

# Euro wrap-up

## Overview

- Bunds made losses as draft plans suggested Germany's government will increase slightly issuance of bonds and bills in 2021 compared to 2020, while an Italian economic sentiment survey pointed to ongoing recovery.
- Gilts also made losses as UK consumer confidence improved slightly while public borrowing logged a record high for August.
- The coming week will bring the euro area's flash September inflation estimate, final European manufacturing PMIs, and a keynote speech from Christine Lagarde.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.718	-0.010
OBL 0 10/25	-0.721	-0.013
DBR 0 08/30	-0.527	-0.024
UKT 1½ 09/22	-0.069	-0.018
UKT 0% 06/25	-0.093	-0.025
UKT 4% 12/30	0.189	-0.030

\*Change from close as at 4:00pm BST.  
Source: Bloomberg

## Euro area

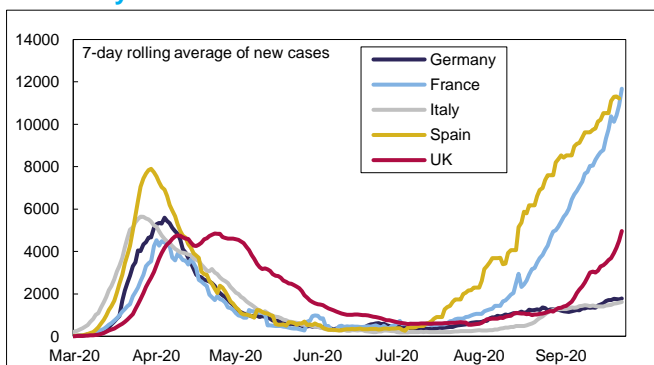
### Italians are more upbeat

Like with yesterday's [German ifo and French INSEE surveys](#), today's Italian ISTAT sentiment indicators pointed to ongoing recovery at the end of the third quarter. And perhaps because Italy's exposure to the resurgence in coronavirus cases has so far been better contained than many other euro area member states, the improvement was larger than anticipated and widespread among businesses and consumers alike. Given the weakness reported in the German and French PMIs, this was arguably most notable in the Italian services sector. There the headline index rose for the fourth successive month and by a substantive 13.7pts in September to reverse roughly 60% of the initial drop due to the lockdown, with sizeable improvements reported in firms' order books and business trends over the past month. Manufacturers were also more upbeat about their order books and expectations for future production, as were construction firms, with the latter likely boosted by the government's tax incentives for energy efficient and anti-seismic building works – indeed, the headline construction confidence index in September had reversed almost 90% of the initial decline caused by the pandemic. But while retailers were markedly more upbeat about recent sales, the survey flagged some concerns about the near-term outlook with inventory levels judged to have been increasing. For now at least, however, consumer confidence also continues to follow an upward trend (up 2.4pts) with greater optimism in current and expected conditions. Admittedly, household confidence still remains well down on its levels earlier in the year. And if Italy starts to see a more marked rise in the number of new coronavirus cases, consumption and economic recovery will undoubtedly slow.

### Bank lending remains strong

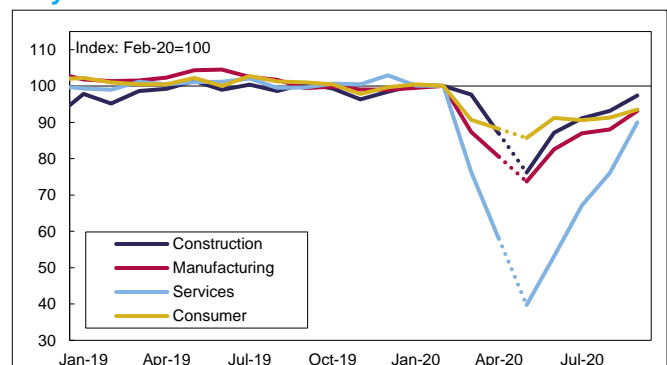
With deposits placed by households rising for the sixth consecutive month (by €43bn) to the leave the stock up 7.5%Y/Y, today's ECB bank lending figures for August also showed that consumer credit in the euro area remained extremely subdued, with annual growth of 0.3%Y/Y. In contrast, mortgage lending remained solid, with net new loans of €16bn leaving the stock up 4.1%Y/Y. There was also a pickup in the flow of new lending to non-financial corporations (NFCs) last month, by €29bn, inevitably still down considerably from the post-Covid spike (a cumulative €245bn in the three months to May). So, the annual growth rate in the stock of such loans moved sideways at 7.1%Y/Y, still the third-highest reading since early 2009 and a rate suggesting that most banks will have no difficulties qualifying for the most generous -1.0% rate on the [ECB's TLTRO iii funds](#). This in part reflected a pickup in lending to Italian NFCs, for which the annual growth jumped to the highest rate since early 2009 (6.1%Y/Y). Net new lending fell back in France, but was still up an elevated 11.3%Y/Y, while there was a further slowing in lending growth in Germany (5.3%Y/Y). Overall, the growth rate of credit to the private sector remained unchanged at 5.0%Y/Y – still the highest since 2009. And not least given extremely high government debt issuance to support ongoing fiscal schemes, growth in credit to the public sector jumped a further 1ppt to 16.5%Y/Y, the most on record.

