

Euro wrap-up

Overview

- Bunds made modest gains even as surveys suggested that euro area economic sentiment remains firm despite ongoing supply disruption and increased price expectations.
- Gilts also made modest gains despite a slightly stronger UK retail price survey.
- Thursday will bring flash inflation estimates from Germany, France and Italy and updates on euro area unemployment and UK GDP revisions.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/23	-0.699	+0.001
OBL 0 10/26	-0.562	-0.008
DBR 0 08/31	-0.214	-0.012
UKT 0 ⁷ / ₈ 01/24	0.404	-0.003
UKT 0 ³ / ₈ 10/26	0.619	-0.005
UKT 0 ¹ / ₄ 07/31	0.989	-0.004

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

Source: Bloomberg

Euro area

Euro area sentiment boosted by improved expectations for near-term activity

Contrasting with last week's more downbeat [flash PMI's](#), today's European Commission survey – arguably the most comprehensive survey of economic conditions in the euro area – signalled some stabilisation in sentiment at a still high level at the end of the third quarter. In particular, the headline Economic Sentiment Index (ESI) rose 0.2pt in September to 117.8, within reach of the series high (119.0) recorded in July. Improvements in the German and Spanish ESIs to fresh series highs were offset by a further moderation in the respective French and Italian indices. At the sectoral level, an unexpected increase in the headline industrial index reflected improved order books and firmer expectations for near-term production. But it masked a further significant decline in manufacturers' assessment of recent production to a six-month low, with a similar downtrend in the respective past activity indices among firms in the services, construction and retailing sectors too. Against the backdrop of improved consumer confidence, services and construction firms expected a pickup in demand to support near-term activity and were therefore also more upbeat about their employment intentions. In contrast, retailers were less optimistic across the board, with expectations for near-term business at a six-month low as their assessments of stock levels reached a record low.

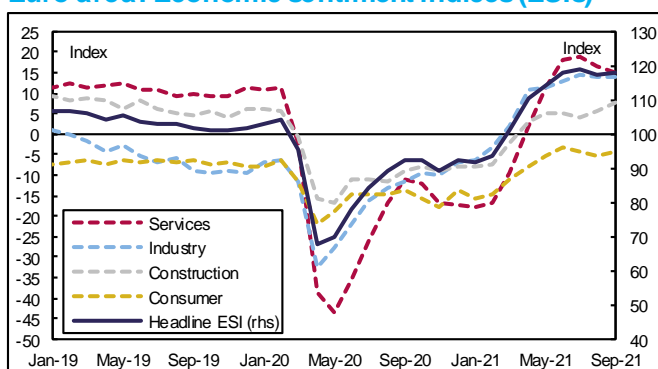
Price expectations rise to multi-year highs

Despite the stabilisation in sentiment, the detail of today's survey continued to flag challenges with respect to supply bottlenecks. Scarcity of stocks remained a concern for manufacturers and construction firms, with more than a quarter of construction managers also citing labour shortages and almost one fifth noting a lack of materials as a factor limiting output. As such, selling price expectations rose to the highest in services since mid-2008, and the highest since the early 1990s in manufacturing and retail trade. While selling price expectations slipped back slightly in construction, this was from a series high in August. There were further tentative signs that firms are starting to pass on some of their increased costs, with consumer price expectations increasing markedly for a tenth consecutive month to the highest since 2011.

German manufacturers flag worsening supply challenges

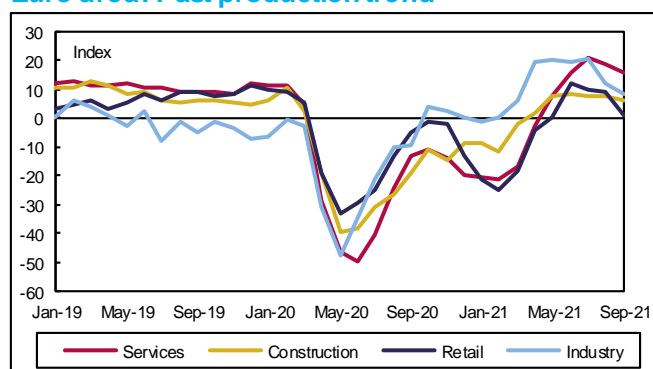
National data provided additional evidence of supply-side challenges today. For example, the ifo institute suggested that the shortage of materials and intermediate goods has become increasingly acute among German manufacturers, acting to prevent them from fulfilling new orders. According to its survey, a record 77.4% of German industrial firms reported problems sourcing key inputs in September, up more than 8ppts on the month. In autos almost all firms (97%) reported such challenges, with electrical equipment (93%), machinery and other equipment (89%) and chemicals (67%) also suggesting increased problems.

