

# Euro wrap-up

## Overview

- While euro area stock markets made solid gains and German consumer confidence unexpectedly picked up, Bunds were little changed as euro area bank lending remained relatively subdued.
- Gilts made modest losses at the longer end on a quiet day for UK economic news.
- Friday will bring flash estimates of French and Spanish inflation in September as well as the Commission survey results for the same month.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.105	-0.008
OBL 2½ 10/29	1.988	-0.005
DBR 2.6 08/34	2.168	-0.002
UKT 4½ 01/27	3.949	-0.005
UKT 4½ 07/29	3.839	+0.009
UKT 4½ 07/34	4.000	+0.013

\*Change from close as at 4:40pm BST.  
Source: Bloomberg

## Euro area

### German consumer confidence unexpectedly improves despite business gloom

Last week's flash Commission estimate of euro area consumer confidence in September posted an unexpected albeit admittedly modest improvement, rising 0.5pt to -12.9, the highest level since Russia's invasion of Ukraine in early 2022. The equivalent national surveys published since then suggest that the pickup in consumer confidence has been relatively widespread. Most surprising given the notable deterioration in German business sentiment signalled by the flash PMIs and ifo indices, today's GfK survey results suggested a slight improvement in the euro area's largest member state. The headline GfK index, presented as a forecast for October, rose 0.7pt to -21.2, still nevertheless more than 1½pts below August's more than two-year high. More encouragingly perhaps, the survey's index of major purchase intentions rose 4pts to the highest since Russia's invasion of Ukraine despite a downgrade in consumers' assessment of the economic outlook. We caution, however, that this indicator is highly volatile and, despite recent strong pay growth, also remains firmly below the long-run average.

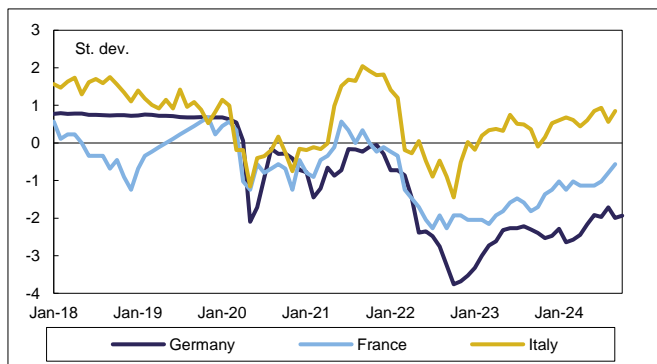
### French and Italian consumers also more upbeat but consumption growth likely to remain sub-par

Elsewhere, the INSEE and ISTAT surveys also reported improvements in consumer confidence in France and Italy in September, with the former similarly up to the highest in more than 2½ years. As in Germany, however, French consumer confidence and purchase intentions remain below the respective long-run averages. Given the strength of wage growth, the 0.1%Q/Q drop in euro area private consumption in Q2 was both particularly disappointing and had not been expected by the ECB. And in its latest Economic Bulletin, a box article concluded that the "fact that consumer confidence remains subdued suggests that private consumption will only improve moderately in the short term". We agree. Indeed, despite the pickup in consumer confidence in September, with savings intentions likely to remain high and wage growth set to moderate, the risks to the outlook for household spending appear skewed firmly to the downside, supporting the case for further ECB rate cuts.

### Italian business sentiment improves as more upbeat services contrasts downbeat manufacturers

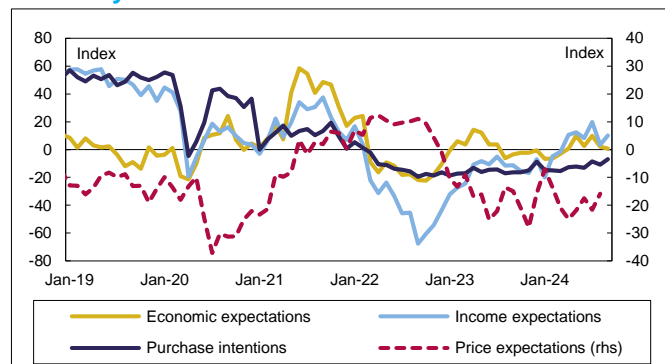
The results from today's ISTAT business survey were mixed, suggesting ongoing divergences in fortune between sectors. The composite economic sentiment index (IESI) rose 1pt to 95.7, the highest for five months and some 3% above the long-run average. But the quarterly index in Q3 (94.9) was a touch softer than the Q2 average and at the bottom of the range of the past 3½ years, supporting our view that GDP likely expanded only modestly in Q3, if at all. Within the sector detail, tallying with the improvement in consumer confidence, services firms were the most upbeat for six months, amid a notable improvement in recent and expected demand. Retailers also reported a modest pickup from August's six-month low as

