

# Euro wrap-up

## Overview

- Bunds followed the global trend lower as a survey suggested that German consumers were more upbeat and firm bank lending data implied that ECB policy is no longer restrictive.
- Gilts underperformed as the shutdown at JLR raised concerns of a possible fiscal impact while pressures against PM Starmer from within his own party continue to mount.
- Friday will bring the ECB's consumer expectations survey for August and the Italian business and consumer sentiment indices for September.

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### Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	2.039	+0.022
OBL 2.2 10/30	2.366	+0.042
DBR 2.6 08/35	2.776	+0.030
UKT 3% 03/27	4.007	+0.065
UKT 4% 03/30	4.176	+0.082
UKT 4½ 03/35	4.756	+0.089

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

Source: Bloomberg

## Euro area

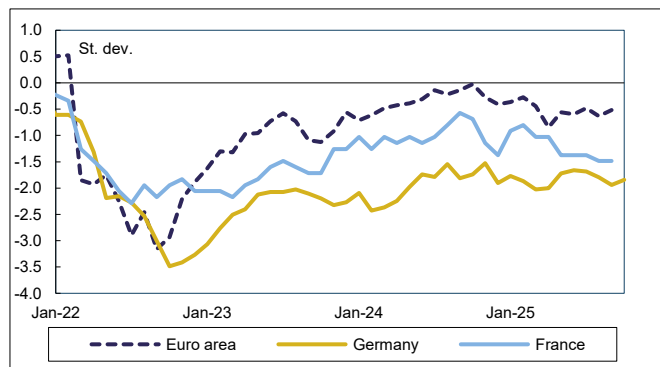
### German consumers a touch more upbeat, but purchase intentions in Germany & France still weak

As we expected, the improvement reported in the Commission's flash consumer confidence indicator in September was led by Germany. According to GfK, its headline sentiment index – presented as a forecast for October – rose 1.2pts to -22.3 back in line with the average in the year to date. The pickup reflected a rebound in income expectations, with the respective index returning to the long-run average in September, close to the top of the range of the past four years. But with households judging the economic outlook to be the most downbeat since January (and much worse than average), they unsurprisingly maintained a preference to save rather than spend. Indeed, consumer purchase intentions were the weakest in 15 months, suggesting that household spending is unlikely to provide a significant boost to GDP growth this quarter or next. Notwithstanding recent strike action amid persisting political and fiscal uncertainty, French consumer confidence remained stable, with the INSEE survey's headline index moving sideways in September at 87. Admittedly, this matched the lowest level in almost two years, some 13% below the long-run average. Like in Germany, the share of households considering it a good time to make major purchases slipped to the lowest in over a year, flagging the risk that French consumer spending will remain in a lull throughout H225 after contracting in Q1 and flat-lining in Q2.

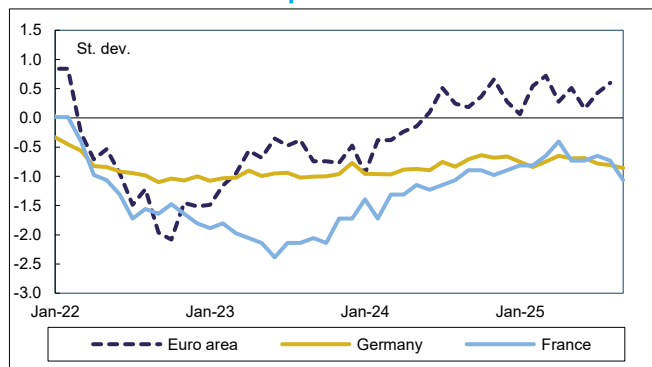
### Lending to households and firms suggest ongoing support to economic growth

