

Euro wrap-up

Overview

- While the Commission sentiment survey suggested ongoing economic recovery in the euro area, Bunds and other euro area government bonds made gains as flash German inflation data surprised on the downside.
- Longer-dated Gilts also made gains despite a marked jump in UK mortgage approvals.
- Wednesday will bring a speech from ECB President Lagarde to the ECB Watchers' conference, and new data on German unemployment and retail sales and French and Italian inflation.

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Daily bond market movements

Bond	Yield	Change
BKO 0 09/22	-0.715	-0.002
OBL 0 10/25	-0.726	-0.006
DBR 0 08/30	-0.542	-0.013
UKT 1% 09/22	-0.050	+0.007
UKT 0% 06/25	-0.083	-
UKT 4% 12/30	0.186	-0.016

*Change from close as at 4:00pm BST.
Source: Bloomberg

Euro area

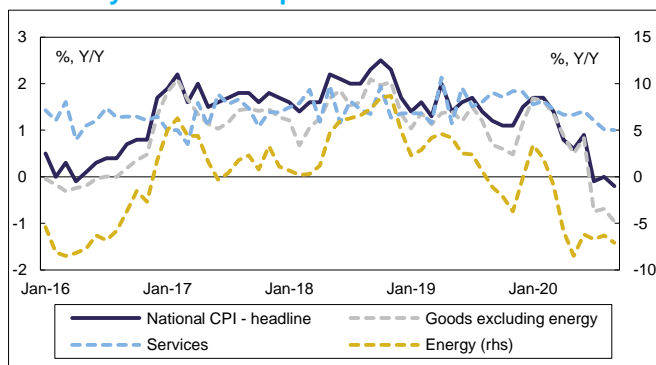
German inflation weakens further

In her dialogue at the European Parliament yesterday, ECB President Lagarde admitted that the ECB is "clearly" far away from its inflation goal. And today's flash September inflation figures from Germany and Spain – the first from the member states – suggested no improvement in that respect this month. Indeed, the German figures came in significantly softer than expected, with headline inflation on the EU-harmonised measure dropping 0.3ppt to -0.4%Y/Y, the lowest since January 2015, contrary to a consensus expectation of no change. The details of the national measure (which dropped 0.2ppt to -0.2%Y/Y) revealed that one driver was a renewed drop in energy inflation. But non-energy industrial goods inflation also appears to have fallen a touch. And while inflation of package tours might have accentuated the recent weakness in the EU-harmonised measure, and the reversal of the VAT cut from January will add ½ppt to the core rate, underlying inflation appears to have softened further. Other figures, also published today, showed that Spanish inflation on the headline EU-harmonised measure was unchanged at -0.6%Y/Y in September despite a softer pace of decline in energy prices. As such, the euro area flash CPI estimate (due Friday) is currently on track to fall further into negative territory (from -0.4%Y/Y in August), with the possibility that euro area core inflation fell from 0.4%Y/Y to a new record low too.

