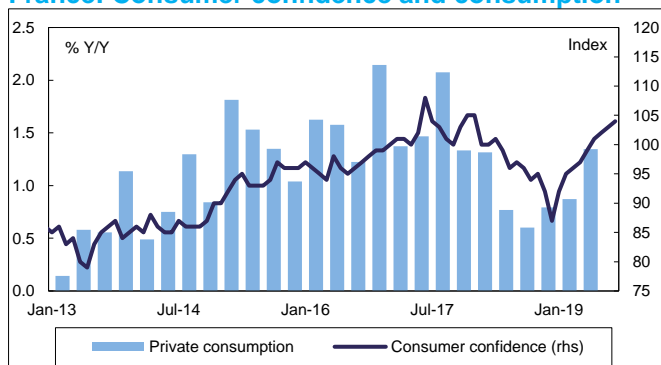
In the US, tomorrow will bring the final estimate of Q2 GDP, which is expected to confirm the previous estimate of annualised growth of 2.0%Q/Q. Meanwhile, advance goods trade and inventories figures for August will be closely watched, while pending home sales numbers for the same month are also due. In the markets, the US Treasury will sell 7Y notes.

UK

Retail survey signals weaker sales ahead

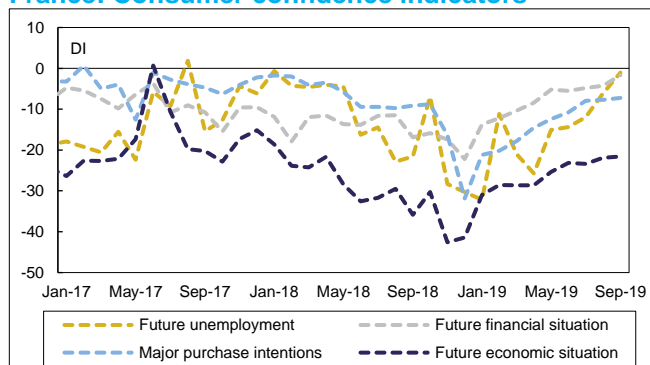
While today's CBI distributive trades survey exceeded expectations, it still suggested that UK retailers continue to face significant challenges. For example, while the survey's headline retail sales indicator rose 33pts in September, this merely

France: Consumer confidence and consumption



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

France: Consumer confidence indicators*



*Future unemployment component inverted. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



reversed the decline in August, to leave the balance still firmly in negative territory (-16) for the fifth consecutive month. While sales at furniture sellers were broadly stable, other retailers continued to see notable declines in particular at clothing and department stores. Moreover, overall, retailers assessed sales for the time of year to be well below the norms in September and to a greater extent than August. And while firms suggested that orders fell at a much softer pace than August – the relevant balance that month was the lowest since the Global Financial Crisis – they were still assessed to be down on a year earlier. As such, it was perhaps not surprising to see that expected future retail sales growth was weaker this month – indeed, the relevant balance was the second lowest since mid-2016, to leave the quarterly average in Q3 at its weakest since Q112. So, we maintain our view that underlying consumption growth will be more subdued in the second half of the year than in the first, not least given the impact of ongoing Brexit uncertainty and broader political noise.

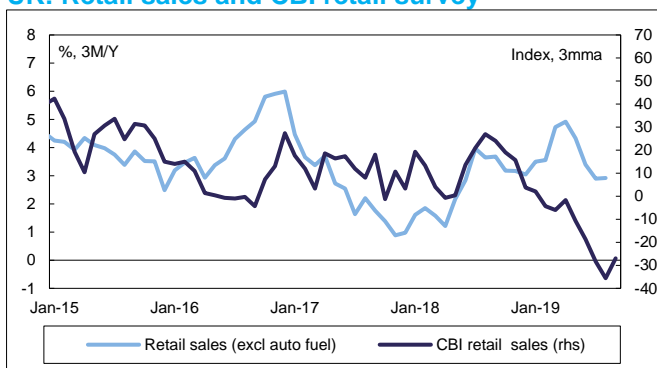
Lending to households remains robust for now

Today’s UK Finance numbers from the six major high-street lenders suggested that, in August, household credit card borrowing rose at the slowest annual pace (down 0.5ppt to 3.3%Y/Y) since February 2015. This notwithstanding, total consumer credit growth moderated only slightly, by 0.1ppt, to a still-robust 4.3%Y/Y. And perhaps reflecting lower mortgage interest rates, there was another notable rise in net mortgage lending last month, by £3.6bn, the largest monthly increase since March 2016. Nevertheless, the number of mortgage approvals for new house purchases fell back in August, to 42.6k, albeit still leaving them 9% higher compared with a year earlier. We would expect to see demand for lending ease somewhat as the Brexit deadline looms.

The day ahead in the UK

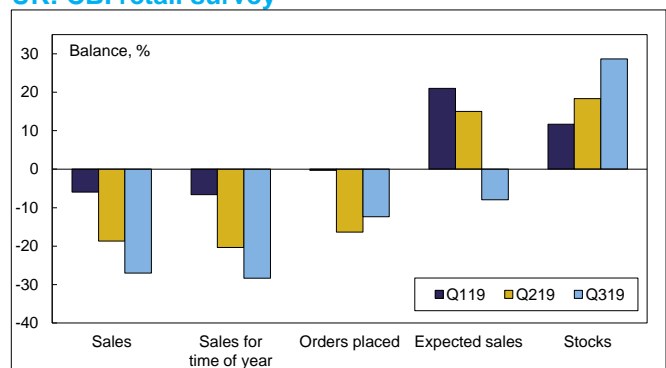
In the UK, tomorrow will bring car production data for August, which will likely be softer than many observers previously expected as some manufacturers reportedly held their usual summer shutdown in addition to the earlier special shutdown in April as part of the initial Brexit deadline preparations. However, given the weakness in August 2018 (-12.9%Y/Y), we might well still see positive growth compared with a year earlier.

UK: Retail sales and CBI retail survey



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: CBI retail survey






Source: 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
France	 Consumer confidence indicator	Sep	104	103	102	103
UK	 UK Finance loans for house purchase £bn	Aug	42.6	43.2	43.3	-
	 CBI distributive trades survey - reported sales	Sep	-16	-25	-49	-

Auctions




Country	Auction
Germany	 Auction: sold €2.4bn of 0% 2029 bonds at an average yield of -0.61%
Italy	 Auction: sold €1.5bn of 0% 2021 bonds at an average yield of -0.24%
	 Auction: sold €0.5bn of 2.55% 2041 bonds at an average yield of 0.67%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
EMU	 09.00	M3 money supply Y/Y%	Aug	5.1	5.2
Germany	 07.00	GfK consumer confidence	Oct	9.6	9.7
UK	 09.30	Car production Y/Y%	Aug	-	-10.6

Auctions

Country	BST	Auction/Event
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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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