

Euro wrap-up

Overview

- Bunds followed the global trend lower despite some weaker euro area bank lending figures, while Italian BTPs underperformed after a stronger performance of the opposition League party in regional elections.
- While EU leaders granted the UK an Article 50 extension, Gilts also made losses ahead of tonight's House of Commons vote on an early General Election.
- The focus tomorrow will remain firmly on UK politics. Data-wise, a French consumer confidence survey will be accompanied by UK lending figures.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/21	-0.655	+0.013
OBL 0 10/24	-0.586	+0.023
DBR 0 08/29	-0.331	+0.035
UKT 3¼ 09/21	0.549	+0.026
UKT 1 04/24	0.515	+0.037
UKT 0% 10/29	0.728	+0.046

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

Euro area

Lending to euro area NFCs declines at end-Q3

While last week's ECB Bank Lending Survey implied a modest easing in credit standards to businesses in Q319 and a net increase in demand for loans too, today's monthly bank lending figures for September offered a more downbeat assessment of conditions at the end of the quarter. In particular, new lending to non-financial corporations (NFCs) declined in September by €8.1bn, the first monthly decline in eight and the steepest since the start of 2015. While this followed particular strong increases in the previous five months, this left growth in the outstanding stock of loans moderating 0.6ppt to 3.7%Y/Y, an eight-month low. The weakness last month was driven by a notable drop in the flow of lending to French NFCs (-€11.7bn), which left the respective rate of growth in the stock of loans down 1.7ppts to 6.7%Y/Y, nevertheless still representing the strongest rate among the large member states. This was partially offset by another increase in lending to German NFCs for the ninth consecutive month, to leave growth at a still-strong 6.4%Y/Y, despite persisting concerns about the economic outlook. Meanwhile, thanks not least to record low interest rates, rising house prices and broadly positive consumer confidence, net lending to euro area households (adjusted for sales and securitisations) remained strong in September, with the €16.8bn increase leaving cumulative lending on a three-month basis at a relatively healthy €56bn, the strongest for more than eleven years, and growth unchanged at 3.4%Y/Y, a rate that was last exceeded at the start of 2009.

The day ahead in the euro area and US

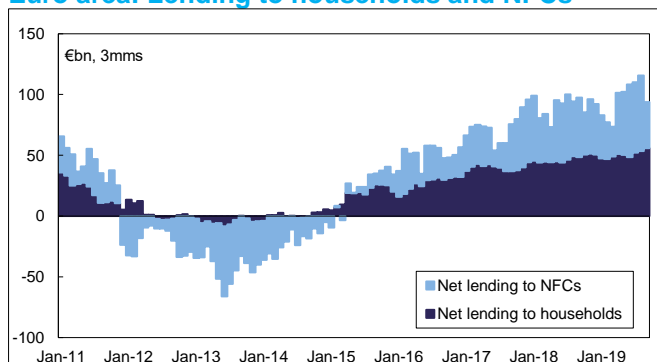
It should be a relatively quiet day for euro area economic releases tomorrow, with just the French INSEE consumer survey for October expected to show that confidence was little changed at the start of Q4, matching the twenty-month high reached in September. Tomorrow will also bring Spanish retail sales figures for September. In the US, as the two-day FOMC meeting gets underway, tomorrow will bring the Conference Board's latest consumer confidence survey for October, as well as pending home sales figures for September and the S&P CoreLogic home price index for August.

UK

Article 50 extension granted by EU

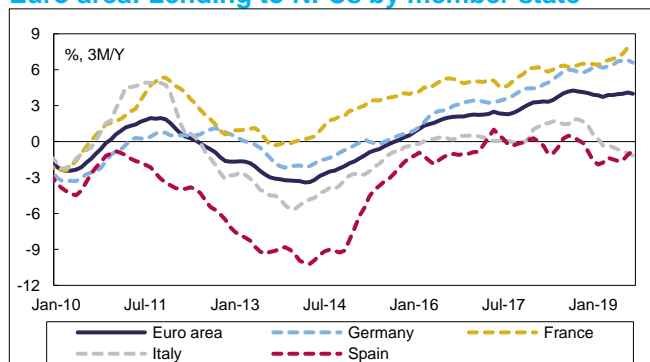
As we had expected, President of the European Council Donald Tusk confirmed that EU leaders today had formally granted the UK a flexible three-month extension of the Article 50 deadline through to 31 January 2020, with reportedly the possibility of exiting on either 1 December 2019 or 1 January 2020 if the Withdrawal Agreement Bill (WAB) was ratified sooner. Meanwhile, in the House of Commons, MPs were this evening set to vote on a Government proposal to hold an early

Euro area: Lending to households and NFCs*



*Non-financial corporations. Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

Euro area: Lending to NFCs by member state



Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.



