

Euro wrap-up

Overview

- Ahead of Lagarde's speech at Jackson Hole, Bunds made losses despite confirmation that Germany's economy stagnated in Q2 and the ifo survey signalled a notable worsening in business conditions over the summer.
- Gilts made modest losses as a UK consumer survey reported an unexpected recovery in confidence in August.
- The coming week will bring flash euro area inflation, the Commission's survey, ECB and BoE bank lending data, as well as the publication of the ECB account from July's policy-setting meeting.

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Daily bond market movements		
Bond	Yield	Change
BKO 3.1 09/25	3.017	+0.076
OBL 2.4 10/28	2.577	+0.075
DBR 2.6 08/33	2.554	+0.047
UKT 0% 06/25	5.017	+0.046
UKT 1% 10/28	4.512	+0.040
UKT 3 1/4 01/33	4.438	+0.013

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

Euro area

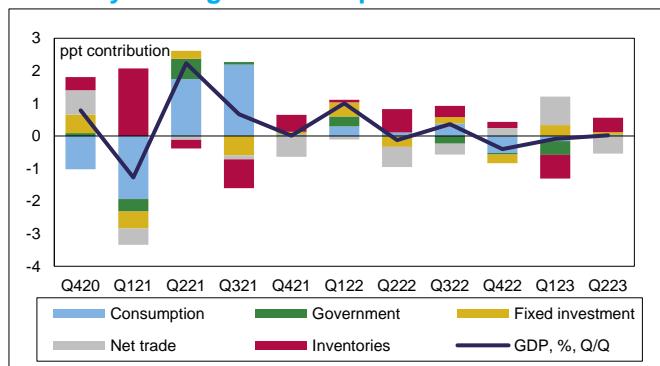
Germany's economy stagnated in Q2 due to a rebound in inventories

There were no surprises from today's updated German national accounts figures, which confirmed that the euro area's largest member state stagnated in the second quarter, bringing an end to the technical recession over the winter. This in part reflected some stabilisation in household consumption in Q2 following sharp declines over the prior two quarters amid an improvement in disposable incomes as inflation eased. This notwithstanding, household spending was merely flat in Q2, to leave it still some 1.7% below the pre-pandemic level, as households preferred to add to their savings – with the ratio jumping 1.2pppts to a six-quarter high of 11.9% – amid rising interest rates and persisting uncertainties surrounding the economic outlook. Indeed, while consumers spent a little more on food, spending was down on hospitality, new cars and furnishings. Government consumption rose for the first quarter in five, albeit by just 0.1%Q/Q. And fixed investment rose for a second-successive quarter (0.4%Q/Q), with growth in machinery and a moderate increase in construction offsetting a further contraction in transport equipment. But private investment merely added 0.1ppt to GDP growth in Q2 and was still 2% below the pre-pandemic benchmark. Moreover, with exports having declined sharply (-1.1%Q/Q) and imports failing to grow leaving net trade subtracting 0.5ppt from GDP growth, it was largely thanks to a rebound in inventories that Germany's economy didn't contract for a third successive quarter.

German ifo survey provides further evidence to suggest renewed contraction in Q3

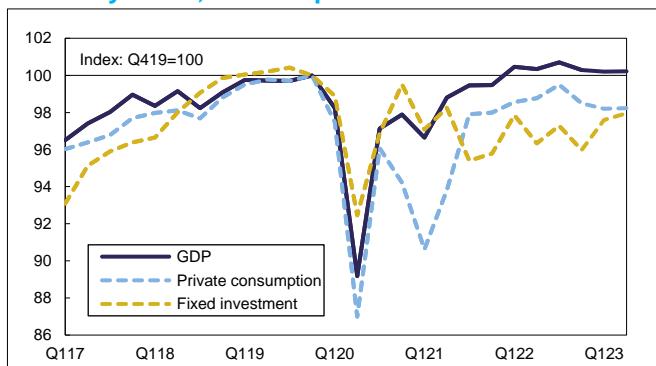
While the Bundesbank expects the economy to broadly stagnate again in Q3, there appears to be a significant risk that German output slipped back this quarter. Certainly, sharp declines in [manufacturing and construction](#) activity, and weaker retail and hospitality sales in June suggests a negative carryover to the start of the third quarter. And following the slump in the flash [PMIs](#) earlier in the week, today's ifo institute survey results added to evidence that the economy was on track for a renewed contraction in Q3. In particular, the headline business climate index fell a steeper-than-expected 1.7pts in August to 85.7, a ten-month low and leaving the index trending so far in Q3 more than 4%pts below the Q2 average. The deterioration was principally driven by a worsening assessment of current conditions, for which the respective index fell 2.4pts in August to 89.0, the weakest for three years and the lowest since March 2010 when excluding the first pandemic wave. Manufacturers were increasingly pessimistic about the current situation, with the respective index falling into negative territory for the first time since October 2020, to leave it trending so far in Q3 a whopping 12½pts below the Q2 average. And firms in the sector were expecting conditions to worsen further over the near-term amid persisting declines in new orders. The weakness in manufacturing continued to weigh on the transport and logistics subsector. But services firms more generally were also less sanguine, with the current assessment balance the lowest for more than two years, with a further deterioration in the outlook expected too. And the collapse in construction sentiment continued over the summer, with firms the most downbeat about

