

# Euro wrap-up

## Overview

- Bunds ended the day little changed, despite a downside surprise to a French business survey, with headline sentiment falling to its lowest for more than two years amid a weakening manufacturing sector.
- Gilts made further gains after a UK retail survey disappointed expectations and suggested a steeper pace of decline in sales growth.
- Attention tomorrow will be on ECB President Lagarde's Jackson Hole speech, while the German ifo business survey and revised Q2 GDP figures will be published.

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### Daily bond market movements

Bond	Yield	Change
BKO 3.1 09/25	2.955	+0.007
OBL 2.4 10/28	2.519	+0.009
DBR 2.6 08/33	2.518	+0.005
UKT 0% 06/25	4.934	-0.001
UKT 1% 10/28	4.462	-0.016
UKT 3% 01/33	4.421	-0.042

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

## Euro area

### French INSEE business survey suggests slowing economic momentum

While French GDP surprised on the upside in Q2, reporting growth of 0.5%Q/Q, recent surveys suggest that economic momentum has slowed in Q3. Certainly, yesterday's [PMI](#) release implied that the economy is heading for contraction this quarter. Admittedly, the PMIs have underestimated the economic performance over recent quarters. Moreover, the Bank of France's business update at the start of August indicated that activity had been firmer than previously expected in July and consistent with its forecast for a slight increase in GDP in Q3. But while the INSEE business survey suggested that sentiment was stable at the start of Q3, bang in line with the long-run average (100), the latest update published today fell short of expectations. In particular, the headline business climate composite indicator fell 1pt to 99, its lowest level since April 2021.

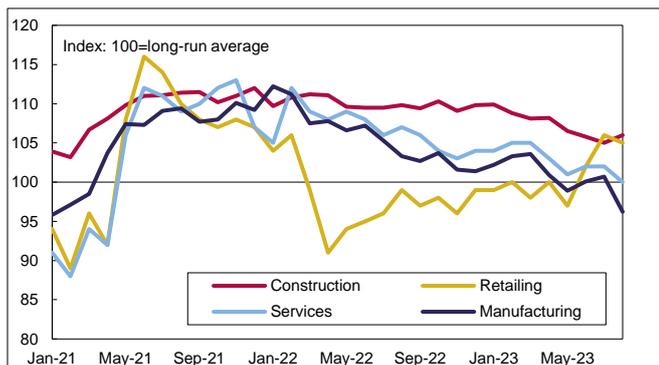
### Manufacturing and services sentiment eases on weaker activity trend

This principally reflected a deterioration in the manufacturing subsector, for which the business climate index fell 5pts to 96, the lowest since January 2021, amid a notable weakening in the recent production trend, falling order book positions and rising inventories. Firms in the services sector were also less upbeat in August, with the respective sentiment index down 2pts to the long-run average of 100, the lowest since April 2021, amid a marked decline in recent activity in the real estate and information and communications subsectors. But the business climate in hospitality remained above average in August supported by an ongoing recovery in tourism, while sentiment in the retail sector held up well and conditions in construction improved slightly too. So, while the INSEE survey points to a slowdown in recovery momentum over the summer, it remains notably more upbeat than the PMIs and still likely consistent with a modest increase in GDP growth this quarter. Amid the weaker economic outlook, firms were unsurprisingly less upbeat about their hiring intentions, with the survey's employment climate index dropping 5pts to a more than two-year low. But while manufacturing, retail and construction firms reported a further easing in selling price expectations, there was a modest uptick in the respective services index in August.

### The day ahead in the euro area

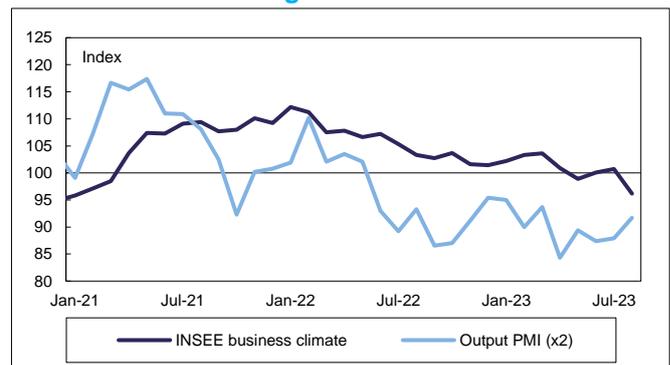
Following the downside surprise to yesterday's German flash PMI surveys, focus tomorrow will turn to the ifo institute's update on German business conditions in August. In addition to the services and manufacturing sectors measured in the PMIs, the ifo indices will include business sentiment from the construction and retail subsectors. Ahead of the PMI release, expectations had been for a modest decline in the headline business climate index, down 0.5pt to 86.8, a nine-month low, although risks now seem skewed to the downside. Friday will also bring final German Q2 GDP data, which will include the

#### France: INSEE business climate indices



Source: INSEE, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

#### France: Manufacturing sentiment indices



Source: Refinitiv Datastream, INSEE, S&P Global and Daiwa Capital Markets Europe Ltd.

detailed expenditure breakdown for the first time. The preliminary GDP release reported that German GDP was unchanged in Q2 from Q1, suggesting that Germany's technical recession came to an end, albeit perhaps only temporarily. Indeed, we would not be surprised to see GDP revised down in this latest estimate. Beyond the economic data, attention in the evening will be firmly on ECB President Lagarde's speech at the Kansas City Fed's Jackson Hole Symposium.