Euro area: Economic sentiment indices (ESIs)



Source: Refinitiv, European Commission and Daiwa Capital Markets Europe Ltd.

Euro area: Past production trend



Source: Refinitiv, European Commission and Daiwa Capital Markets Europe Ltd.

Spanish inflation up again to thirteen-year high

Meanwhile, according to today's flash inflation release from Spain – the first of the member states to publish September figures – headline inflation (on both the national and EU-harmonised measures) jumped a larger-than-expected 0.7ppt to 4.0%YY, the highest for thirteen years. Perhaps inevitably given the surge in wholesale power prices, this principally reflected higher electricity inflation. And associated not least with pandemic-related base effects, prices of auto fuel and package holidays also added to inflation this month. As such, Spanish core inflation (on the national measure) was also estimated to have risen by 0.3ppt in September, albeit remaining subdued at 1.0%YY. Indeed, the difference between the headline and core rates in September was the largest since the series began 35 years ago. With energy pressures showing no sign of dissipating, and producer price inflation up a further 2.4ppts last month to a more than 3-year high 18.0%YY (and 8.4%YY excluding energy), Spanish CPI inflation seems bound to rise over coming months as more of such costs are passed on to consumers.

The day ahead in the euro area

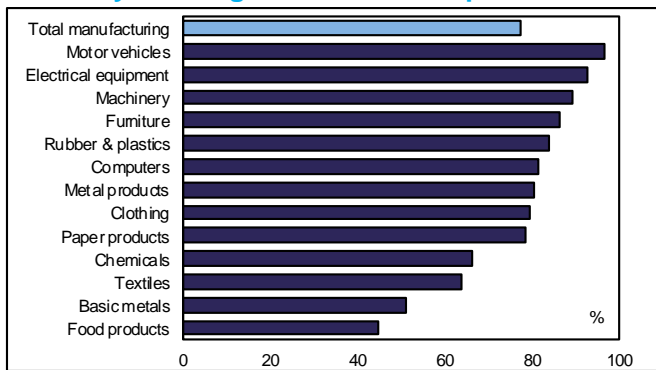
The flow of national September CPI data continues tomorrow with preliminary figures from Germany, France and Italy ahead of Friday's euro area inflation release. Principally due to higher energy prices, headline inflation is expected to have accelerated in each country by around 0.5ppt from August, although in light of today's Spanish outturn risks to these projections appear to be skewed to the upside. Meanwhile, euro area unemployment figures are expected to report a further decline in August to 7.5%, 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 tomorrow, along with French consumer spending and Spanish retail sales for August.

UK

Some signs of upwards pressures in UK shop price inflation

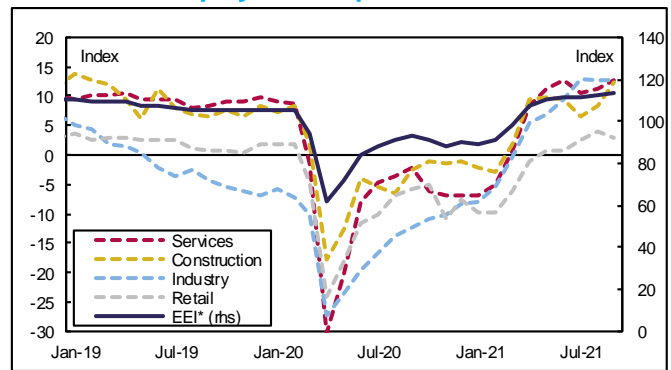
In the UK, the BRC's shop price index suggested that, while prices remain down compared with a year earlier, upwards pressures further up the supply chain are feeding through a little more to the High Street. In particular, retail prices reportedly rose for the third month out of the past four in September (albeit just 0.1%MM on the survey measure) to leave the annual rate of decline moderating a further 0.3ppt to -0.5%YY, the highest since January 2020. Within the detail, food price inflation was positive (0.1%YY) for the first time in six months, while the decline in non-food price inflation eased 0.2ppt to -1.0%YY. Prices of DIY and gardening products rose at the strongest annual rate since mid-2018, while the BRC's electrical price inflation rate remained close to a record high. Given ongoing supply chain disruption in a range of sectors, labour and skill

