

# Euro wrap-up

## Overview

- Bunds made losses even as the German ifo survey suggested a further loss of recovery momentum and Christine Lagarde insisted price pressures were likely to be temporary and the ECB could accelerate asset purchases if needed to maintain favourable financial conditions.
- Gilts also made losses despite a drop in UK consumer confidence and a weak retail survey.
- The coming week brings the flash estimate of euro area inflation in September along with unemployment data for the region, while the ECB will hold its annual Sintra monetary policy forum.

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### Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.702	-0.001
OBL 0 10/26	-0.572	+0.014
DBR 0 08/31	-0.229	+0.031
UKT 0 <sup>1</sup> / <sub>8</sub> 01/24	0.376	-0.001
UKT 0 <sup>3</sup> / <sub>8</sub> 10/26	0.586	+0.002
UKT 0 <sup>1</sup> / <sub>2</sub> 07/31	0.928	+0.021

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

## Euro area

### Headline German ifo index falls to five-month low, tallying with softer PMIs

Broadly consistent with yesterday's [flash PMIs](#), and close to expectations, today's German ifo survey flagged a further deterioration in recovery momentum in the euro area's largest member state. In particular, the headline ifo business climate index dropped for a third successive month in September and by 0.8pt to a five-month low of 98.8. That is still above the long-run average and above the range in the six months ahead of the pandemic. However, firms reported a deterioration in both current conditions and expectations for the coming six months, with the latter now slightly below the long-run average. Given the implied loss of momentum amid binding supply constraints, our hopes that full-year German economic growth might exceed 3.0%Y/Y in 2021 are diminishing. Indeed, while the pre-pandemic level of German GDP should still be surpassed by the end of the year, passing that milestone might yet have to wait until Q122.

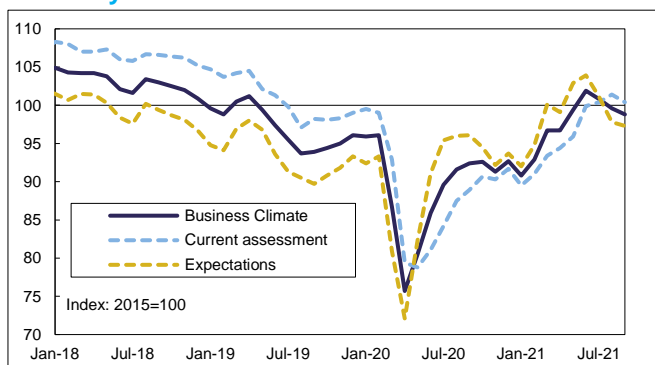
### Worsening manufacturing supply woes having knock on effects to certain other sectors

Sentiment worsened most in manufacturing, where the downgrade to the assessment of current conditions was the sharpest since the onset of the pandemic in March 2020 and expectations for the coming six months dropped for a sixth successive month to be the least upbeat in fifteen months. While order books in the sector were still ample, the ifo institute reported a levelling off in new demand. And with firms continuing to struggle to get their hands on raw materials and intermediate goods, and production having already declined in Q2, the sector was judged to be in the midst of a "bottleneck recession". Wholesalers and retailers were also more downbeat about the outlook, with a 'large majority' citing supply disruption in receiving orders. And expectations of logistics firms also reportedly worsened due to the problems in manufacturing. Overall, however, despite a worsening of current conditions that was also flagged by the flash PMIs, the ifo indices suggested that services firms were more upbeat about the outlook, supported by improved confidence in the hospitality sector. And despite problems with supply of materials, construction firms were the least downbeat about the coming six months since before the pandemic.

