

Euro wrap-up

Overview

- Bunds followed USTs higher while a French business survey signalled a modest pickup in economic activity in August and an ECB survey suggested that euro area consumers' medium-term inflation expectations have edged slightly higher.
- Gilts also made gains while UK consumer confidence levelled off and BoE Governor Bailey suggested that inflation persistence risks had diminished.
- The coming week will bring the flash estimate of euro area inflation in August as well as updates on euro area unemployment, bank lending and economic sentiment.

Chris Scicluna

+44 20 7597 8326

Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.364	-0.025
OBL 2½ 10/29	2.129	-0.024
DBR 2.6 08/34	2.223	-0.017
UKT 0½ 01/26	3.659	-0.040
UKT 0½ 01/29	3.728	-0.040
UKT 4½ 01/34	3.912	-0.047

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

Euro area

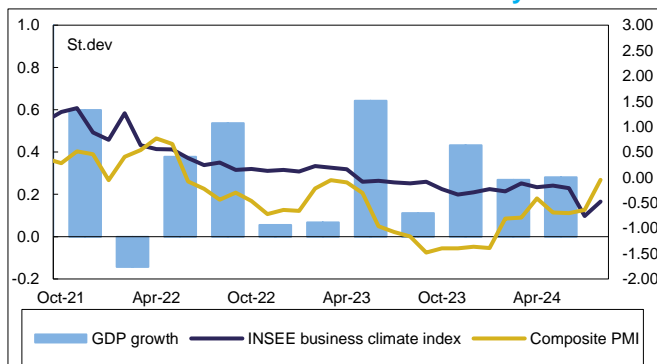
INSEE survey points to modest improvement in French growth in August

Yesterday's [flash PMIs for August](#) provided an upside surprise, pointing to a slight pickup in euro area economic activity in the middle of Q3 thanks principally to a marked acceleration in France attributed to the Paris Olympics. Today's INSEE survey results provided a timely cross-check on French business conditions in August. Reassuringly, the INSEE indices also signalled an increase in activity. But the implied pickup was much less pronounced than suggested by the flash PMIs. Moreover, the main source of the improvement in the INSEE survey contrasted significantly with that of the flash PMIs, which had reported one of the biggest increases in services activity on the series alongside further deterioration in manufacturing. While the INSEE survey suggested that conditions in all major French business sectors improved in August, perhaps encouragingly the turnaround was most emphatic in manufacturing. Indeed, the business climate indicator for manufacturing rose 4pts to 99, just 1pt shy of the long-run average, as firms reported increased export orders and revised up the production outlook. Perhaps surprisingly, construction sentiment rose above the long-run average. Meanwhile, after a sharp decline in July, the 3pt pickup in the services index took it to 98, still firmly below both the long-run average and the range in the three years to June. According to the INSEE survey, the improvement in the sector was centred on accommodation and food services, both of which signalled expectations of increased demand following a recent weakening in activity. But several other sub-sectors, including in ICT and professional activities, appeared to tread water. And the reported improvement in retail was modest. Overall, we think that the INSEE survey provides a more reliable guide to French economic activity than the flash PMIs and is currently signalling a slight moderation in GDP growth in Q3 to around 0.2%Q/Q from 0.3%Q/Q in each of the prior two quarters.

Consumer medium-term inflation expectations tick higher to irritate the ECB hawks

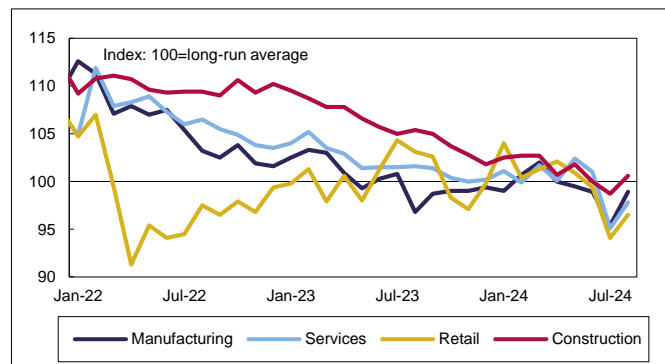
Earlier this week, the final estimates of [euro area inflation in July](#) confirmed a slight uptick in the headline rate to 2.6%Y/Y with the core rate unchanged for a third month at 2.9%Y/Y. With core inflation having flattened out at a still elevated level, today's ECB consumer survey results similarly suggested that inflation expectations have also levelled out. The median expectation for inflation twelve months ahead was unchanged at 2.8%Y/Y for a third consecutive month in July. Among the largest member states, the median rates ticked up 0.1ppt in Germany and Italy to 2.6%Y/Y and 3.0%Y/Y respectively. But they dropped 0.3ppt in France to 2.2%Y/Y, the lowest since January 2022, and 0.1ppt in Spain to 2.9%Y/Y, the softest since October 2021. A more important measure of the ECB's monetary policy credibility is inflation expectations over the medium term. And disappointingly, the median expectation for euro area inflation in three years' time rose for the first time so far this year, albeit by just 0.1ppt from June's 2½-year low to 2.4%Y/Y. The increase was principally due to a rise of 0.4ppt in Italy to

