

Euro wrap-up

Overview

- After ECB Chief Economist Lane stated that the performance of the euro area economy over the summer had been broadly as expected and the Governing Council stood ready to add stimulus, Bunds were relatively immune to the significant weakening in USTs that followed Powell's Jackson Hole speech.
- Gilts were dragged lower by USTs despite some weak UK car production figures.
- Tomorrow will bring the results of the Commission's economic sentiment survey, as well as flash French CPI figures. BoE Governor Bailey will also speak at the Jackson Hole symposium.

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Daily bond market movements

| Bond | Yield | Change |
|--------------|--------|--------|
| BKO 0 09/22 | -0.668 | +0.001 |
| OBL 0 10/25 | -0.642 | -0.004 |
| DBR 0 08/30 | -0.408 | +0.011 |
| UKT 0½ 07/22 | -0.013 | -0.002 |
| UKT 0% 06/25 | 0.028 | +0.013 |
| UKT 4% 12/30 | 0.339 | +0.037 |

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

Euro area

Credit growth picked up further in July

Euro area credit growth rose to a twelve-year high in July reflecting the impact of super-accommodative monetary policy, government loan guarantees and, not least, fiscal policy support measures. Indeed, growth in total credit to euro area residents rose 0.7ppt last month to 7.7%Y/Y principally due to a further acceleration in credit to the public sector, growth in which jumped 1.9ppt to 15.5%Y/Y as government debt issuance remained extremely high. Meanwhile, the growth rate of credit to the private sector edged up just 0.3ppt to 5.0%Y/Y – still the highest since 2009 – with the loan component moderating for the second successive month, down 0.1ppt to 4.7%Y/Y on an adjusted basis. Indeed, while the flow of new lending to non-financial corporations (NFCs) more than doubled from June's five-month low to €15.9bn, that still left the total on a three-month basis at just €73.5bn, down from almost €245bn in the three months to May. And the annual growth rate in the stock of such loans moderated for the second month to 7.0%Y/Y, nevertheless the third-highest reading since early 2009. At the country level, a further acceleration in lending to NFCs in France (up 11.8%Y/Y) and Italy (4.7%Y/Y), was offset by a slowing in lending growth in Germany (5.6%Y/Y), Spain (7.3%Y/Y) and the Netherlands (2.5%Y/Y).

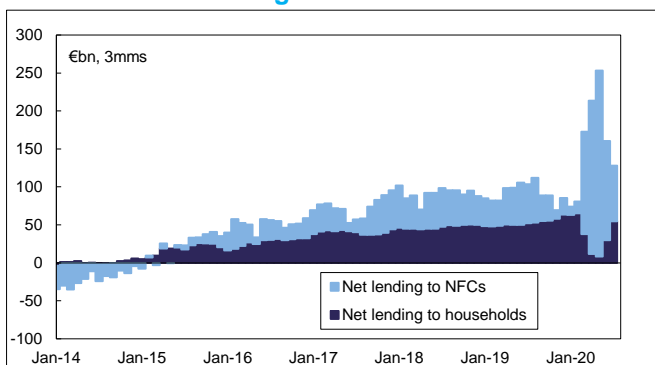
Lending for house purchase continues to accelerate, as does deposit growth

Meanwhile, lending to euro area households rose 3.0%Y/Y for the fourth successive month in July, with a further pickup in loans for house purchase. Indeed, net new mortgage lending of €19bn left the stock of such loans up 4.2%Y/Y. At the same time, consumer credit growth remained subdued, with net new lending of just €3bn leaving the total stock up just 0.2%Y/Y, matching the weakest rate for more than five years. Deposits placed by households rose more than €50bn for the fifth successive month to leave the stock again up 7.4%Y/Y. And deposits placed by NFCs similarly rose by more than €50bn to leave the stock up 20.4%Y/Y, a record high rate.