### Italian services confidence at 14-year high as consumers most upbeat on record

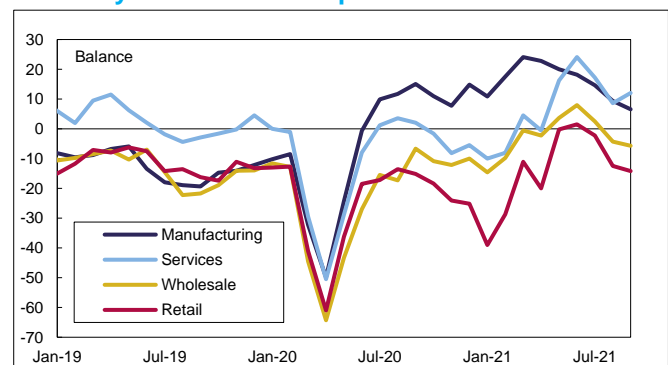
Yesterday's PMIs suggested that the economic recovery elsewhere in the euro area continued to outpace that in the largest two member states. And today's ISTAT sentiment surveys were broadly consistent with that view, suggesting that conditions remained favourable at the end of the third quarter. Admittedly, the manufacturing sentiment index slipped back very slightly in September, by 0.2pt to 113.0, a four-month low but still a historically elevated level. The moderation was focussed on the investment goods sub-sector, while confidence in the consumer and intermediate goods sectors rose despite ongoing supply

### Germany: ifo business climate indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Germany: ifo business expectations indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

constraints. Construction firms were also more upbeat, with the respective index up to its second-highest on record. And sentiment in the services sector (which accounts for roughly two-thirds of Italian output) rose to its highest since mid-2007, underpinned by a significant boost by tourism. The switch to spending on services from goods as restrictions relaxed, as well as supply problems, was perhaps behind the deterioration to a four-month low in confidence among retailers, who were reportedly less upbeat about current sales and stock levels. Certainly, today's survey suggested that spending on durable goods has weakened from earlier in the summer. Nevertheless, with the number of new coronavirus cases the lowest of the large member states, and notable progress in the nation's vaccine programme (see charts), Italian consumers remained extremely optimistic in September. Households' assessments of the economic situation strengthened and expectations for unemployment markedly improved. And the headline confidence index jumped 3.4pts to a new series high.

## Lagarde insists inflation pressures are temporary, signals readiness to add to QE if needed

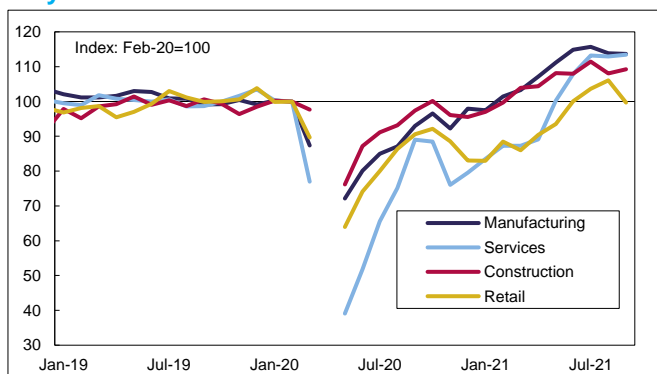
After yesterday's Reuters report suggested that eight members of the Governing Council judged the ECB's September inflation forecast to be too low, thus perhaps meriting a change of direction on monetary policy, President Christine Lagarde appeared to push back today in an interview for CNBC. Maintaining a broadly dovish tone, Lagarde rightly insisted that many of the factors currently driving inflation higher – including energy prices and Germany's tax changes – will prove temporary. She also emphasised that there remains "quite a lot of slack" in the labour market, with more than one million workers unemployed compared to before the pandemic, which the ECB was paying "great and close attention to". And, once again, she invoked Margaret Thatcher to suggest that she would not change policy in response to louder noises from the Governing Council's hawks, repeating that "the lady is not for tapering" but was merely interested in "calibrating" QE. As far as she is concerned, the ECB will continue to deliver favourable financing conditions. And in order to achieve that objective, the ECB will take full advantage of the flexibility of the PEPP programme, adding to its bond purchases to cap yields if necessary.