### Euro area member states: Consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: GfK consumer confidence indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

recent sales were judged to have been the firmest for five months. In contrast, however, today's survey implied that challenges persist in the manufacturing sector as the respective sentiment index fell to its lowest since November 2020 due to declining orders and weak production expectations. Construction firms also considered conditions to be among the least favourable of the past two years, with assessments of current order books still downbeat after the ending of the 'superbonus' incentives earlier in the year. And so, while firms in the sector continued to flag labour shortages as a key restraint on activity, employment intentions were also the lowest for more than 2½ years.

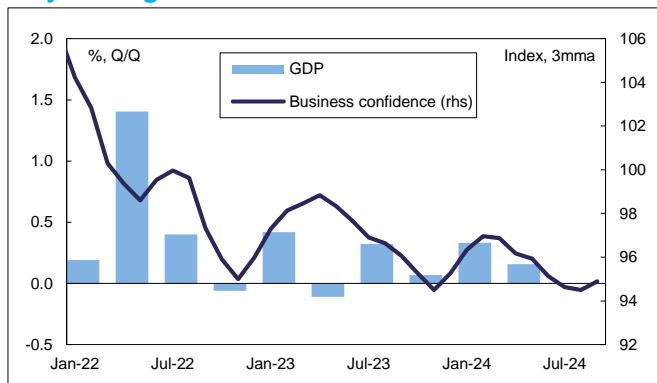
### Bank lending growth remains negative in real terms to support case for easing

As well as having been disappointed by the recent weakness of consumer spending, the ECB has acknowledged that monetary policy tightening had a greater effect on bank lending than its models had predicted. Despite the rate cut in June and slight decline in lending interest rates from their recent peak, loan growth remained highly subdued and negative in real terms in August consistent with tight credit standards and weak demand. On an adjusted basis, bank lending to non-financial corporations (NFCs) fell in August for the second successive month. The flow was negative on an unadjusted basis for shorter-term loans, which often correspond with demand for working capital. And while positive, the net flow for longer-term loans, which can correspond with fixed investment, remained subdued within the range of the past two years. As a result, the annual growth rate in the stock of loans to NFCs picked up last month merely to 0.8%Y/Y, 3.0ppts below the average in the two years before the pandemic. While the net flow of lending to households of €9bn was the strongest since January 2023, the respective annual growth rate merely edged up 0.1ppt to 0.6%Y/Y, 2.5ppts below the average in the two years before the pandemic. Consumer credit was up 3.1%Y/Y but loans for house purchase rose just 0.6%Y/Y, with growth in other loans to households remaining firmly in reverse at -2.5%Y/Y. Having reached historical lows a year earlier as ECB rates finally reached their terminal levels for the cycle, money supply growth continued to normalise. But growth in the narrow M1 aggregate (-2.1%Y/Y) remained negative, and M3 broad money growth (2.9%Y/Y) remained well below the range considered consistent with achievement of the inflation target over the medium term albeit at the highest since the start of 2023.

### The day ahead in the euro area

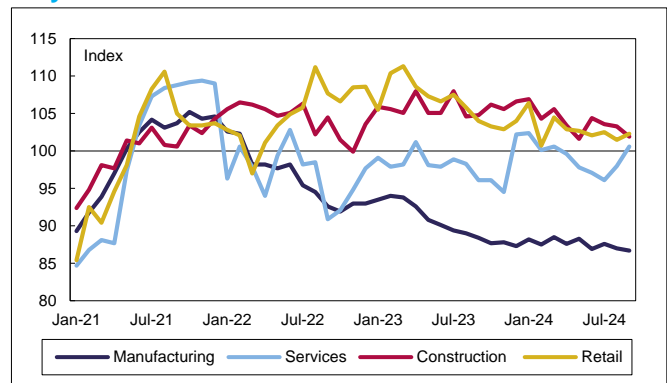
Ahead of the euro area flash September inflation estimates – due 1 October – a key focus tomorrow will be equivalent figures from France, Spain and Belgium, which are likely to report a further notable step down this month due not least to base effects in the energy components. In particular, the French HICP rate is forecast to drop 0.3ppt to 1.9%Y/Y, the lowest since July 2021, with services inflation also expected to reverse some of the Olympics-related boost in August. Meanwhile,

