

Euro wrap-up

Overview

- While the Commission's latest economic sentiment indicators were less upbeat than the PMIs, Bunds ended the day little changed after the account of the ECB's July policy meeting underscored the surprising resilience of economic activity.
- OATs outperformed as French PM Bayrou signalled his openness to adjusting his fiscal strategy, while Gilts followed USTs higher.
- The end of the week brings flash inflation estimates from the four largest euro area member states in August, as well as German retail sales and labour market figures and final French and Italian Q2 GDP data.

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Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	1.929	+0.018
OBL 2.2 10/30	2.241	+0.007
DBR 2.6 08/35	2.695	-0.003
UKT 3¾ 03/27	3.933	-0.020
UKT 4¾ 03/30	4.098	-0.031
UKT 4½ 03/35	4.703	-0.031

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

Euro area

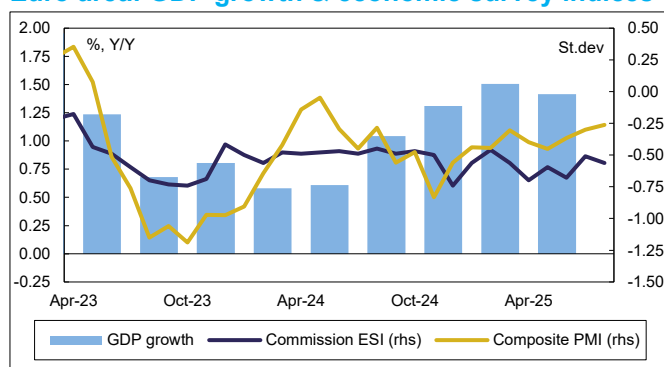
Commission survey less upbeat than flash PMIs but still consistent of GDP growth in Q3

While the rise in the [flash composite PMI](#) to a 15-month high in August suggested firmer euro area growth momentum, today's Commission survey results suggested that we shouldn't get overexcited. The headline Economic Sentiment Indicator (ESI) fell ½pt to 95.2, almost 5% below the long-run average and consistent with sluggish sub-potential growth. And except France, which was stable, the ESIs for each of the euro area's four largest member states fell back too. But the euro area ESI was still in line with the average of the past 12 months to be trending slightly above the Q2 level, still thus indicative of broad resilience to the Trump tariff shock. Like the flash PMIs, the Commission survey also suggested gradual improvement in mood in the industrial sector, whose ESI edged up to match May's 15-month high. And the recent factory production trend was judged to be the best in more than two years. Like the respective PMI, the services ESI weakened slightly in August but remained above the Q2 range as firms revised up their demand outlook to a six-month high. Sentiment in retail was also improved from last quarter, despite confirmation of a deterioration in consumer confidence to a four-month low. The survey suggested that euro area households are more downbeat about the outlook for the economy and their own incomes and also revised up their expectations for future inflation. But they still signalled a greater readiness to make major purchases over the coming 12 months, which should temper concerns about the consumption outlook. Downside risks to household spending should also be limited by resilience in the labour market. Indeed, encouragingly, the Commission's Employment Expectations Index rose in August to a seven-month high consistent with a pickup in job growth after it slowed in Q2 to a four-year low.

Bank lending pickup sustained into Q3, led by recovery in mortgage and business lending

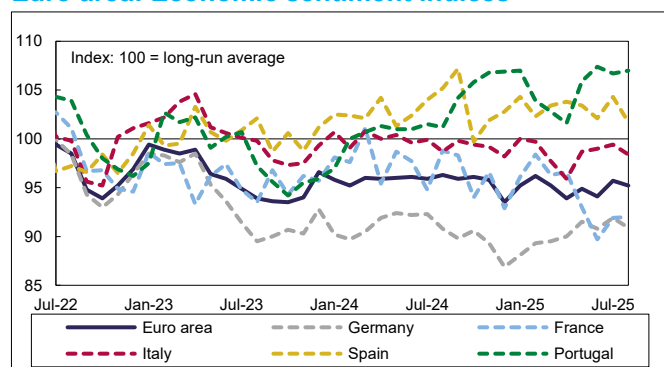
Alongside resilient economic activity and broadly steady business sentiment, the continued gradual recovery in euro area bank lending will be judged by the ECB to imply that its monetary policy is now sufficiently accommodative to facilitate a pickup in GDP growth by the end of the year. Indeed, as the Governing Council's cumulative interest rate cuts continued to feed through to lower borrowing costs in most member states, business lending growth at the start of Q3 edged up to a two-year high of 2.8%Y/Y. Admittedly, the flow of fresh credit to firms in July was its second lowest in the year to-date (€4.6bn). But that followed a surge in June (€27.9bn). And reassuringly, growth in business lending last month owed to an increase in longer maturity loans, which typically relate to business investment. Indeed, outside of December's spike, the increase in July in business lending with a term of at least 1Y was its highest since the start of the ECB's initial tightening cycle (€16.3bn). Despite slightly tighter financial conditions in Germany, lending to households also continued to recover, up 2.4%Y/Y in July, the highest since April 2023. That pickup was led by growth in mortgage lending reflecting improved housing market prospects, similarly the strongest in more than two years. Consumer credit growth remained steady at 4.6%Y/Y, matching the strongest rate since the onset of the Covid-19 pandemic.