### New daily coronavirus cases



Source: ECDC and Daiwa Capital Markets Europe Ltd.

### Italy: Business and consumer confidence indices\*



\*April 2020 survey not conducted. Source: Refinitiv, ISTAT and Daiwa Capital Markets Europe Ltd.

## The coming week in the euro area

The coming week will bring plenty of commentary from the ECB, starting on Monday when Christine Lagarde is due to address the European Parliament in a regular hearing. But of most interest will be the ECB and Its Watchers conference on Wednesday, where discussions will focus on the ECB's mandate, the ECB's instruments for crises and normal times, and the ECB's monetary policy strategy. Lagarde will give the opening address, with Governing Council members Lane, Weidmann and Villeroy de Galhau also among the speakers.

After a quiet start to the week, the euro area's data calendar gets underway on Tuesday with the Commission's business and consumer sentiment surveys – arguably the best guide to euro area economic activity – for September. Like this week's [flash PMIs](#), these might well show variation in conditions between sectors and countries at the end of Q3. The final manufacturing PMIs, meanwhile, will be published on Thursday. Tuesday will also bring the first of the week's flash September CPI estimates from Germany and Spain, which will be followed on Wednesday by the French and Italian numbers and on Friday by the euro area numbers, which will arguably be the most closely watched figures of the week. Having fallen to -0.2%Y/Y in August, euro area headline inflation is expected to have remained in negative territory, while core inflation might well have moved sideways or lower from August's record low of 0.4%Y/Y. Meanwhile, the latest euro area unemployment figures, due Thursday, are expected to show a modest uptick in the headline rate in August from 7.9% previously, although the upwards trend will have remained limited by various government support schemes. Country-level releases will include German labour market numbers for September and German retail sales and French consumer spending data for August on Wednesday, followed on Thursday by French, Italian and Spanish new car registrations figures for September. Finally, EU leaders are due to meet in Brussels on Thursday and Friday for the postponed Summit to discuss foreign affairs.

## UK

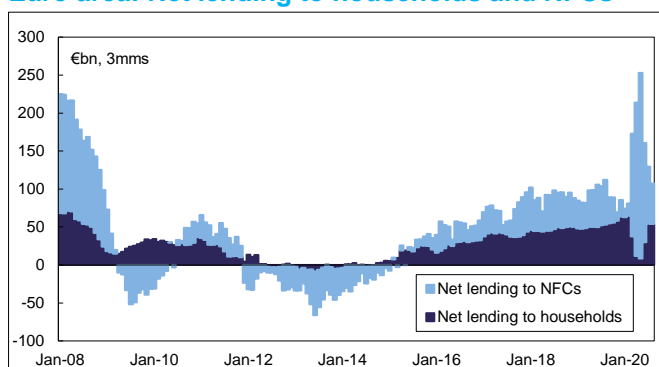
### Consumers slightly happier (for now)

Despite the resurgence in coronavirus cases, increasing localised lockdowns and a deteriorating labour market outlook, today's flash GfK consumer confidence survey indicated a further modest improvement in sentiment this month, with the headline balance rising 2pts to -25, the highest reading since March and 11pts above the post-pandemic trough. This, however, still remains 18pts lower than the peak reached earlier this year. And having been conducted during the first fourteen days of the month and therefore before the reintroduction of new national restrictions on activity, this might well be revised lower in due course. Indeed, within the details, households were seemingly more upbeat about their expectations for the economic situation over the coming twelve months, with the relevant index only marginally weaker than this time last year. As such, households assessed it to be a slightly improved environment to make major purchases too. But while this component has risen considerably from the post-Covid outbreak low, it still remains more than 24pts below its level a year earlier. And with unemployment set to rise despite the Chancellor's unveiling yesterday of a (less generous) new job support scheme, we very much doubt that consumers will feel significantly more optimistic heading into the final quarter of the year. And that seems highly likely to weigh on consumption.