France: GDP & selected business survey indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: INSEE business climate indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

2.9%Y/Y, with 3-year inflation expectations unchanged in Germany, France and Spain. While inflation expectations remain above the ECB's 2.0% target, they appear to remain relatively well anchored and consistent with a gradual easing of pay growth over coming years as real-wage catch-up dynamics gradually fade. Nevertheless, the hawks on the Governing Council will argue that, particularly with a persistent upside skew to the distribution of inflation expectations, actual inflation might be unlikely to undershoot the target over the horizon, diminishing the case for rate cuts. And they will caution that inflation expectations risk drifting steadily higher once again if headline inflation fails to fall further over coming months.

Expectations of income, spending & GDP growth deteriorate to flag downside risks to consumption

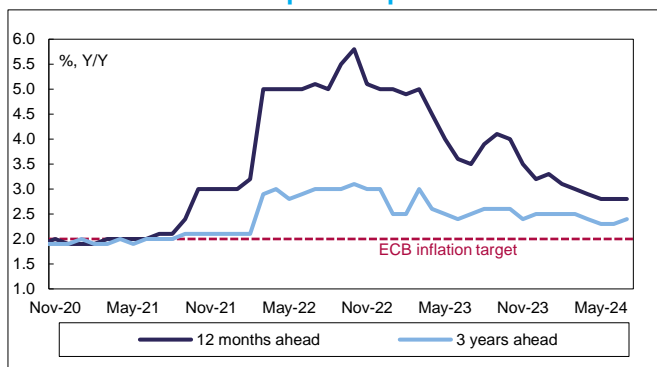
Among the ECB survey's other findings, euro area consumers remained downbeat about their financial health, with the mean forecast of growth in nominal incomes in the twelve months ahead edging down to a nine-month low of 1.1%Y/Y. The mean expectation for nominal spending growth over the coming twelve months slowed to 3.2%Y/Y, the lowest since February 2022. Expectations for economic output over the coming year deteriorated too, with households on average expecting GDP to contract 1.0%Y/Y, the worst in four months. However, consumer unemployment expectations were at least steady at their recent lows. Yesterday, the flash Commission consumer confidence index for August also deteriorated, so survey evidence suggests that the hoped-for acceleration in household spending might well remain elusive over coming quarters contrary to the profile in the ECB's current projections.

The week ahead in the euro area

The week ahead brings several top-tier euro area releases, with the flash estimates of August inflation on Friday most noteworthy. While headline inflation edged up 0.1ppt in July to 2.6%Y/Y, we expect it to fall this month, by 0.4ppt to 2.2%Y/Y, which would mark a three-year low. Admittedly, the drop this month will principally reflect the energy component amid notable declines in petrol and heating gas prices so far this month in contrast to the sharp increase a year ago. Non-energy industrial goods inflation will also remain extremely subdued, likely falling to less than ½%Y/Y. But with the disinflationary trend in food perhaps near its end, we expect inflation of that component to move sideways at 2.3%Y/Y. And there is a risk that services inflation ticked back above 4.0%Y/Y, albeit likely reflecting one-off factors in the more volatile categories such as airfares and package holidays. As such, we expect core HICP inflation to be unchanged at 2.9%Y/Y. Preliminary inflation numbers from Germany, Spain, Belgium and Ireland on Thursday will provide a further guide to the euro area figure.