Euro area: GDP growth & economic survey indices



Source: S&P Global, EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Economic sentiment indices

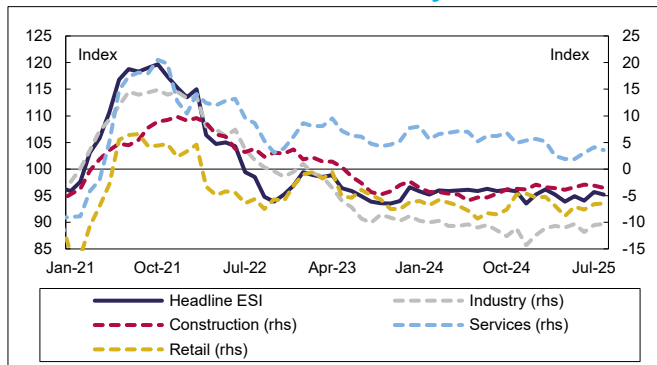


Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

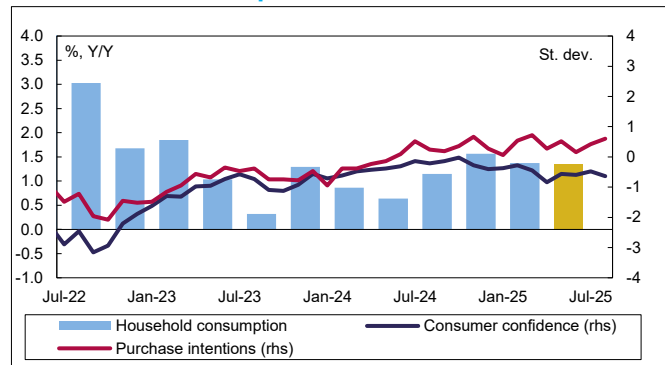
The day ahead in the euro area

Friday's headline data releases will come courtesy of the August flash inflation figures from the four largest euro area member states. Inflation in most member states has converged close to the ECB's target in recent months, reflected in consecutive on-target euro area readings in June and July. Despite a widespread decline in fuel prices this month, energy components are expected to contribute slightly more to headline HICP inflation given base effects from a steeper decline last year. And with the potential for a rebound in certain tourism-adjacent services and pressures from certain food items still acute, the risks to headline inflation in a number of the member states would appear skewed slightly to the upside this month. In particular, the German HICP inflation rate is expected to rise 0.2ppt in August to 2.0%Y/Y, thus reversing the drop in July. But the French HICP rate is expected to remain low and steady at just 0.9%Y/Y. And with further moderation in some services and core goods items, we expect core inflation to have been broadly stable in most member states. Beyond the inflation figures, contrasting the downwards revision to German GDP in Q2, June's bumper IP reading in France should help confirm the acceleration in GDP growth in the euro area's second largest member state last quarter (0.3%Q/Q). Final Q2 GDP estimates from Italy will be of particular interest for the inclusion of a first breakdown by expenditure components. In line with the flash estimates, we expect those to confirm modest payback (-0.1%Q/Q) for the strength of growth in Q1 (0.3%Q/Q) with net trade weighing. Beyond the headline releases, the end of the week will also bring a handful of relevant member state data releases, including German retail sales and labour market figures for July and August respectively. The ECB's consumer expectations survey is also due.

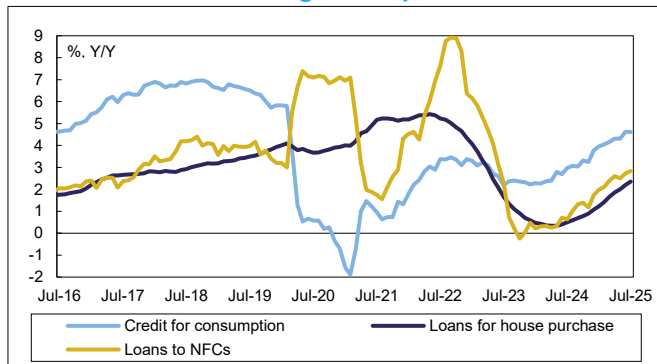
Euro area: Economic sentiment by sector



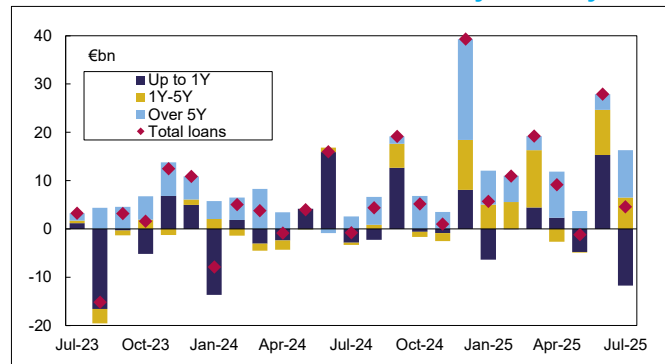
Euro area: Consumption & consumer confidence*