## The week ahead in the euro area

While focus on Monday will be firmly on the outcome of Sunday's [German federal election](#), the coming week will bring plenty of top-tier euro area data, with arguably the most noteworthy being the flash inflation estimate on Friday. Having jumped to 3.0%Y/Y in August, we expect headline consumer price inflation to have risen further in September to 3.4%Y/Y, which would be the strongest rate for thirteen years. While energy inflation will continue to account for a largest share – with the contribution from gas prices likely to have accelerated – non-energy industrial goods and services inflation are also likely to have increased further, principally reflecting the pandemic-associated low base a year ago. As such, we also expect euro area core inflation to have risen to just below 2%Y/Y for the first time since March 2008. Preliminary inflation estimates from the largest member states are also due on Wednesday (Spain) and Thursday (Germany, France and Italy).

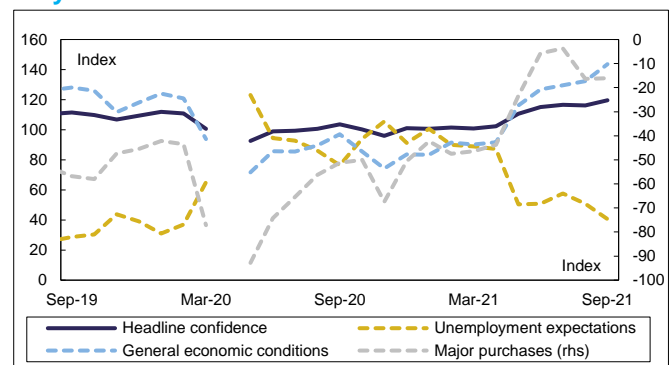
Against this backdrop, the Commission's sentiment survey (due Wednesday) will likely show that price expectations among consumers, retailers and industrial firms remain elevated as the recent surge in wholesale gas prices and persistent supply shortages push costs higher. Supply constraints are likely to have weighed further on the headline business sentiment indices too, with the Economic Sentiment Indicator likely to have fallen for the second successive month (albeit from the series high recorded in July). Meanwhile, euro area unemployment figures (due Thursday) are expected to report a further decline in August to the lowest rate since May 2020 (from 7.6% in July) and in line with the level at the end of 2019 – admittedly flattered by continued government support schemes. German labour market figures for September are also due on Thursday. Other economic data in the coming week include euro area bank lending data for September (Monday), French consumer spending and Spanish retail sales for August (Thursday), and German retail sales for August and September new car registrations numbers from France, Italy and Spain (Friday). Beyond the data, the ECB's annual Forum on Central Banking is due to take place on Tuesday and Wednesday, with the concluding policy panel including Powell, Lagarde, Kuroda and Bailey likely to be particularly closely watched.

### Italy: ISTAT business sentiment indices\*



\*Survey not conducted in April 2020. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

### Italy: ISTAT consumer confidence indices\*



\*Survey not conducted in April 2020. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

## UK

### Consumer confidence drops to five-month low on cost of living and end of furlough fears

While the [BoE](#) stated yesterday that the case has strengthened for some modest tightening of monetary policy over its forecast horizon, and cited strong household sentiment as a cause for optimism about the spending outlook, the latest UK consumer confidence survey flagged downside risks to demand over the near term. Seemingly not least due to concerns about the rising cost of living, the end of furlough, and imminent cuts to Universal Credit welfare payments, the headline sentiment indicator fell a steeper-than-expected 5pts in September to -13, the lowest since April. The weakness was broad-based. While the biggest drop was recorded in households' expectations for the economic outlook over the coming twelve months, which fell to its lowest since March, respondents were also more downbeat about their expected financial situation. So, perhaps unsurprisingly, households also assessed it to be a less favourable climate for making major purchases, with the respective survey index falling to its lowest since May, albeit still well above the lows seen earlier in the pandemic.