While consumer sentiment remains subdued, lending to euro area households for consumption purposes rose in August (€3.9bn) by the most so far this year. This took annual growth in the stock of such loans up to a new post-pandemic high (4.7%Y/Y), albeit still more than one percentage point below the pre-pandemic five-year average. The flow of consumer lending continued to be led by Spain, which accounted for roughly 60% of growth in the three months to August and where household spending appears to remain strong. Also consistent with recent divergences among the member states in house prices and borrowing costs, growth in mortgage lending remained strongest in Spain and lagged in France. Overall, the net flow of new loans for house purchase in the euro area in August (€13bn) was among the firmest for three years. The flow of fresh credit to firms in August (€14bn) similarly pushed business loan growth to a two-year high of 3.0%Y/Y. Encouragingly, that was led by an increase in longer-dated maturity loans, which typically relate to private investment. Indeed, outside of December's spike, the increase in August in business lending with a term of more than five years was the biggest since October 2022. And while growth in the stock of loans to non-financial companies in Germany remained relatively subdued (0.7%Y/Y), the net flow of business lending in the largest member state was the strongest for almost three years, raising hopes that the government's tax reforms and increased spending on infrastructure and defence are starting to crowd-in private sector capex. From a monetary policy perspective, the uptrend in bank lending to households and firms alike adds to evidence that ECB policy is no longer restrictive, and supports the case for rates to remain on hold for the foreseeable future.

### Euro area: Consumer confidence indices



### Euro area: Consumer purchase intentions indices



## The day ahead in the euro area

The end of the week will bring a handful of euro area economic data releases, including September's Italian national sentiment surveys and the August update to the ECB's consumer expectations survey. With euro area inflation on target throughout the summer months, the latter should show that household inflation expectations remain firmly anchored. We note, however, that the deterioration Commission's consumer confidence index that month flags potential downside risks to households' income and spending expectations. Meanwhile, the aforementioned ISTAT business and consumer sentiment surveys will provide another data point to inform expectations for GDP growth in Q3 ahead of the Italian PMIs next week. Final estimates of Q2 GDP growth from Spain are also due and should confirm their outperformance against its euro area peers. Despite the slowdown in GDP growth at the aggregate euro area level, preliminary figures suggested that growth in Spain picked up 0.1ppt to 0.7%Q/Q – the fastest growth among all member states – led by firm domestic demand.

## UK

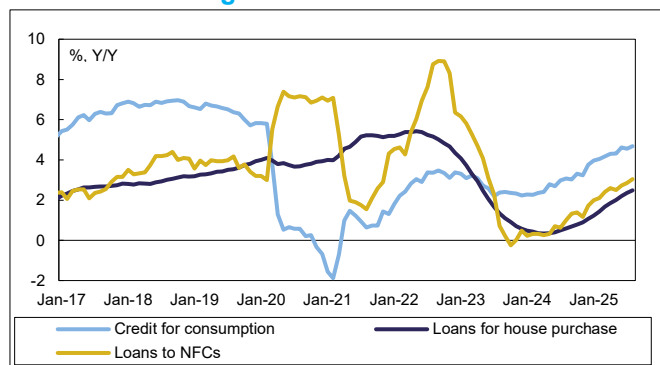
### New car registrations & vehicle production weak in August

Contrasting a second successive month of growth in the euro area (3.9%Y/Y), according to the SMMT, new car registrations in the UK fell for a second successive month from a year earlier in August (-2.0%Y/Y). The weakness was in fleet purchases (-4.6%Y/Y) with private registrations up marginally (0.7%Y/Y). That need not be overly concerning. After all, new car registrations in the year to date were still up 2.1%. Moreover, together with February, August is normally the weakest month of the year for UK car sales ahead of the issuance of new number plates in September. So, the current month's new car registrations data will be far more important for the sector. They will also provide greater insight as to whether expectations of tax hikes to come in the government's November Budget statement are weighing more heavily on spending. Meanwhile, the SMMT measure of car production fell a steep 10.2%Y/Y in August to be down 5.9%YTD/Y, with output for both export purposes and the home market down compared to the same period of last year. As for registrations, August typically brings the lowest production of the year due to summer maintenance shutdowns, so this year's result for that month need not be alarming. But with commercial vehicle output particularly weak (-73.2%Y/Y) due to the closure of a Stellantis Vauxhall van factory, total autos production was strikingly the lowest for the month in almost seven decades.

### JLR shutdown means September car output data will be dire, with fiscal consequences possible too

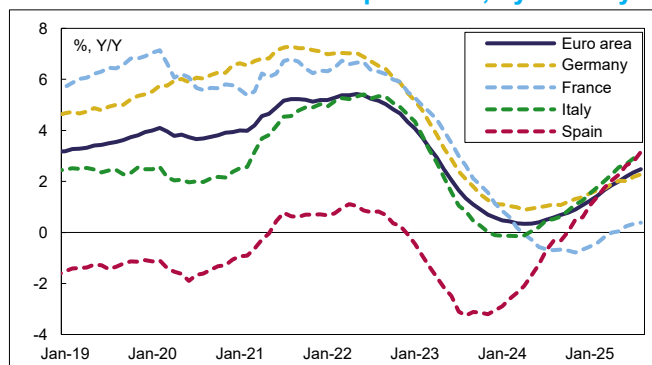
While the August automotive production data were disappointing, the more important September car output data are bound to be terrible, with broader macroeconomic consequences and potentially a fiscal impact too. The cause is the shutdown at