### Public borrowing chalks up another record

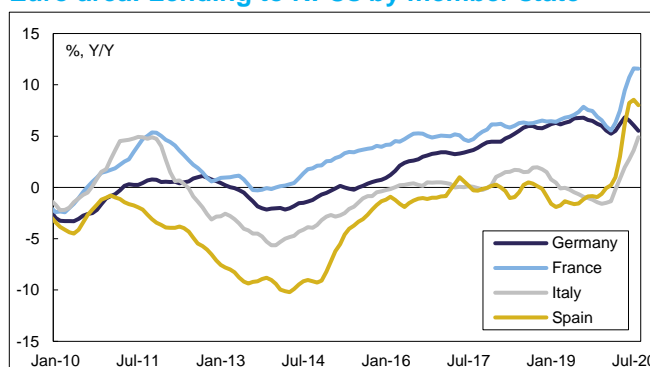
The hit to the UK's public finances from the pandemic was highlighted in today's other data, which showed public sector net borrowing (excluding public sector banks) estimated at £35.9bn in August, up £30.5bn from a year earlier, unsurprisingly a record for the month. Indeed, it represented the third highest government borrowing in any month, after the extraordinary blowouts in April (now revised to £49.1bn) and May (£44.3bn). And it left total borrowing in the first five months of the financial year (April to August) at £173.7bn, up £146.9bn on the same period last year and unsurprisingly the highest borrowing for the period on record. As some consolation for the Government, however, the borrowing figures for each month since April have come in below the OBR's forecasts. Weaker receipts on VAT (due not least to the temporary cut for the

### Euro area: Net lending to households and NFCs



Source: Refinitiv, ECB and Daiwa Capital Markets Europe Ltd.

### Euro area: Lending to NFCs by member state



Source: Refinitiv, ECB and Daiwa Capital Markets Europe Ltd.

hospitality sector), corporation and income tax explain a little less than a quarter of the increase in borrowing. So, much higher central government spending has been the main driver, up almost £20bn from a year earlier, with spending on the Government's two job support programmes – the Coronavirus Job Retention Scheme (CJRS, £6.1bn) and the Self Employment Income Support Scheme (SEISS, £4.7bn) making a substantive contribution. Nevertheless, public spending has not been quite as strong as expected, the principal explanation for the shortfall in borrowing from the OBR's forecasts.

### Fiscal support being gradually withdrawn, but public borrowing to remain high

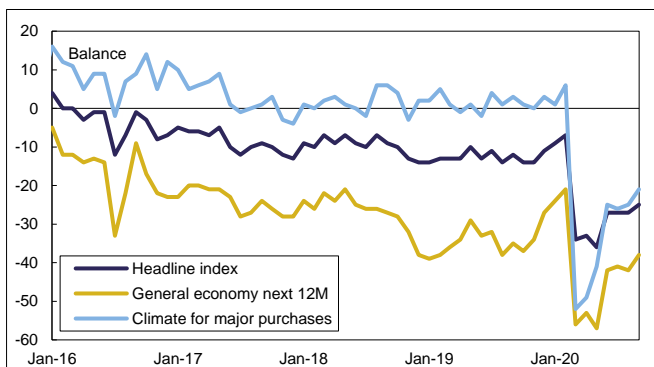
The Government's new Job Support Scheme, which was announced yesterday and will run for six months from 1 November, will subsidise the incomes of employees working reduced hours. While firms will continue to pay their employees for time worked, part of the cost of the hours not worked will be borne by the Government. It is far from clear how many workers will benefit from the scheme, however, not least as many firms might find the terms of the support insufficiently favourable to retain staff. But this morning's update from the Business Impact of Coronavirus Survey suggested that 12% of the workforce – roughly 3mn workers – were on partial or full-time furlough between 24 August and 6 September and many of these will likely end up on the scheme. So, the total cost for the Government could well surpass £10bn. Meanwhile, the associated support for the self-employed (the Self Employment Income Support Scheme grant) will now be extended from November, albeit at a less generous 20% of pre-Covid profits, from 70% in August. So, while public borrowing has been trending below the OBR's projection, and the support for the economy from fiscal policy is now being gradually reduced, it is still perfectly feasible that total public sector net borrowing in the current fiscal year will overshoot the OBR's full-year forecasts of £322bn and 16% of GDP.