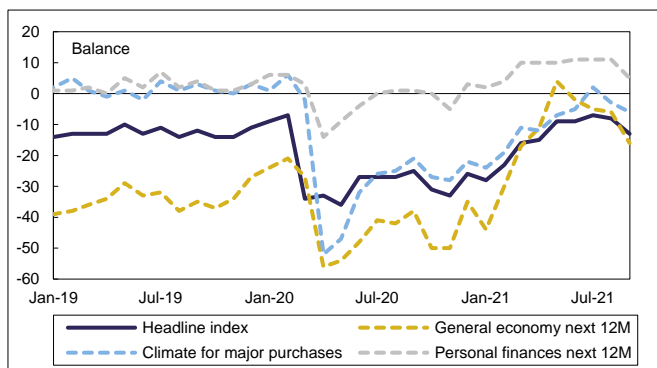
### Retail survey flags softer growth and distribution difficulties

Against this backdrop and following the weaker [retail sales figures in August](#), today's CBI distributive trades survey signalled another soft month for sales growth in the year to September, and well below the norm for the time of the year despite a low base a year ago. Indeed, the survey's headline index slumped 49pts on the month to 11, the lowest reading since March. Internet sales similarly slowed for the fifth consecutive month. And growth in auto sales also weakened as supply constraints continued to hit production. Indeed, today's survey continued to flag the challenges facing the distribution sector as already record low stock adequacy was expected to intensify over the coming month, risking potential further knock-on effects on other sectors in the months ahead.

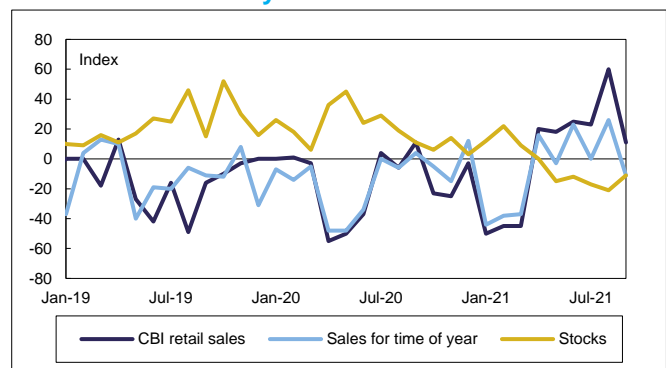
### The week ahead in the UK

The week ahead begins quietly in the UK with the data calendar kicking off on Wednesday with the release of the BoE's lending data for August. Coinciding with the tapering of the government's stamp duty holiday, July brought only the second net mortgage repayment in the past decade, while the number of mortgage approvals – an indicator of future borrowing – similarly fell back to the lowest since July 2020. Wednesday will also bring the BRC shop price index for this month, which will be watched for any signs of upwards price pressures on the High Street. On Thursday, the final release of Q2 GDP is expected to confirm solid growth of 4.8%Q/Q in Q2, with output up a whopping 22.2%Y/Y (admittedly flattered by the low base last year). But perhaps of most interest with this release will be the Blue Book-consistent revisions, including methodological changes that are expected to raise pre-pandemic economic growth rates. Thursday will also bring SMMT car production figures for August. Survey-wise, the final September manufacturing PMIs – out on Friday – are unsurprisingly expected to confirm the messages from yesterday's preliminary release, which suggested that supply-chain issues continue to hit the sector. Finally, as noted above, Wednesday will see BoE Governor Bailey join other major Central Bank Governors on a policy panel discussion at the ECB Forum on Central Banking.

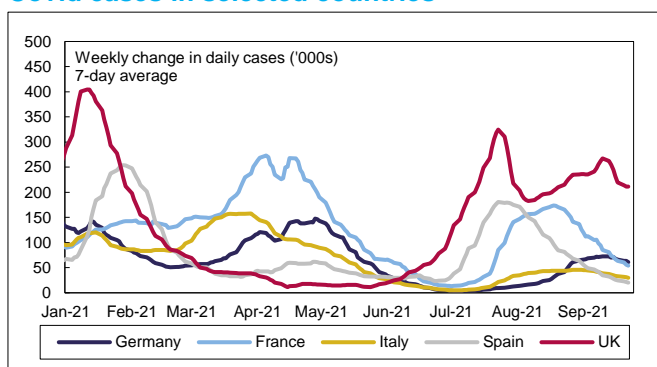
#### UK: GfK consumer confidence indices