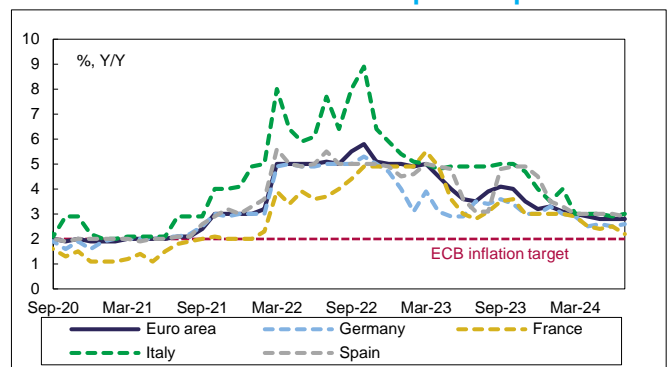
In terms of economic surveys, the Commission economic sentiment indicator (Thursday) will offer further insight into recent recovery momentum and might well provide a less upbeat assessment that yesterday's [flash PMIs](#). Certainly, today's INSEE business survey signalled a less striking improvement in sentiment in France. And we expect Germany's ifo business survey

Euro area: Consumer price expectations*



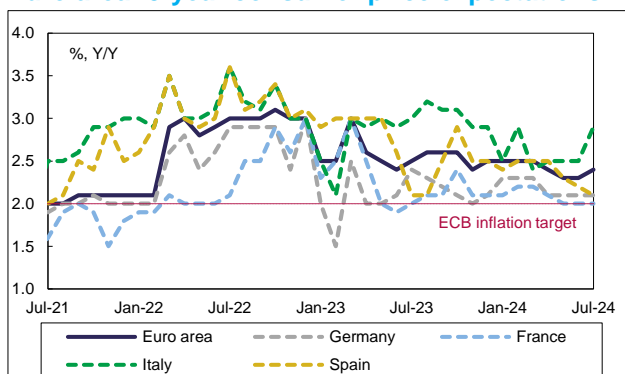
*Median expectations. Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: 12-month consumer price expectations*



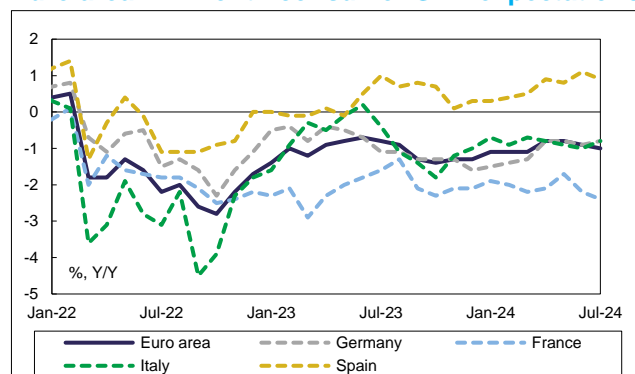
*Median expectations. Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: 3-year consumer price expectations*



*Median expectations. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: 12-month consumer GDP expectations



*Mean expectations. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

(Monday) to point to ongoing challenges in the euro area's largest member state. The German GfK and French INSEE consumer confidence indices are also due Wednesday and might well suggest a softening in sentiment in line with the preliminary release of the [Commission's consumer confidence](#) index. Meanwhile, an updated estimate of German Q2 GDP (Tuesday) will include the first official expenditure breakdown. The flash release suggested that Germany's economy contracted slightly in Q2 (-0.1%Q/Q), led by a decline in investment in machinery and equipment and construction following a weather-assisted boost to the latter at the start of the year. Revised French GDP figures (Friday) are likely to confirm growth of 0.3%Q/Q in Q2.

Finally, other releases due in the coming week include ECB bank lending figures (Wednesday) and unemployment rate data for July (Friday). The monetary data should underscore that lending to business remains subdued amid relatively tight credit conditions and soft demand. But having edged up in June from the prior month's series low to 6.5%, we expect the euro area unemployment rate to remain steady at 6.5% in July ahead of a steady upwards drift over the second half of the year.