Germany: Shortage of intermediate products*



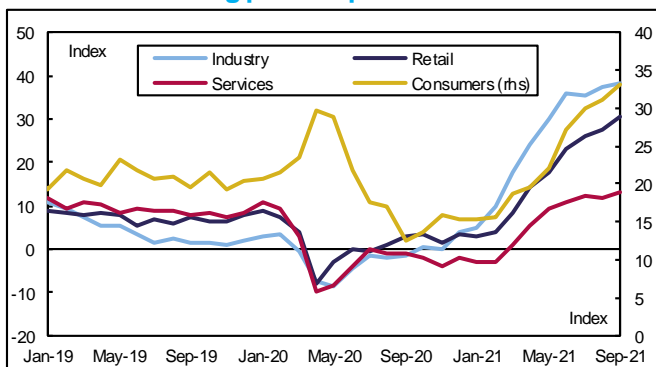
*September 2021 ifo business survey. Source: ifo and Daiwa Capital Markets Europe Ltd.

Euro area: Employment expectations



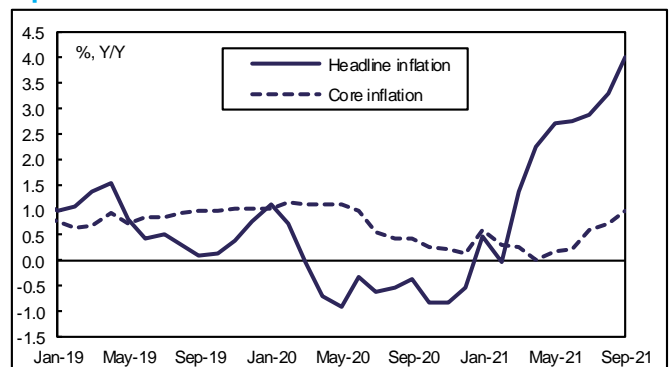
*Employment expectations indicator. Source: Refinitiv, European Commission and Daiwa Capital Markets Europe Ltd.

Euro area: Selling price expectations



Source: Refinitiv, European Commission and Daiwa Capital Markets Europe Ltd.

Spain: Headline and core inflation*



*National measure. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

shortages in part related to Brexit, and higher commodity and energy prices, we expect to see at least some of these higher input costs being passed through to consumers in due course. Significant competition on the High Street, the end of the job retention scheme and cuts to Universal Credit welfare payments should, however, constrain retailers' pricing power.

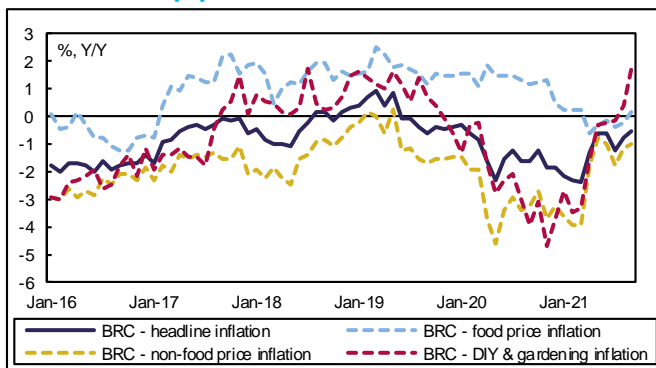
Households continue to accumulate bank deposits, rather than consumer credit

While the economy – and in particular the services sector – was operating without restrictions in August for the first full month this year, today's BoE monetary data suggested that demand for consumer credit remained subdued. In particular, individuals borrowed just £0.4bn of consumer credit last month, still well below the average monthly increase of £1.2bn in the two years before the pandemic. This left the outstanding stock of such lending down 2.4% Y/Y, with lending on credit cards down an even steeper 7.9% Y/Y. Instead, households continued to accumulate bank deposits in August, up £9.1bn, which was more than twice the typical pace before the pandemic. So, while the monthly increase was lower than that seen at the height of the pandemic, this left household deposits at more than £1.7trn in August. That is roughly £165bn more than would have been accumulated under the pre-pandemic trend, equating to excess saving worth more than 12% of annual household consumption. Meanwhile, after July saw only the second net mortgage repayment in the past decade, August brought net borrowing for house purchase of £5.3bn. But this was still £1.4bn below the average of the twelve months to June 2021 when the full stamp duty holiday was in place. And with the number of mortgage approvals having moderated further, to 74.5k, the lowest since July 2020, we would expect to see a further slowing in mortgage lending later in the year, after a near-term flurry of purchases this month before the government's incentives come to an end.