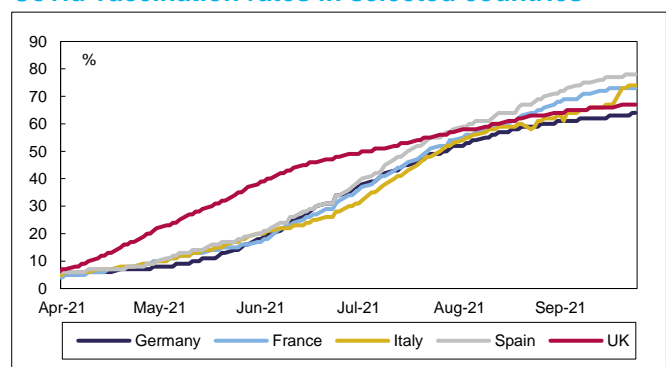
#### UK: CBI retail survey indices














#### Covid cases in selected countries



#### Covid vaccination rates in selected countries\*



## Daiwa economic forecasts







		2021				2022		2021	2022	2023
		Q1	Q2	Q3	Q4	Q1	Q2			
Euro area		-0.3	2.2	1.8	1.1	1.0	0.8	5.1	4.4	2.1
UK		-1.6	4.8	1.8	1.6	1.3	0.8	6.5	5.7	1.7
Euro area										
Headline CPI		1.1	1.8	2.8	3.5	2.5	2.5	2.3	2.0	1.3
Core CPI		1.2	0.9	1.4	1.9	1.2	1.8	1.3	1.4	1.2
UK										
Headline CPI		0.6	2.1	2.9	4.3	4.5	4.0	2.5	3.4	1.8
Core CPI		1.2	1.8	2.7	3.4	3.6	3.1	2.3	2.7	2.0
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
PEPP envelope* (€bn)		1850	1850	1850	1850	1850	1850	1850	1850	1850
BoE										
Bank Rate %		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.75
Bond purchases* (£bn)		895	895	895	895	895	895	895	895	895

\*Target 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
Germany	 Ifo business climate	Sep	<b>98.8</b>	99.0	99.4	<b>99.6</b>
	 Ifo current assessment (expectations)	Sep	<b>100.4 (97.3)</b>	101.8 (96.5)	101.4 (99.4)	<b>- (97.8)</b>
Italy	 ISTAT business (manufacturing) confidence	Sep	<b>113.8 (113.0)</b>	- (112.7)	114.2 (113.4)	-
	 ISTAT consumer confidence	Sep	<b>119.6</b>	115.8	116.2	-
UK	 GfK consumer confidence	Sep	<b>-13</b>	-7	-8	-
	 CBI distributive trades survey, reported sales	Sep	<b>11</b>	34	60	-






































#### Auctions

Country	Auction
Italy	 sold €2.5bn of 0% 2024 bonds at an average yield of -0.32%
	 sold €1bn of 0.4% 2030 index-linked bonds at an average yield of -0.85%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