UK

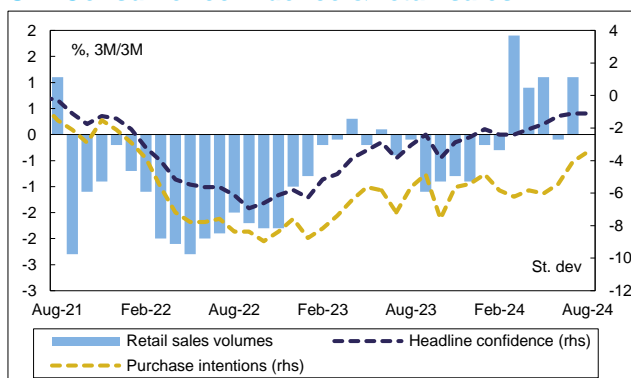
Consumer purchase intentions rise again, but higher energy bills will erode spending power

According to the GfK survey, UK consumer confidence levelled off in August after four successive months of improvement. The headline sentiment indicator was unchanged at -13, the highest level since September 2021, in line with the 2019 average but 3pts below the long-run average. While household perceptions of the broader economy deteriorated somewhat on the month, personal financial expectations rebounded from two months of weakness, probably benefiting from the BoE's rate cut at the start of the month. And while consumer saving intentions increased significantly, households also signalled the greatest readiness to make major purchase since the start of 2022. We expect the BoE to cut Bank Rate next in November, a move that should bolster willingness to buy big-ticket items for households with mortgages. However, first, consumers have to face up to higher home energy bills, which will erode purchasing power somewhat. In line with our expectations, the regulator Ofgem today confirmed an increase of 9.5% in the regulated household energy price cap from October, which will add about £150 to the 'typical household' annual bill and more than ½ppt to CPI inflation from that month. We expect a further increase of about 2½% in the price cap to be implemented in January before a renewed cut in April. The new government's decision to scrap Winter Fuel Payments worth £200 to £300 for around 10 million pensioners will provide a further modest headwind for spending.

The week ahead in the UK

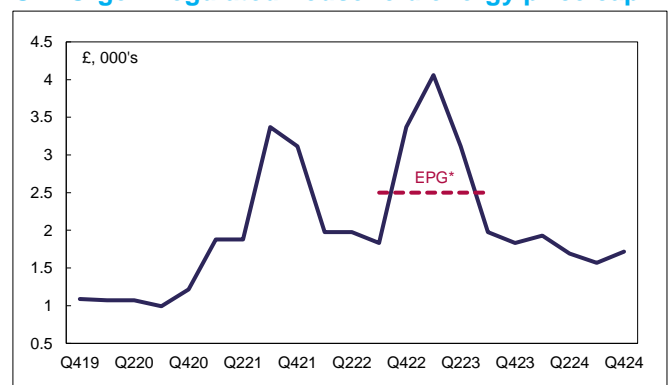
It should be a relatively quiet week ahead for top-tier UK releases, with just the CBI's distributive trades and BRC shop price surveys (both due Tuesday), as well as the BoE's monetary figures and Nationwide house price report (both on Friday). While shop price inflation remains exceptionally weak (0.2%Y/Y in July) with the disinflationary trend in food prices of non-food items continuing (-0.9%Y/Y), consumer spending on goods remains very subdued. But having reported weak sales in July amid inclement weather conditions, the CBI's headline retail balance might well suggest a pickup in sales volumes this month. Meanwhile, despite the cut in Bank Rate earlier this month, the BoE's monetary figures are likely to suggest that consumer credit growth remains relatively subdued as borrowing costs remain relatively high. And with approvals having slipped to a six-month low in June, mortgage lending is also likely to remain relatively subdued.

UK: Consumer confidence & retail sales












Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Ofgem regulated household energy price cap






*Energy Price Guarantee. **Price cap set on a biannual basis up to Q322, quarterly thereafter. Data for direct debit payment method. Source: Ofgem and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

	2024				2025		2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.3	0.3	0.2	0.2	0.3	0.3	0.5	0.7	1.1
UK 	0.7	0.6	0.3	0.3	0.3	0.3	0.1	1.1	1.3
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.6	2.5	2.4	2.7	2.4	2.0	5.4	2.5	1.9
Core HICP 	3.1	2.8	2.9	3.1	2.7	1.9	4.9	3.0	1.8
UK									
Headline CPI 	3.5	2.1	2.2	2.8	2.7	2.2	7.3	2.6	2.3
Core CPI 	4.6	3.6	3.4	3.5	3.3	2.2	6.2	3.8	2.4
Monetary policy, %									
ECB									
Deposit Rate 	4.00	3.75	3.50	3.25	3.00	2.75	4.00	3.25	2.25
Refi Rate 	4.50	4.25	3.65	3.40	3.15	2.90	4.50	3.40	2.40
BoE									
Bank Rate 	5.25	5.25	5.00	4.75	4.50	4.25	5.25	4.75	3.75