General Election. While Johnson was calling for the election to be held on 12 December, under the Fixed Term Parliaments Act he would ultimately have discretion to set the election date at any time of his preference if he won this vote. But given the lack of trust on the PM among opposition parties, at the time of writing, Johnson looked set to fall well short of the two-thirds majority in favour required. Nevertheless, the UK still looked set for an early election before Christmas, with reports suggesting that the Government will table a Bill tomorrow 'almost identical' to a proposal made by the Liberal Democrats and SNP over the weekend, to call an election for 9 December (a date which would provide insufficient time for the WAB to be ratified prior to the poll). While the position of the Labour Party was still uncertain, if the Government's Bill provided a fixed date and was unconditional with respect to the ratification of WAB, it looked more likely to receive the simple majority required under this legislative route. The election Bill would still, however, require the approval of the House of Lords later in the week and Royal Assent before the end of Friday to take legal effect.

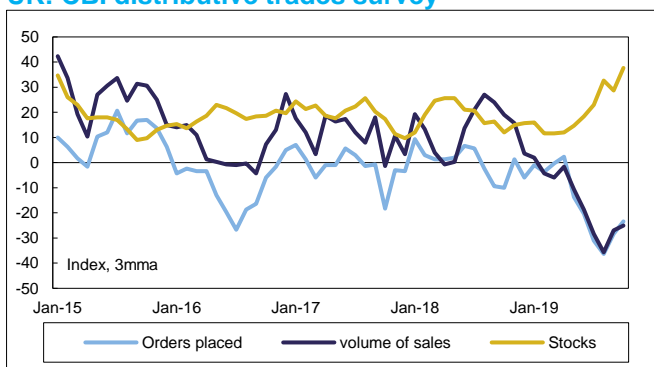
Survey implies further retail weakness

The negative economic impact of ongoing political uncertainty was again evident in today's CBI distributive trades survey, which showed that conditions in the retail sector remained very weak at the start of the fourth quarter. While the headline retail sales index somewhat exceeded expectations, the 6pt increase still left it at a weak -10, signalling a decline compared with a year earlier for the sixth consecutive month, the longest period of negative readings since the Global Financial Crisis. And while the drop in October was the softest during the recent downtrend, the survey implied that sales were again judged to be poor for the time of the year, with similar expectations for the month ahead as orders were anticipated to decline at a steeper pace in November. Among other detail, the survey flagged a sharp increase in retailing stocks this month as inventories were accumulated as a precaution in light of the Brexit deadline as well as in preparation for the forthcoming Christmas shopping season. Indeed, with the survey's stock to expected sales ratio rising to a record high, inventory accumulation might be expected again to have made a substantive contribution to GDP growth in Q3. Of course, while today's Article 50 extension removes some near-term Brexit uncertainty, the backdrop of ongoing political uncertainty in the face of a possible General Election in December and lack of clarity as to what might happen thereafter is likely to continue to weigh on household sentiment. And while survey indicators have tended to be more downbeat than official retail sales figures, we maintain our view that underlying consumption growth will be subdued, albeit still positive, in the final quarter of the year.

The day ahead in the UK

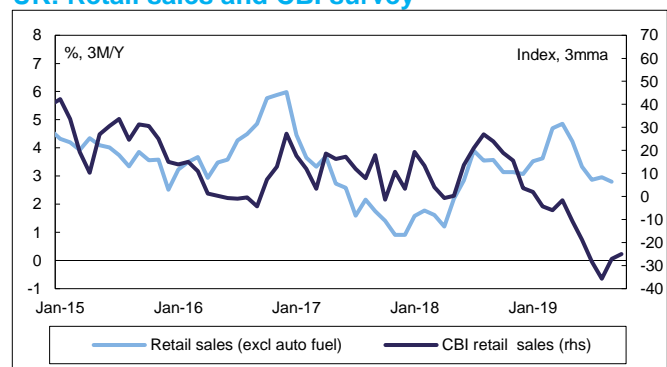
Aside from politics, tomorrow will bring the Bank of England's latest lending data for September, which, against the backdrop of heightened uncertainty, are likely to show that consumer credit and mortgage lending growth continued to moderate at the end of Q3. In the markets, the DMO is scheduled sell 2028 index-linked Gilts.

UK: CBI distributive trades survey






Source: Thomson Reuters and Daiwa Capital Markets Europe Ltd.

UK: Retail sales and CBI 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
EMU	 M3 money supply Y/Y%	Sep	5.5	5.7	5.7	-5.8
Germany	 Import price index Y/Y%	Sep	-2.5	-3.0	-2.7	-
UK	 CBI distributive trades survey, reported sales	Oct	-10	-20	-16	-
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases						
Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous	
France	 07.45	Consumer confidence indicator	Oct	104	104	
Italy	 09.00	PPI Y/Y%	Sep	-	-2.1	
Spain	 08.00	Retail sales Y/Y%	Sep	3.4	3.2	
UK	 07.00	Nationwide house price index M/M% (Y/Y%)	Oct	0.0 (0.2)	-0.2 (0.2)	
	 09.30	Net consumer credit £bn (Y/Y%)	Sep	0.9 (5.0)	0.9 (5.4)	
	 09.30	Net lending secured on dwellings (mortgage approvals '000s)	Sep	3.8 (65.0)	3.9 (65.5)	
	 09.30	M4 money supply Y/Y%	Sep	-	3.2	
Events & Auctions						
Country	GMT	Auction/Event				
UK	 10.30	Auction: £1.1bn of 0.125% 2028 index-linked bonds				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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