French business survey provides more encouragement than the flash PMIs

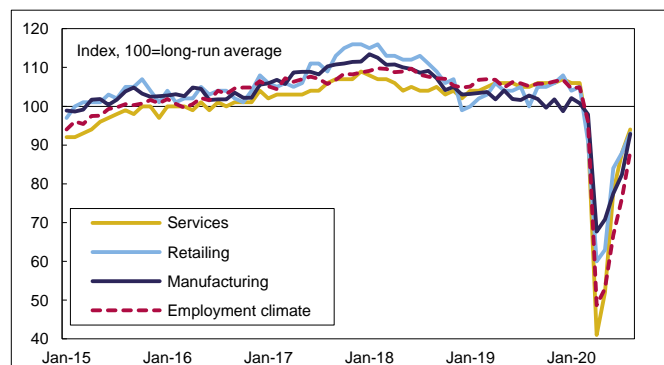
Contrasting with last week's [flash PMIs](#) which suggested a notable loss of momentum in both manufacturing and services as the pandemic revived over recent weeks, the latest INSEE French business survey pointed to ongoing improvement in conditions in August. Indeed, the headline business climate index rose for a fourth successive month and by a substantive 7pts to 91, 38pts above April's trough albeit still some way below the long-run average (100) and well below February's pre-pandemic level (105). Perhaps reassuringly, all major sectors reported improvement in the INSEE survey. Manufacturers (for which the headline climate index rose 11pts to 93) saw the biggest improvement, with firms reporting an increase in new orders and all sub-sectors happier bar chemicals. However, manufacturing firms revised down by 4ppts their investment

Euro area: Net lending flows



Source: ECB, Refinitiv and Daiwa Capital Markets Europe Ltd.

France: INSEE business climate indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.



forecasts for this year, expecting a drop in capex of 11%Y/Y in nominal terms in 2020. In the other sectors, the improvement in services (up 6pts to 94) was also relatively broad-based, although firms in hospitality continued to report weak conditions. And the retail index (up 5pts to 93) also posted another increase. Today's INSEE survey also pointed to much better conditions in the labour market. In particular, reflecting more favourable developments in the services sector, the employment conditions index rose a sizeable 12pts to 88, 39pts above the April trough albeit still 17pts below February's level.

German survey suggests further improvements in employment intentions

Like the French INSEE survey, and after the [ifo business climate survey](#) indicated earlier this week that German business optimism has continued to improve this month, today's counterpart ifo employment survey suggested that German firms continued to scale back their redundancy plans, with the headline employment barometer rising 2.2pts in August to 95.4. While this remains well below highs seen a couple of years ago, it still suggests that a little more than two-thirds of the initial post-pandemic deterioration in the employment climate has been reversed. With yesterday's ifo exports survey suggesting that manufacturers remain broadly optimistic about the outlook for external demand, today's survey suggested a notable rebound in the prospects for employment in the sector, with the respective indicator now having recovered about three-quarters of the initial post-pandemic decline. There were also signs that services firms are (on average) planning new hires, driven by demand for IT services. Of course, employment intentions in services sub-sectors most adversely impacted by lockdown measures and social distancing rules – e.g. travel agents and hospitality – still remained extremely depressed. And retailers and construction firms similarly remain reluctant to recruit new staff.

The day ahead in the euro area

Tomorrow will bring a handful of economic sentiment releases, including most notably the European Commission's latest survey. Despite the resurgence in coronavirus cases across the region, these are expected to point to further modest improvements in business and consumer conditions in August, albeit leaving the headline Economic Sentiment Indicator still well below the pre-pandemic level. Among other releases, Friday will bring the flash French CPI estimate for August, which is likely to show that headline inflation fell sharply, reversing the surge in July which reflected the delay to summer sales on the high street this year. French consumer spending and Spanish retail sales figures for July are also due for release, as is the revised estimate of French Q2 GDP.

UK

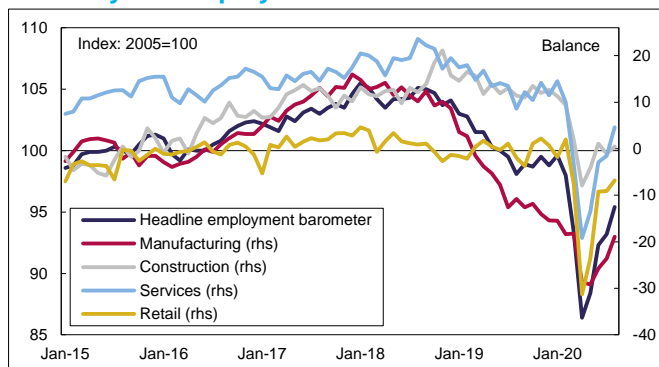
Car production struggles to get out of first gear

SMMT car production figures for July suggested that the recovery in UK auto manufacturing is lagging well behind that of its peers. UK car production was still down a steep 20.8%Y/Y last month, far inferior to the equivalent drop of just 6%Y/Y in Germany. UK car production for the domestic market was down a steep 37.1%Y/Y while the number of cars produced for export was down a more moderate 16.8%Y/Y. Overall, the July figures left production in the first seven months of the year down 39.7% compared to the equivalent period in 2019.