#### Euro area: Loan growth to households & NFCs



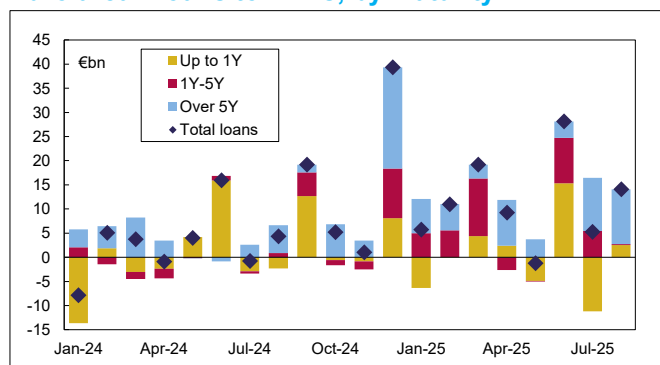
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Loans for house purchase, by country



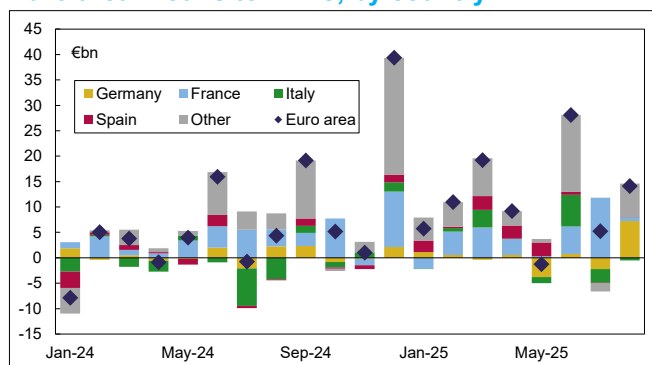
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Loans to NFCs, by maturity



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Loans to NFCs, by country



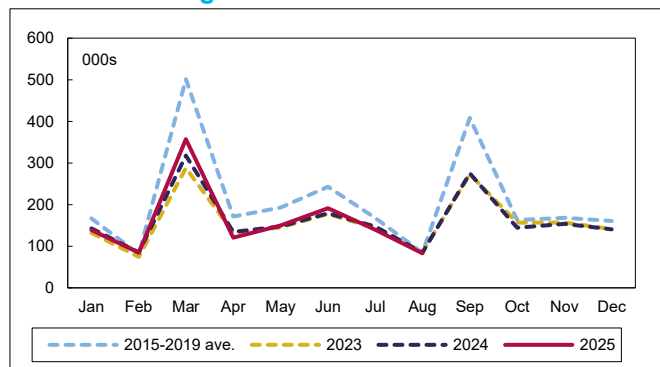
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Jaguar Land Rover (JLR) from the start of the month, which is set to extend at least until October, due to a cyberattack. Last year, JLR accounted for about one third of total car production in the UK, roughly 80% of which is typically destined for exports. It was also the only major car manufacturer to increase production last year. It is the largest automotive employer in the UK with 33k workers. While autos directly account for just 8% of manufacturing production, they comprised more than 15% of all exported goods in the twelve months to July. And JLR is one of the UK's largest exporters. Moreover, the extensive supply chain – which employs several times the number of workers employed by the firm itself – is amplifying the direct impact of the shutdown on total production and demand. Indeed, the initial impact on broader factory production was already reflected in this week's flash September manufacturing PMIs, for which the output index slumped almost 4pts – the most in three years – to a six-month low (45.4) firmly in contraction territory. While JLR (and/or its parent Tata Motors) might be expected to bear the brunt of the financial costs of the shutdown, the longer it persists the UK government will likely find it politically difficult to resist pressures for at least targeted support for suppliers, whether through loans or (perhaps less plausibly) purchases of components. As such, the shutdown could eventually represent yet another factor – alongside the recent public borrowing overshoot, welfare spending U-turns and a downwards revision to the OBR's productivity assumption – compelling the government to hike taxes to restore the headroom above its budgetary targets in its end-November Budget.