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
Euro area 	ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Jul	2.8 (2.4)	2.7 (2.3)	2.8 (2.3)	-	
France 	INSEE business (manufacturing) confidence indicator	Aug	96.6 (98.8)	96 (96)	93.9 (95.4)	-	
UK 	GfK consumer confidence indicator	Aug	-13	-12	-13	-	
Auctions							
Country	Auction						
- Nothing to report -							

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> <i>forecast/actual</i>	Previous
Monday 26 August 2024					
Germany		09.00 Ifo business climate indicator	Aug	86.0	87.0
		09.00 Ifo current assessment (expectations) indicator	Aug	86.5 (85.8)	87.1 (86.9)
Spain		08.00 PPI Y/Y%	Jul	-	-3.5
Tuesday 27 August 2024					
Germany		07.00 GDP – final estimate Q/Q% (Y/Y%)	Q2	<u>-0.1 (-0.1)</u>	0.3 (-0.1)
UK		00.01 BRC shop price index Y/Y%	Aug	-	0.2
Wednesday 28 August 2024					
Euro area		09.00 M3 money supply Y/Y%	Jul	2.7	2.2
Germany		07.00 GfK consumer confidence indicator	Sep	-18.0	-18.4
France		07.45 INSEE consumer confidence indicator	Aug	92	91
Thursday 29 August 2024					
Euro area		10.00 Commission Economic Sentiment indicator	Aug	95.8	95.8
		10.00 Commission industrial (services) confidence indicator	Aug	-10.9 (5.3)	-10.5 (4.8)
		10.00 Final Commission consumer confidence indicator	Aug	-13.4	-13.0
		05.00 New car registrations Y/Y%	Jul	-	2.8
Germany		13.00 Preliminary HICP (CPI) Y/Y%	Aug	2.2 (2.1)	2.6 (2.3)
Spain		08.00 Preliminary HICP (CPI) Y/Y%	Aug	2.5 (2.4)	2.9 (2.8)
Friday 30 August 2024					
Euro area		10.00 Preliminary headline (core) HICP (Y/Y%)	Aug	<u>2.2 (2.8)</u>	2.6 (2.9)
		10.00 Unemployment rate %	Jul	6.5	6.5
Germany		08.55 Unemployment rate % (change 000's)	Aug	6.0 (16.0)	6.0 (18.0)
France		07.45 GDP – final estimate Q/Q% (Y/Y%)	Q2	<u>0.3 (1.1)</u>	0.3 (1.5)
		07.45 Preliminary HICP (CPI) Y/Y%	Aug	2.2 (1.9)	2.7 (2.3)
		07.45 Consumer spending M/M% (Y/Y%)	Jul	-0.4 (-0.9)	-0.5 (-1.0)
		07.45 PPI Y/Y%	Jul	-	-6.0
		06.30 Total payrolls (final private sector) Q/Q%	Q2	-	0.3 (0.3)
Italy		10.00 Preliminary HICP (CPI) Y/Y%	Aug	1.3 (1.2)	1.6 (1.3)
		11.00 ISTAT consumer confidence indicator	Aug	99.1	98.9
		11.00 ISTAT business (manufacturing) confidence indicator	Aug	- (87.4)	94.2 (87.6)
Spain		08.00 Retail sales Y/Y%	Jul	-	0.3
UK		00.01 Lloyds business barometer (own price expectations)	Aug	-	50 (57)
		07.00 Nationwide house price index M/M% (Y/Y%)	Aug	0.2 (2.9)	0.3 (2.1)
		09.30 Net consumer credit £bn (Y/Y%)	Jul	1.3 (-)	1.2 (8.0)
		09.30 Net mortgage lending £bn (approvals 000s)	Jul	2.0 (60.5)	2.7 (60.0)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 26 July 2024		
UK 	-	Summer bank holiday
Tuesday 27 July 2024		
Germany 	10.30	Auction: to sell €4bn of 2.5% 2029 bonds
Italy 	10.00	Auction: to sell up to €2.5bn of 3.1% 2026 bonds
Wednesday 28 July 2024		
Euro area 	11.15	ECB Chief Economist Lane speaks on 'Inflation – challenges for policymakers & researchers', CEBRA conference, Frankfurt
UK 	10.00	Auction: to sell £1.5bn of 0.75% 2033 inflation-linked bonds
Thursday 29 July 2024		
Italy 	10.00	Auction: to sell 5- and 10-year bonds
Friday 30 July 2024		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.