The day ahead in the UK

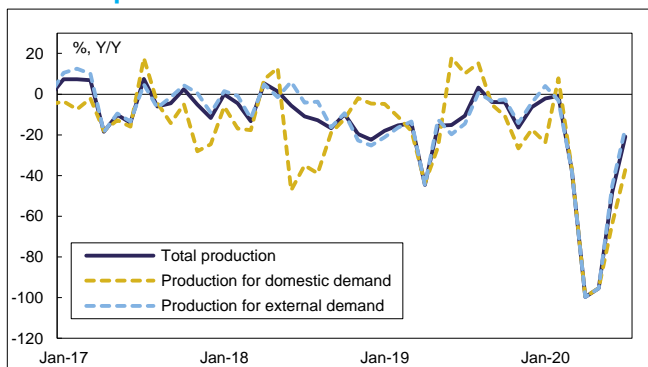
The main UK focus tomorrow will be the virtual appearance of BoE Governor Bailey at the Fed's Jackson Hole symposium, when his comments will be scrutinized for any further insight into future policy adjustments. In terms of economic releases, Friday will bring just the Lloyds business barometer for August.

Germany: ifo employment climate indices



Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

UK: Car production








Source: SMMT, Refinitiv 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 |
|---------|---|--------|----------------------|--|---------------|------------------|
| EMU |  M3 money supply Y/Y% | Jul | 10.2 | 9.3 | 9.2 | - |
| France |  INSEE business confidence | Aug | 91 | 87 | 85 | 84 |
| |  INSEE manufacturing confidence (production outlook) | Aug | 93 (-3) | - | 82 (-3) | - (-4) |
| Italy |  Industrial orders (sales) Y/Y% | Jun | -11.8 (-16.4) | - | -34.7 (-25.9) | -34.1 (-) |
| UK |  SMMT car production Y/Y% | Jul | -20.8 | - | -48.2 | - |


Auctions

| Country | Auction |
|-----------------------|---------|
| - Nothing to report - | |




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

| Country | Release | Period | Actual | Market consensus/ <i>Daiwa forecast</i> | Previous | Revised |
|---------|--|--------|-----------|--|----------|---------|
| France |  INSEE consumer confidence | Aug | 94 | 94 | 94 | - |












Auctions

| Country | Auction |
|---------|--|
| Germany |  sold €3.0bn of 0% 2035 bonds at an average yield of -0.22% |
| Italy |  sold €3.0bn of zero-coupon 2022 bonds at an average yield of -0.014% |
| UK |  sold £2.75bn of 0.375% 2030 bonds at an average yield of 0.323% |





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's data releases

Economic data

| Country | BST | Release | Period | Market consensus/ <i>Daiwa forecast</i> | Previous | |
|---------|---|---------|---|--|---------------|---------------|
| EMU |  | 10.00 | Commission's economic sentiment indicator | Aug | 85.0 | 82.3 |
| |  | 10.00 | Industrial (services) confidence | Aug | -12.0 (-) | -16.2 (-26.1) |
| |  | 10.00 | Final consumer confidence | Aug | -14.7 | -15.0 |
| Germany |  | 07.00 | GfK consumer confidence | Sep | 1.9 | -0.3 |
| France |  | 07.45 | GDP – revised estimate Q/Q% (Y/Y%) | Q2 | -13.8 (-19.0) | -5.9 (-5.0) |
| |  | 07.45 | Preliminary CPI (EU-harmonised) Y/Y% | Aug | 0.2 (0.3) | 0.8 (0.9) |
| |  | 07.45 | Consumer spending M/M% (Y/Y%) | Jul | 2.0 (2.5) | 9.0 (1.3) |
| Italy |  | 09.00 | ISTAT business (manufacturing) confidence | Aug | - | 76.7 (85.2) |
| |  | 09.00 | ISTAT consumer confidence | Aug | 101.0 | 100.0 |
| Spain |  | 08.00 | Retail sales Y/Y% | Jul | - | -4.7 |
| UK |  | 00.01 | Lloyds business barometer | Aug | - | -22 |

Auctions and events

| Country | BST | Auction / Event |
|---------|---|--|
| Italy |  | 10.00 Auction: €4.5bn of 0.5% 2020 bonds |
| |  | 10.00 Auction: €2.5bn of 1.65% 2030 bonds |
| |  | 10.00 Auction: €1.25bn of 2023 floating-rate bonds |
| UK |  | 14.05 BoE Governor Bailey to speak at Jackson Hole Symposium |

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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