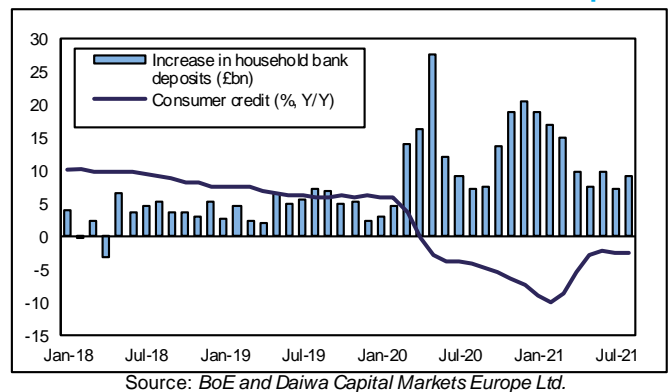
The day ahead in the UK

Tomorrow brings the final release of Q2 UK GDP, which is expected to confirm solid growth of 4.8% Q/Q, 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. Also published tomorrow will be SMMT car production figures for August and the Nationwide house price index for September.














UK: BRC shop price inflation






UK: Consumer credit and household bank deposits



European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <u>Daiwa forecast</u>	Previous	Revised	
Euro area	 European Commission's economic confidence	Sep	117.8	116.9	117.5	117.6	
	 European Commission's final consumer confidence	Sep	-4.0	-4.0	-5.3	-	
	 European Commission's industrial (services) confidence	Sep	14.1 (15.1)	12.5 (16.0)	13.7 (16.8)	13.8 (-)	
Italy	 PPI Y/Y%	Aug	13.8	-	12.3	13.5	
Spain	 Preliminary CPI (EU-harmonised CPI) Y/Y%	Sep	4.0 (4.0)	3.5 (3.6)	3.3 (3.3)	-	
UK	 BRC shop price index Y/Y%	Sep	-0.5	-	-0.8	-	
	 Net consumer credit £bn (Y/Y%)	Aug	0.4 (-2.4)	0.3 (-)	0.0 (-2.7)	- (-2.6)	
	 Net mortgage lending £bn (mortgage approvals '000s)	Aug	5.3 (74.5)	3.5 (73.5)	-1.4 (75.2)	-1.8 (75.1)	
	 M4 money supply Y/Y%	Aug	7.0	-	6.0	-	
Auctions							
Country	Auction						
Germany	 sold €3.05bn of 0% 2031 bonds at an average yield of -0.22%						
Italy	 sold €2bn of 0% 2026 bonds at an average yield of 0.11%						
	 sold €2.5bn of 0.95% 2031 bonds at an average yield of 0.86%						
	 sold €1.75bn of 2026 floating-rate bonds at an average yield of -0.21%						















Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <u>Daiwa forecast</u>	Previous	Revised	
Germany	 GfK consumer confidence	Oct	0.3	-1.5	-1.2	-1.1	
France	 INSEE consumer confidence	Sep	102	100	99	-	
Auctions							
Country	Auction						
UK	 sold £2bn of 1¼% 2051 bonds at an average yield of 1.332%						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area		10.00 Unemployment rate %	Aug	7.5	7.6
Germany		08.55 Unemployment rate % (change '000s)	Sep	5.5 (-37.0)	5.5 (-53.0)
France		13.00 Preliminary CPI (EU-harmonised CPI) Y/Y %	Sep	4.2 (4.0)	3.9 (3.4)
		07.45 Preliminary CPI (EU-harmonised CPI) Y/Y %	Sep	2.2 (2.8)	1.9 (2.4)
France		07.45 PPI Y/Y %	Aug	-	8.6
		07.45 Consumer spending M/M% (Y/Y %)	Aug	0.0 (-5.4)	-2.2 (-4.6)
		09.00 Unemployment rate %	Aug	9.2	9.3
Italy		09.00 Unemployment rate %	Aug	9.2	9.3
		10.00 Preliminary CPI (EU-harmonised CPI) Y/Y %	Sep	2.4 (3.0)	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)
		07.00 Nationwide house price index M/M% (Y/Y %)	Sep	0.6 (10.7)	2.1 (11.0)

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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