Commission's survey points to ongoing recovery

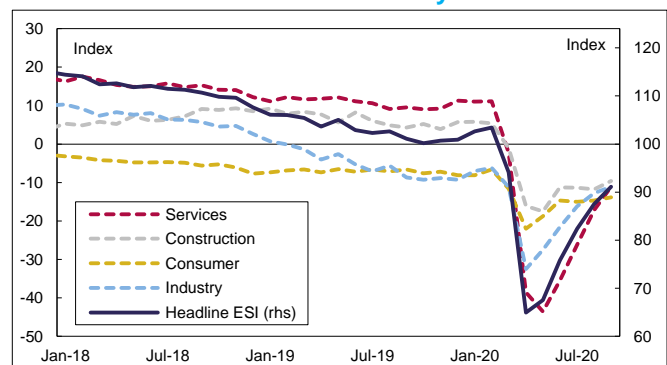
More happily perhaps, in marked contrast to the [flash PMIs](#), but in line with the national sentiment surveys published last week, today's European Commission economic sentiment survey – arguably the best guide to euro area economic activity – offered some reassurance that the recovery has been sustained in September. Perhaps surprisingly, the improvement in the Commission survey was particularly marked in the services sector, where the relevant ESI posted the largest monthly increase (6.1pts) of all sectoral indices this month, as firms were notably less downbeat about current demand. Retailers and construction firms were similarly more upbeat. And the improving trend in manufacturing conditions was also sustained, with the survey suggesting that more than 80% of the post-pandemic slump in industrial sentiment had been recovered, by far the biggest turnaround in fortunes among the key sectors since lockdown. The overall euro area headline Economic Sentiment Indicator (ESI) rose a further 3.6pts in September, to 91.1, suggesting a slight moderation in the pace of recovery compared to recent months, but also that around 70% of the deterioration in sentiment from the pre-pandemic peak to trough had now been recovered. Among the largest member states, Italy saw the largest monthly increase in its ESI in September (+ 8.4pts), followed by France (+5.8pts), Spain (+1.6pts) and Germany (+1.2pts). And this left the range of recovery from the initial post-pandemic slump between 80% in Germany and 60% in Spain.

Germany: Consumer price inflation*



*National measure. Source: Refinitiv and Daiwa Capital Markets Europe Ltd.

Euro area: Economic sentiment by sector



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

Consumer confidence lagging slightly

Like in the flash release, the Commission's consumer confidence indicator was confirmed to have further increased in September (up 0.8pt). And most member states – including France and Spain, where the rise in new Covid-19 cases has been most stark – similarly reported an improvement in household sentiment. But the headline figure still suggested that only a little over half of the deterioration in confidence during March and April had been recovered. And while consumers appeared more upbeat about the outlooks for the economic climate and their own financial situation over the coming twelve months, consumers' intentions to make major purchases remained little changed in September and well below pre-Covid levels. Moreover, consumer price expectations continued to decline significantly to their weakest since 2016, and households were still unsurprisingly extremely downbeat about the outlook for unemployment.

The day ahead in the euro area

Of most interest in the euro area tomorrow will likely be the ECB and Its Watchers conference, where presentations will focus on the ECB's mandate, its instruments for crises and normal times, and monetary policy strategy. President Lagarde will give the opening speech, while Chief Economist Lane will close the event. Meanwhile, the economic data calendar includes French and Italian preliminary CPI figures for September, which are expected to show that headline inflation was little changed from August's readings of 0.2%Y/Y and -0.5%Y/Y respectively. German labour market numbers for September and German retail sales and French consumer spending data for August are also due.

UK

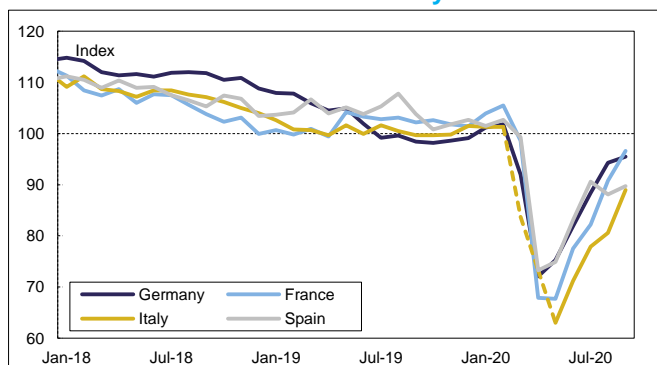
Mortgage approvals remain elevated for now