## UK

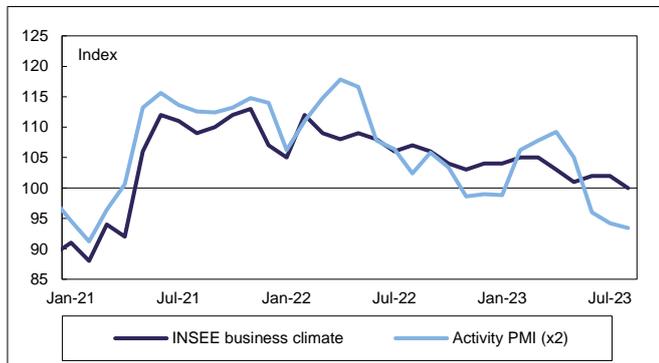
### UK retail survey signals a significant decline in sales over the summer

Following the downside surprise in yesterday's flash PMIs, which reported a significant weakening in momentum in both the manufacturing and services sectors, today's CBI distributive trades survey offered a downbeat assessment of retailing conditions over the summer too. Indeed, the headline balance for annual retail sales growth slumped a further 19pts on the month to -44, the weakest reading since March 2021, and some 60pts below the long-run average, suggesting that inclement weather conditions appear to have offset the recent improvement in households' disposable incomes amid strong wage growth. According to today's survey, sales were notably weaker than the norm for the month of August, with the volumes of orders placed continuing to decline sharply. As such, retailers remained extremely downbeat about expected sales growth in September, with the respective survey balance (-32) the weakest since Q121. And so, the retail sector looks on track to provide a drag on GDP growth in Q3. Against this backdrop, retailers anticipated a moderate deterioration in their business situation over the coming three-month period, with the weaker outlook unsurprisingly negatively impacting retailers' investment and hiring intentions for the coming twelve months. Despite lacklustre demand, firms expected selling prices to remain relatively elevated over the coming three months.

### The day ahead in the UK

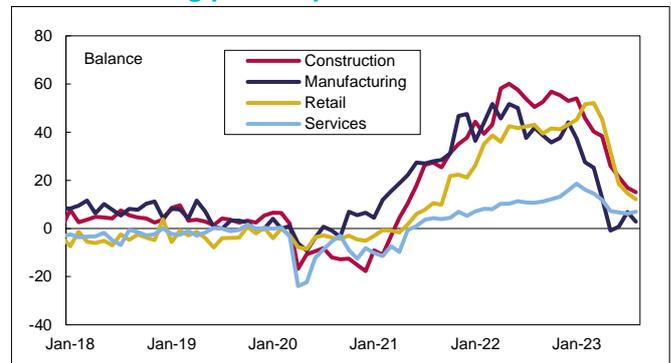
The flow of sentiment surveys continues tomorrow with the delayed publication of the GfK consumer confidence indicators for August. Having fallen sharply in July, the headline sentiment index is expected to have moved broadly sideways at -30.

#### France: Services sentiment indices



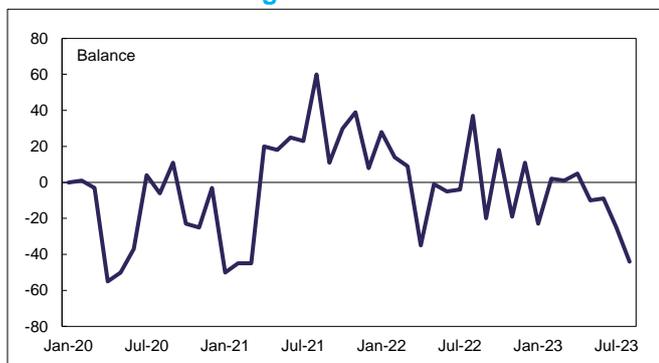
Source: Refinitiv Datastream, INSEE, S&P Global and Daiwa Capital Markets Europe Ltd.

#### France: Selling price expectations



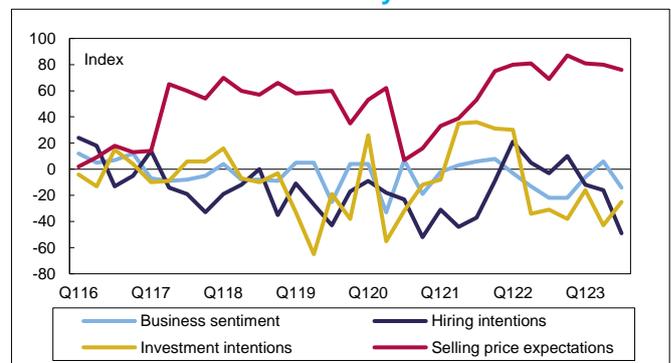
Source: INSEE, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

#### UK: CBI retail sales growth index



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

#### UK: Selected CBI retail survey indices



Source: Refinitiv Datastream 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
France	 INSEE business (manufacturing) confidence	Aug	<b>99 (96)</b>	100 (99)	100 (100)	-
UK	 CBI distributive trades survey, reported retail sales	Aug	<b>-44</b>	-15	-25	-

#### Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany		07.00 Final GDP Q/Q% (Y/Y%)	Q2	<u>0.0 (-0.6)</u>	-0.1 (0.1)
		09.00 Ifo business climate	Aug	86.7	87.3
		09.00 Ifo current assessment (expectations) balance	Aug	90.0 (83.5)	91.3 (83.5)
UK		00.01 GfK consumer confidence	Aug	-29	-30

#### Auctions and events

Euro area		20.00 ECB President Lagarde speaks at the annual Jackson Hole economic symposium – 'Structural shifts in the global economy'
Italy		10.00 Auction: €3.0bn of 3.6% 2025 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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