#### Italy: GDP growth & business confidence



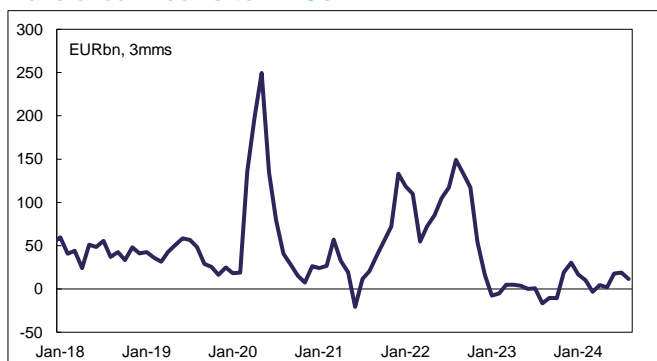
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Italy: ISTAT business confidence indices



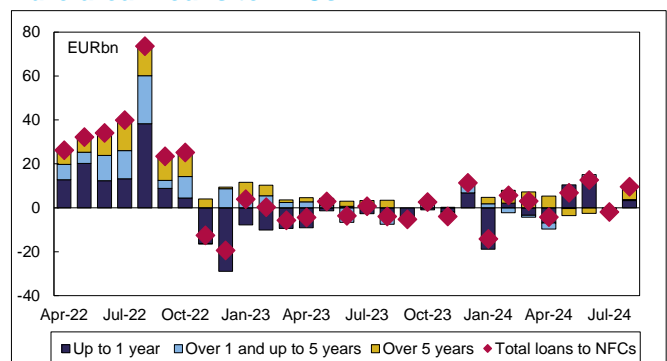
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Loans to NFCs\*



\*Adjusted data. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Loans to NFCs\*



\*Unadjusted data. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

the Spanish HICP rate is expected to drop more than ½ppt to 1.8%Y/Y, which would be the softest since June 2023. Surveys from the Commission and ECB will provide an update on firms' and consumers' inflation expectations.

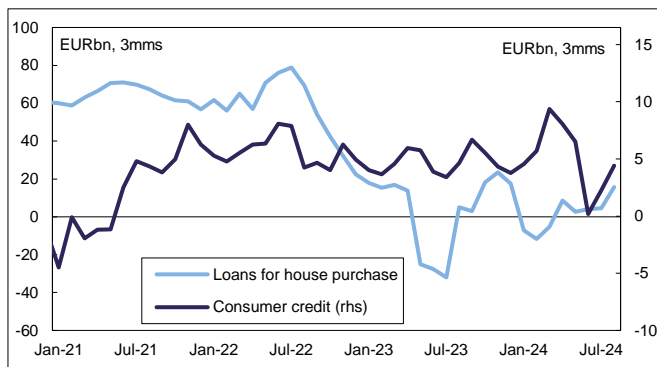
The Commission survey will also provide an update on economic conditions at the end of Q3. National business surveys have provided mixed messages, with the improvement in today's Italian ISTAT headline index and modest pickup last week in the French INSEE indices contrasting with the further significant deterioration implied by the German ifo indicators. Overall, while the Commission's headline economic sentiment indicator is expected to move broadly sideways at August's eight-month high (96.6), this would still remain some 3½% below the long-run average. Other releases due tomorrow include German labour market numbers for September and French consumer spending figures for August.