With the housing market still processing pent-up demand from the lockdown earlier in the year and the Chancellor's Stamp Duty holiday announced in early July offering an additional boost to activity, today's BoE lending figures revealed a headline-grabbing surge in mortgage approvals in August, of 84.7k, up from 66.3k in July and the highest monthly amount since 2007. But when taken together with figures earlier in the year, mortgage approvals for the year to-date stood at just 418k, down almost 20% on the equivalent period in 2019. And while mortgage lending was again solid in July, with net new lending of £3.1bn the strongest monthly increase since March, it still remained some way below the average in the six months to February, therefore leaving the annual increase in such lending unchanged at 2.9%Y/Y, the joint lowest rate since October 2015. While we would expect mortgage approvals to remain elevated for the time being, there are some signs of slowing in the housing market over recent weeks, likely reflecting rising concerns about the outlook for the labour market and pickup in coronavirus cases. Certainly, demand for consumer credit remained extremely subdued in August, with net lending of £0.3bn leaving the stock of such loans down 3.9%Y/Y, the steepest annual drop since the series began in 1994, with credit card lending down almost 10½%Y/Y.

Demand for business loans from SMEs still strong

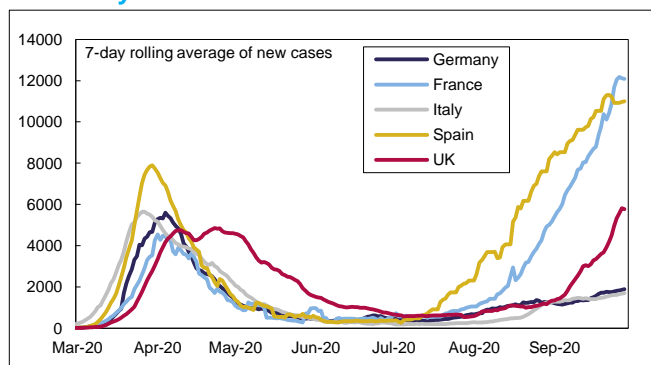
While demand for funding from non-financial corporations has stabilised somewhat from the surge at the outbreak of the pandemic earlier in the year, today's figures suggested that demand for loans still remained strong in August. In particular, SMEs took an additional net £2.2bn in loans, taking the annual increase in such lending to a whopping 21.8%Y/Y, the strongest on record. Larger firms also drew down £2.1bn in August. But having made repayments in the previous three months as they tapped other sources of funding, this left the annual growth rate moderating to 3.3%Y/Y, down from the post-pandemic peak of 15½%Y/Y in April and a touch weaker than the six-month average in the run up to the pandemic.

Euro area: Economic sentiment by member state*



*April 2020 survey in Italy not conducted. Source: Refinitiv, EC and Daiwa Capital Markets Europe Ltd.

New daily coronavirus cases

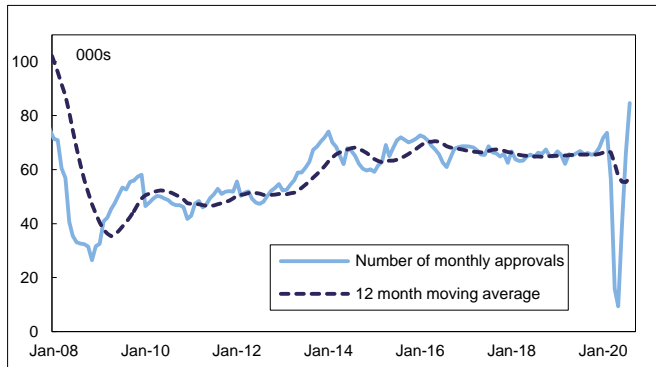


Source: ECDC and Daiwa Capital Markets Europe Ltd.