### The coming week in the UK

In a relatively quiet week for UK economic data, Tuesday's release of the BoE's latest bank lending figures for August is arguably the most noteworthy. These are expected to show that loan demand from SMEs remained strong, while larger firms continuing to access large-scale finance through other channels. Lending to households is also expected to have picked up, supported not least by a further increase in demand for mortgage lending. Revised Q2 GDP data are scheduled for release on Wednesday, and expected to confirm the economy contracted at a record pace broadly in line with the previously estimated drop of 20.4%Q/Q. These figures will be accompanied by the latest balance of payments data for Q2. Finally, the week's data calendar will come to a close with the final manufacturing PMIs on Thursday, which are expected to reaffirm the impression of a slight moderation in the pace of output growth in September as implied by this week's flash release.

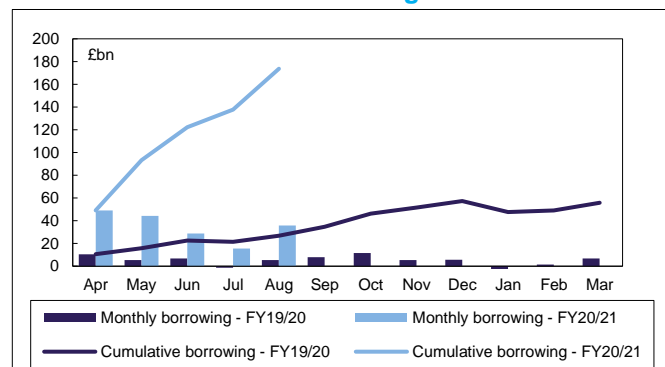
*The next edition of the Euro wrap-up will be published on 29<sup>th</sup> September 2020*

#### UK: Consumer confidence


















Source: Refinitiv, GfK and Daiwa Capital Markets Europe Ltd.

#### UK: Public sector net borrowing







Source: ONS and Daiwa Capital Markets Europe Ltd.

## Daiwa economic forecasts

	2020				2021		2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2			
<b>GDP growth, %, Q/Q</b>									
Euro area 	-3.6	-12.1	9.5	1.5	1.5	1.0	-7.6	5.5	3.4
Germany 	-2.0	-9.7	7.5	1.5	1.0	1.0	-5.5	4.6	2.4
France 	-5.9	-13.8	15.0	1.8	0.8	1.0	-9.1	6.5	3.0
Italy 	-5.5	-12.8	9.5	3.0	1.5	1.0	-10.1	6.3	3.2
Spain 	-5.2	-17.8	14.0	2.5	2.0	2.0	-11.4	8.0	4.2
UK 	-2.2	-20.4	18.5	1.0	1.0	2.0	-9.5	6.9	4.1
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline CPI 	1.1	0.2	0.1	-0.2	0.1	0.7	0.3	0.7	1.1
Core CPI 	1.1	0.9	0.7	0.3	0.5	0.5	0.7	0.6	0.8
UK									
Headline CPI 	1.7	0.6	0.7	0.4	0.5	1.6	0.8	1.4	1.6
Core CPI 	1.6	1.4	1.2	0.7	0.8	1.5	1.2	1.3	1.4
<b>Monetary policy</b>									
ECB									
Refi Rate % 	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deposit Rate % 	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Net asset purchases* 	20	140	100	100	100	70	140	20	20
BoE									
Bank Rate % 	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Net asset purchases** 	36	40	17	17	17	17	17	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/ <i>Daiwa forecast</i>	Previous	Revised	
EMU 	M3 money supply Y/Y%	Aug	<b>9.5</b>	10.1	10.2	<b>10.1</b>	
Italy 	ISTAT business (manufacturing) confidence	Sep	<b>91.1 (92.1)</b>	-(87.4)	80.8 (86.1)	<b>81.4 (87.1)</b>	
	ISTAT consumer confidence	Sep	<b>103.4</b>	100.8	100.8	<b>101.0</b>	
Spain 	PPI Y/Y%	Aug	<b>-3.5</b>	-	-4.8	-	
UK 	Public sector net borrowing £bn	Aug	<b>35.9</b>	38.0	26.7	<b>15.4</b>	
	GfK consumer confidence	Sep	<b>-25</b>	-27	-27	-	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.