## UK

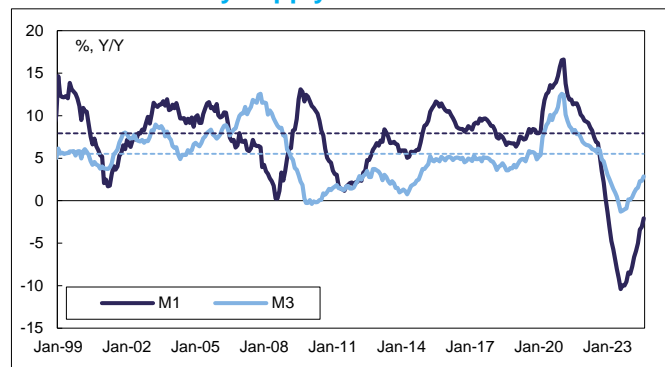
### The day ahead in the UK

After another quiet day for economic news today, Friday's release of the CBI's distributive trades survey will provide an update on retailing conditions at the end of Q3. While the headline sales balance in August largely reversed the slump recorded in July (-43%), a net 27% of retailers still reported that sales volumes were down compared with a year. And with retail footfall trending in the first two weeks of September more than 5% below the August average and consumer confidence having fallen sharply in September, retailers might well report persisting weakness this month. Admittedly, the findings of tomorrow's survey might be viewed with some scepticism, having failed to signal the return to positive growth in the official retail sales figures in August, which recorded the strongest annual sales growth (2.5%Y/Y) since February 2022.

#### Euro area: Loans to households



#### Euro area: Money supply\*



## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa</i> forecast	Previous	Revised
Euro area	M3 money supply Y/Y%	Aug	<b>2.9</b>	2.5	2.3	-
Germany	GfK consumer confidence indicator	Oct	<b>-21.2</b>	-22.5	-22.0	-21.9
Italy	ISTAT consumer confidence indicator	Sep	<b>98.3</b>	97.0	96.1	-
	ISTAT business (manufacturing) confidence indicator	Sep	<b>95.7 (86.7)</b>	-(87.2)	94.7 (87.1)	95.7 (86.7)
Spain	Retail sales Y/Y%	Aug	<b>2.3</b>	1.4	1.0	1.1



#### Auctions

Country	Auction
- Nothing to report -	






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Today's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France	 INSEE consumer confidence indicator	Sep	95	92	92	93
Spain	 PPI Y/Y%	Aug	-1.3	-	-1.4	-1.6













### Auctions

Country	Auction
Germany	 sold €2.42bn of 2.4% 2030 bonds at an average yield of 2%
Italy	 sold €2.75bn of 3.1% 2026 bonds at an average yield of 2.51%
	 sold €1.25bn of 1.5% 2029 inflation-linked bonds at an average yield of 1.17%
	 sold €1.25bn of 2.4% 2039 inflation-linked bonds at an average yield of 1.97%
UK	 £3.75bn of 4% 2031 bonds at an average yield of 0.486% at an average yield of 3.814%





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	 09.00	ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Aug	2.7 (2.3)	2.8 (2.4)
	 10.00	Commission economic sentiment indicator	Sep	96.5	96.6
	 10.00	Commission industrial (services) confidence indicator	Sep	-9.9 (6.2)	-9.7 (6.3)
	 10.00	Final Commission consumer confidence indicator	Sep	<u>-12.9</u>	-13.5
Germany	 08.55	Unemployment rate % (change 000s)	Sep	6.0 (12.0)	6.0 (2.0)
France	 07.45	Preliminary HICP (CPI) Y/Y%	Sep	1.9 (1.6)	2.2 (1.8)
	 07.45	PPI Y/Y%	Aug	-	-5.4
	 07.45	Consumer spending M/M% (Y/Y%)	Aug	-0.1 (-0.6)	0.3 (-0.6)
Italy	 10.00	PPI Y/Y%	Aug	-	-1.6
	 08.00	GDP – final estimate Q/Q% (Y/Y%)	Q2	<u>0.8 (2.9)</u>	0.8 (2.6)
Spain	 08.00	Preliminary HICP (CPI) Y/Y%	Sep	1.8 (1.9)	2.4 (2.3)
UK	 11.00	CBI distributive trades survey – reported retail sales balance %	Sep	-	-27

### Auctions and events

Italy	 10.00	Auction: up to €2.5bn of 3% 2029 bonds
	 10.00	Auction: up to €1.0bn of 3% 2029 bonds
	 10.00	Auction: up to €1.75bn of 2030 floating-rate bonds
	 10.00	Auction: up to €3.5bn of 3.85% 2035 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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