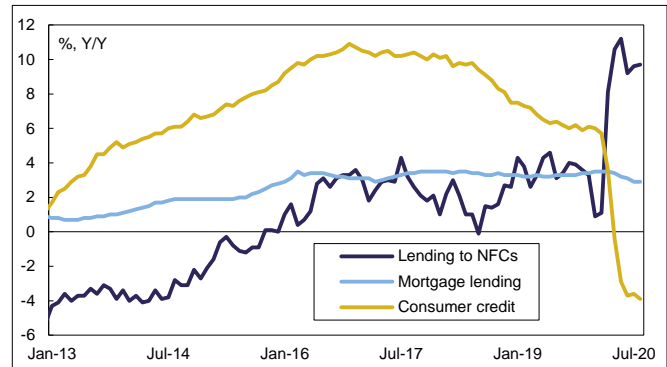
The day ahead in the UK

Looking ahead to tomorrow, the UK data calendar brings the release of revised Q2 GDP data, which are expected to confirm that the economy contracted at a record pace broadly in line with the previously estimated drop of 20.4%Q/Q. These figures will be accompanied by the latest balance of payments data for Q2, which are expected to reveal a (likely temporary) sharp narrowing of the current account deficit due to the weakness of domestic demand. Meanwhile, the BRC shop price and Nationwide house price indices and Lloyds business barometer survey for September are also due. Elsewhere, BoE Chief Economist Haldane is due to give a keynote speech at the Cheshire and Warrington LEP Economic Summit.

UK: Mortgage approvals



UK: Growth in lending to individuals and NFCs



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
EMU	Economic sentiment index	Sep	91.1	89.0	87.7	87.5
	Final consumer confidence	Sep	-13.9	-13.9	-14.7	-
	Industrial (services) confidence	Sep	-11.1 (-11.1)	-10.0 (-16.8)	-12.7 (-17.2)	-12.8 (-)
Germany	Preliminary CPI (EU-harmonised CPI) Y/Y%	Sep	-0.2 (-0.4)	0.0 (-0.1)	0.0 (-0.1)	-
France	INSEE consumer confidence	Sep	95	93	94	95
Spain	Preliminary CPI (EU-harmonised CPI) Y/Y%	Sep	-0.4 (-0.6)	-0.4 (-0.5)	-0.5 (-0.6)	-
	Retail sales Y/Y%	Sep	-2.4	-	-3.9	-
UK	Net consumer credit £bn (Y/Y%)	Aug	0.3 (-3.9)	1.5 (-)	1.2 (-3.6)	1.1 (-3.7)
	Net lending secured on dwellings £bn (mortgage approvals '000s)	Aug	3.1 (84.7)	3.8 (72.0)	2.7 (66.3)	2.9 (-)

Auctions

Country	Auction
Italy	sold €2.5bn of 0.5% 2026 bonds at an average yield of 0.35%
	sold €4.5bn of 0.9% 2031 bonds at an average yield of 0.89%
	sold €1.25bn of 2024 floating rate bonds at an average yield of 0.11%
UK	sold £2.75bn of 0.125% 2028 bonds at an average yield of 0.086%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's results

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany	07.00	Retail sales M/M% (Y/Y%)	Aug	0.4 (4.5)	-0.2 (5.0)
	08.55	Unemployment rate % (change '000s)	Sep	6.4 (-7.5)	6.4 (-9.0)
France	07.45	Preliminary CPI (EU-harmonised CPI) Y/Y%	Sep	0.2 (0.3)	0.2 (0.2)
	07.45	Consumer spending M/M% (Y/Y%)	Aug	-0.2 (0.5)	0.5 (0.6)
Italy	10.00	Preliminary CPI (EU-harmonised CPI) Y/Y%	Sep	-0.4 (-0.4)	-0.5 (-0.5)
UK	00.01	BRC shop price index Y/Y%	Sep	-1.4	-1.6
	07.00	Final GDP Q/Q% (Y/Y%)	Q2	-20.4 (-21.7)	-2.2 (-1.7)
	07.00	Current account balance £bn	Q2	-0.8	-21.1
	07.00	Nationwide house price index M/m% (Y/Y%)	Sep	0.5 (4.5)	2.0 (3.7)

Auctions and events

Country	BST	Auction / Event
EMU	-	ECB President Lagarde and Chief Economist Lane due to speak at ECB and Its Watchers Conference
	-	ECB's Mersch scheduled to speak at an international forum
Germany	10.30	Auction: €4bn of 0% 2025 bonds
UK	09.30	BoE Chief Economist Haldane to give keynote speech

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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