## Coming week's data calendar

### The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 28 September 2020</b>					
UK		-	Nationwide house price index* M/M% Y/Y%	Sep	0.5 (4.6) / 2.0 (3.7)
<b>Tuesday 29 September 2020</b>					
EMU		10.00	Economic sentiment index	Sep	89.0 / 87.7
		10.00	Final consumer confidence	Sep	-13.9 / -14.7
		10.00	Industrial (services) confidence	Sep	-10.0 (-16.8) / --12.7 (-17.2)
Germany		13.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Sep	0.0 (-0.1) / 0.0 (-0.1)
France		07.45	INSEE consumer confidence	Sep	93 / 94
Italy		09.00	PPI Y/Y%	Aug	- / -5.4
Spain		08.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Sep	-0.4 (-0.5) / -0.5 (-0.6)
		08.00	Retail sales Y/Y%	Sep	- / -3.9
UK		09.30	Net consumer credit £bn (Y/Y%)	Aug	1.5 (-) / 1.2 (-3.6)
		09.30	Net lending secured on dwellings £bn (mortgage approvals '000s)	Aug	3.8 (72.0) / 2.7 (66.3)
<b>Wednesday 30 September 2020</b>					
Germany		07.00	Retail sales M/M% (Y/Y%)	Aug	0.4 (4.5) / -0.2 (5.0)
		08.55	Unemployment rate % (change '000s)	Sep	6.4 (-7.5) / 6.4 (-9.0)
France		07.45	Preliminary CPI (EU-harmonised CPI) Y/Y%	Sep	0.2 (0.3) / 0.2 (0.2)
		07.45	Consumer spending M/M% (Y/Y%)	Aug	-0.2 (0.5) / 0.5 (0.6)
		07.45	PPI Y/Y%	Aug	- / -2.6
Italy		10.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Sep	-0.4 (-0.4) / -0.5 (-0.5)
UK		00.01	Lloyds business barometer	Sep	- / -14
		00.01	BRC shop price index Y/Y%	Sep	-1.4 / -1.6
		07.00	Final GDP Q/Q% (Y/Y%)	Q2	-20.4 (-21.7) / -2.2 (-1.7)
		07.00	Current account balance £bn	Q2	-1.7 / -21.1
<b>Thursday 01 October 2020</b>					
EMU		09.00	Final manufacturing PMI	Sep	53.7 / 51.7
		10.00	Unemployment rate %	Aug	8.1 / 7.9
		10.00	PPI Y/Y%	Aug	-2.7 / -3.3
Germany		08.55	Final manufacturing PMI	Sep	56.6 / 52.2
France		08.50	Final manufacturing PMI	Sep	50.9 / 49.8
		-	New car registrations* Y/Y%	Sep	- / -19.8
Italy		08.45	Manufacturing PMI	Sep	53.5 / 53.1
		09.00	Unemployment rate %	Aug	10.2 / 9.7
		17.00	New car registrations Y/Y%	Sep	- / -0.4
Spain		08.15	Manufacturing PMI	Sep	50.5 / 49.9
		-	New car registrations* Y/Y%	Sep	- / -10.1
UK		09.30	Final manufacturing PMI	Sep	54.3 / 55.2
<b>Friday 02 October 2020</b>					
EMU		10.00	CPI estimate (core CPI) Y/Y%	Sep	-0.1 (0.5) / -0.2 (0.4)
Germany		-	New car registrations* Y/Y%	Sep	- / -20.0
Spain		08.00	Unemployment change '000s	Sep	- / 29.8

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

## The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 28 September 2020</b>		
EMU		10.45 ECB's Schnabel scheduled to speak at an online annual meeting of the German Economic Association
		14:30 ECB's Schnabel scheduled to speak at the European Sustainable Finance Summit
EMU		14:45 ECB President Lagarde in European Parliament Hearing
<b>Tuesday 29 September 2020</b>		
Italy		10.00 Auction: €2.5bn of 0.5% 2026 bonds
		10.00 Auction: €4.5bn of 0.9% 2031 bonds
		10.00 Auction: €1.25bn of 2024 floating rate bonds
UK		10.00 Auction: £2.75bn of 0.125% 2028 bonds
<b>Wednesday 30 September 2020</b>		
EMU		08.20 ECB President Lagarde and Chief Economist Lane due to speak at ECB and Its Watchers Conference
		- ECB's Mersch scheduled to speak at an international forum
Germany		10.30 Auction: €4bn of 0% 2025 bonds
UK		09.30 BoE Chief Economist Haldane to give keynote speech
<b>Thursday 01 October 2020</b>		
EMU		16:45 ECB's Chief Economist Lane scheduled to speak at online international macro conference
France		09.50 Auction: 0% 2030 bonds
		09.50 Auction: 0.75% 2052 bonds
		09.50 Auction: 1.25% 2034 bonds
		09.50 Auction: 0.5% 2040 bonds
UK		09.30 BoE publishes its Monthly Decision Maker panel data
		10.00 Auction: £3.25bn of 0.125% 2023 bonds
		11.30 Auction: £2bn of 1.25% 2041 bonds
<b>Friday 02 October 2020</b>		
EMU		11.00 ECB's de Guindos scheduled to speak at an online event
Germany		- German sovereign debt rating update by S&P
France		- French sovereign debt rating update by S&P

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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