# The coming week's data calendar

## The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> forecast/actual	Previous
<b>Monday 27 September 2021</b>					
Euro area		09.00 M3 money supply Y/Y%	Aug	7.8	7.6
Spain		08.00 PPI Y/Y%	Aug	-	15.3
<b>Tuesday 28 September 2021</b>					
Germany		07.00 GfK consumer confidence	Oct	-1.6	-1.2
France		07.45 Consumer confidence	Sep	100	99
UK		- Nationwide house price index* M/M% (Y/Y%)	Sep	0.6 (10.7)	2.1 (11.0)
<b>Wednesday 29 September 2021</b>					
Euro area		10.00 European Commission's economic confidence	Sep	116.9	117.5
		10.00 European Commission's final consumer confidence	Sep	-4.0	-5.3
		10.00 European Commission's industrial (services) confidence	Sep	12.5 (16.0)	13.7 (16.8)
Italy		09.00 PPI Y/Y%	Aug	-	12.3
Spain		08.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Sep	3.5 (3.6)	3.3 (3.3)
UK		00.01 BRC shop price index Y/Y%	Sep	-	-0.8
		09.30 Net consumer credit £bn (Y/Y%)	Aug	0.3 (-)	0.0 (-2.7)
		09.30 Net mortgage lending £bn (mortgage approvals '000s)	Aug	3.5 (73.5)	-1.4 (75.2)
		09.30 M4 money supply Y/Y%	Aug	-	6.0
<b>Thursday 30 September 2021</b>					
Euro area		10.00 Unemployment rate %	Aug	7.5	7.6
Germany		08.55 Unemployment rate % (change '000s)	Sep	5.5 (-25.0)	5.5 (-53.0)
		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Sep	4.2 (3.9)	3.9 (3.4)
France		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y%	Sep	2.2 (2.8)	1.9 (2.4)
		07.45 PPI Y/Y%	Aug	-	8.6
		07.45 Consumer spending M/M% (Y/Y%)	Aug	-	-2.2 (-4.6)
Italy		09.00 Unemployment rate %	Aug	9.2	9.3
		10.00 Preliminary CPI (EU-harmonised CPI) Y/Y%	Sep	2.3 (2.8)	2.0 (2.5)
Spain		08.00 Retail sales Y/Y%	Aug	0.1	0.1
UK		00.01 Lloyds business barometer	Sep	-	36
		00.01 SMMT car production Y/Y%	Aug	-	-37.6
		07.00 Final GDP Q/Q% (Y/Y%)	Q2	4.8 (22.2)	-1.6 (-6.1)
<b>Friday 01 October 2021</b>					
Euro area		09.00 Final manufacturing PMI	Sep	58.7	61.4
		10.00 Preliminary CPI (core CPI) Y/Y%	Sep	<u>3.4 (1.9)</u>	3.0 (1.6)
Germany		07.00 Retail sales M/M% (Y/Y%)	Aug	1.5 (0.9)	-4.5 (0.4)
		08.55 Final manufacturing PMI	Sep	58.5	62.6
France		08.50 Final manufacturing PMI	Sep	55.2	57.5
		- New car registrations* Y/Y%	Sep	-	-15.4
Italy		08.45 Manufacturing PMI	Sep	59.5	60.9
		17.00 New car registrations Y/Y%	Sep	-	-27.3
Spain		08.15 Manufacturing PMI	Sep	58.2	59.5
		- New car registrations* Y/Y%	Sep	-	-28.9
UK		09.30 Final manufacturing PMI	Sep	56.3	60.3

\*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 27 September 2021</b>		
Euro area 	12.45	ECB President Lagarde appears in EU Parliament Hearing
<b>Tuesday 28 September 2021</b>		
Euro area 	13.00	ECB President Lagarde gives introductory speech at ECB Forum on Central Banking
	13.30	ECB Vice Present de Guindos and board members Panetta and Schnabel each chair a session at the Forum
UK 	10.00	Auction: £2bn of 1¼% 2051 bonds
<b>Wednesday 29 September 2021</b>		
Euro area 	13.00	ECB Vice President de Guindos and board members Elderson and Lane each chair a session at the Forum
	16.45	US, UK, Japan and Euro area Central Bank Governors on policy panel discussion at ECB Forum on Central Banking
Germany 	10.30	Auction: €4bn of 0% 2031 bonds
Italy 	10.00	Auction: 5Y and 10Y fixed rate bonds auctions
<b>Thursday 30 September 2021</b>		
- Nothing scheduled -		
<b>Friday 01 October 2021</b>		
Euro area 	16.30	ECB's Schnabel scheduled to speak at Fed Conference on Lessons for the future

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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