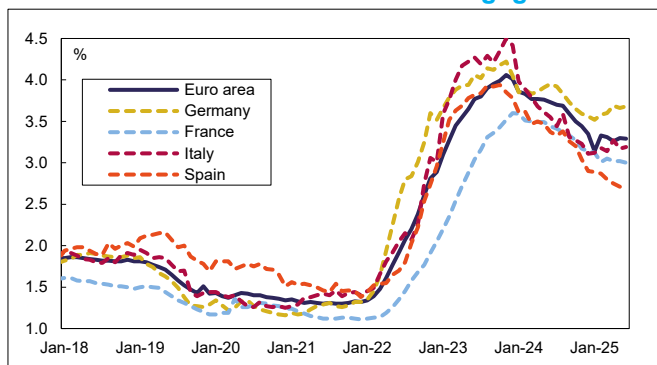
Euro area: Bank lending to the private sector



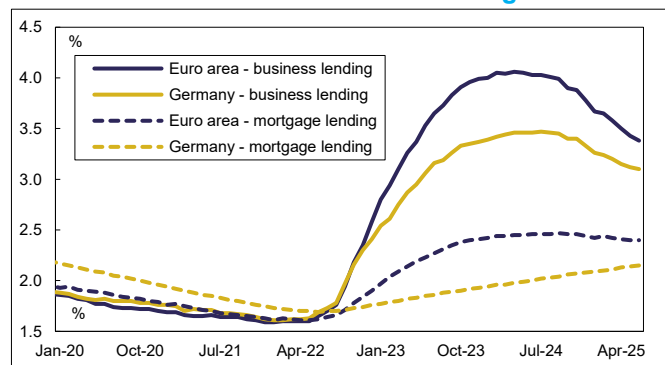
Euro area: Financial flows to NFCs by maturity



Euro area: Interest rates on new mortgages



Euro area: Interest rates on outstanding loans



The day ahead in the UK

With the exception of the Lloyds business survey for August, it should be a quiet end to the week for UK economic news.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Commission economic sentiment indicator	Aug	95.2	96.0	95.8	95.7
	Commission services (industrial) confidence indicator	Aug	3.6 (-10.3)	3.9 (-10.1)	4.1 (-10.4)	- (-10.5)
	Final Commission consumer confidence indicator	Aug	-15.5	<u>-15.5</u>	-14.7	-
	M3 money supply Y/Y%	Jul	3.4	3.5	3.3	-
	New car registrations Y/Y%	Jul	5.8	-	-7.5	-
Italy	ISTAT consumer confidence indicator	Aug	96.2	97.3	97.2	-
	ISTAT business (manufacturing) confidence indicator	Aug	93.6 (87.4)	-	93.6 (87.8)	-







Auctions

Country	Auction
Italy	sold €2.75bn of 2.7% 2030 bonds at an average yield of 2.80%
	sold €1.25bn of 3.65% 2035 bonds at an average yield of 3.54%
	sold €2bn of 3.6% 2035 bonds at an average yield of 3.58%
	sold €2bn of 2034 floating bonds at an average yield of 3.19%

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 (3Y) CPI Y/Y%	Jul	2.5 (2.4)	2.6 (2.4)
Germany		07.00	Retail sales M/M% (Y/Y%)	Jul	0.0 (2.5)	1.0 (2.4)
		07.00	Import prices M/M% (Y/Y%)	Jul	-0.3 (-1.2)	0.0 (-1.4)
		08.55	Unemployment claims rate % (change 000s)	Aug	6.3 (10)	6.3 (2)
		13.00	Preliminary HICP (CPI) Y/Y%	Aug	2.0 (2.1)	1.8 (2.0)
France		07.45	GDP – final estimate Q/Q% (Y/Y%)	Q2	<u>0.3 (0.7)</u>	0.1 (0.6)
		07.45	Total (private sector) payrolls Q/Q%	Q2	- (<u>0.0</u>)	-0.1 (-0.1)
		07.45	Preliminary HICP (CPI) Y/Y%	Aug	0.9 (1.0)	0.9 (1.0)
		07.45	PPI Y/Y%	Jul	-	0.2
		07.45	Consumer spending M/M% (Y/Y%)	Jul	-0.3 (0.1)	0.6 (0.9)
Italy		09.00	GDP – final estimate Q/Q% (Y/Y%)	Q2	<u>-0.1 (0.4)</u>	0.3 (0.7)
		10.00	Preliminary HICP (CPI) Y/Y%	Aug	1.8 (1.7)	1.7 (1.7)
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Aug	2.8 (2.8)	2.7 (2.7)
		08.00	Retail sales Y/Y%	Jul	-	6.2
UK		00.01	Lloyds business barometer (own price expectations) % balance	Aug	-	52 (61)

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

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