## The day ahead in the UK

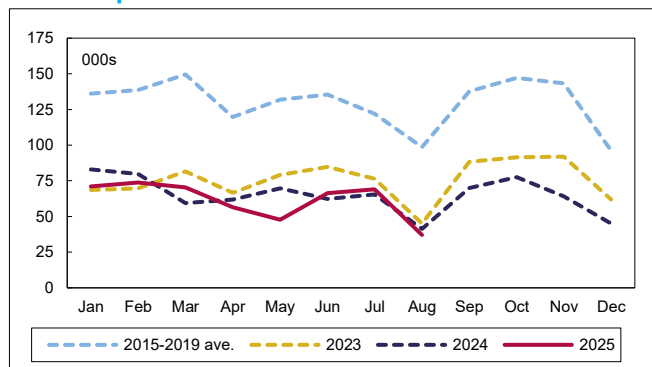
As the economic dataflow will take a pause on Friday, and there are no other events scheduled, it should be a quiet end to the week for UK economic news.

### UK: New car registrations



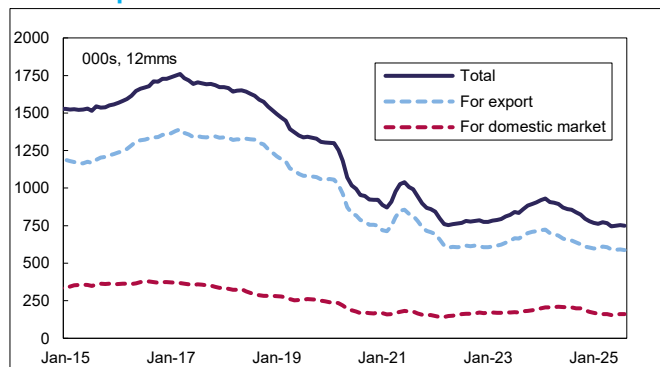
Source: SMMT, Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Car production



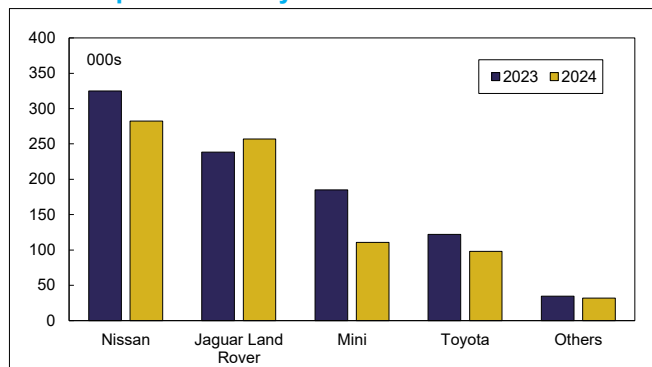
Source: SMMT, Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Car production



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

### UK: Car production by manufacturer








Source: SMMT 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
Euro area	 M3 money supply Y/Y%	Aug	2.9	3.3	3.4	3.3
	 New car registrations Y/Y%	Aug	3.9	-	5.8	-
Germany	 GfK consumer confidence indicator	Oct	-22.3	-23.3	-23.6	-23.5
France	 INSEE consumer confidence indicator	Sep	87	87	87	-
UK	 CBI distributive trades survey – reported retail sales % balance	Sep	-29	-31	-32	-





### Auctions

Country	Auction
UK	 sold £1.25bn of 4.5% 2034 bonds at an average yield of 4.584%
	 sold £750m of 4.75% 2038 bonds at an average yield of 4.978%





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%	Aug	2.5 (2.4)	2.6 (2.5)
Italy	 09.00	ISTAT business (manufacturing) confidence indicator	Sep	-	93.6 (87.4)
	 09.00	ISTAT consumer confidence indicator	Sep	96.5	96.2
Spain	 08.00	GDP – final estimate Q/Q% (Y/Y%)	Q2	0.7 (2.8)	0.6 (2.8)

### Auctions and events

Italy	 10.00	Auction: to sell up to €4.0bn of 2.85% 2031 bonds
	 10.00	Auction: to sell up to €2.0bn of 3.6% 2035 bonds
	 10.00	Auction: to sell up to €1.25bn of 4.0% 2035 bonds
	 10.00	Auction: to sell up to €1.5bn of 2034 floating-rate bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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