Germany: GDP growth & expenditure contributions



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Germany: GDP, consumption & fixed investment



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

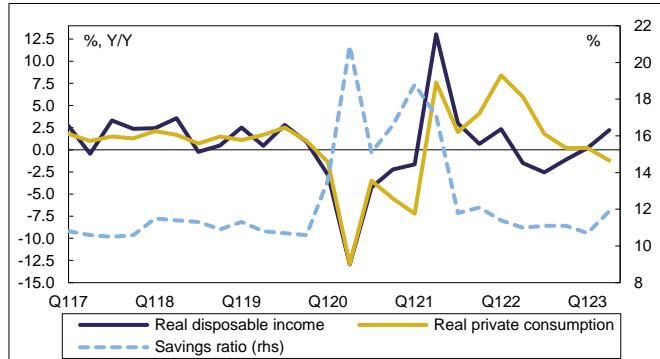
the current situation since the start of 2011 and pessimism regarding the coming three months becoming even more widespread.

The week ahead in the euro area

Ahead of the ECB's forthcoming Governing Council meeting on 14 September, it will be a busy week ahead for key euro area economic releases, including July monetary data (Monday), the Commission's business surveys (Wednesday), and flash August inflation estimates (Thursday), as well as the ECB account from the July policy-setting meeting (Thursday). Having eased to an eighteen-month low in July (5.3%Y/Y) and just half the peak last October, headline inflation is expected to have moderated slightly further in August, by 0.1ppt to 5.2%Y/Y. Of course, given the impact of base effects in energy and food inflation, developments in the core components and in particular services will be of significance to next month's policy decision. And while core goods inflation is expected to have taken another step down this month, the moderation in the core CPI rate is likely to be limited by a further uptick in services inflation. In line with the Bloomberg consensus, we expect core inflation to ease 0.2ppt to 5.3%Y/Y. The flash German and Spanish figures (Wednesday) will offer further insight, with the French and Italian numbers following on Thursday.

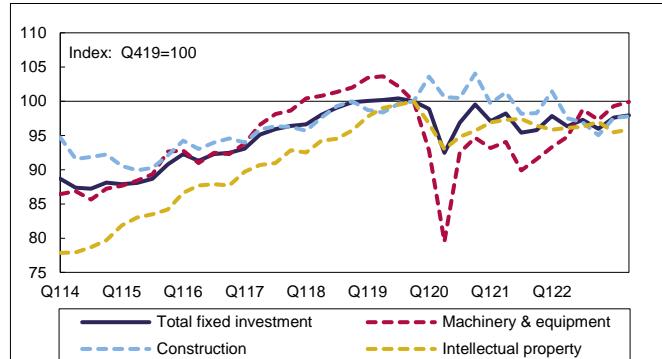
The more dovish Governing Council members might focus on developments in the Commission's latest sentiment survey, with the business indices likely to echo the downbeat assessment in the past week's PMIs, ifo and [INSEE](#) results, and also confirm a modest deterioration reported in the preliminary [consumer confidence](#) indicator. Indeed, the headline economic sentiment indicator is expected to fall to its lowest since late-2020 to be more than 6% below the long-run average. Meanwhile, the ECB's monetary figures are likely to further illustrate the negative impact of the ECB's aggressive policy tightening on bank lending and deposits, with M3 money supply growth expected to fall to 0%Y/Y, which would be the weakest since 2010. The coming week will also bring the latest euro area unemployment figures (Thursday), which are expected to show that the jobless rate remained at a series low of 6.4%. The ECB's account will be also closely analysed for further insight into the Governing Council's decision at its [July](#) meeting to not give guidance on the likely outcome of the September meeting and open the door to a possible pause in the tightening cycle. While President Lagarde was clear that the September policy decision would depend upon both the forthcoming data and the ECB's updated macroeconomic projections to be completed ahead of that meeting, it will be interesting to see whether the minutes from July reveal strong views on a pause by some members and to what extent members considered the balance of risks to have changed.

Germany: Consumption, income & savings



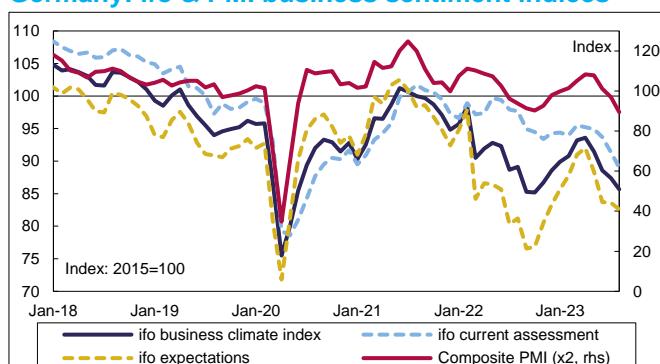
Source: Refinitiv Datastream, Bloomberg and Daiwa Capital Markets Europe Ltd.

Germany: Fixed investment



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Germany: ifo & PMI business sentiment indices



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

Germany: GDP growth & ifo current conditions index



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

UK

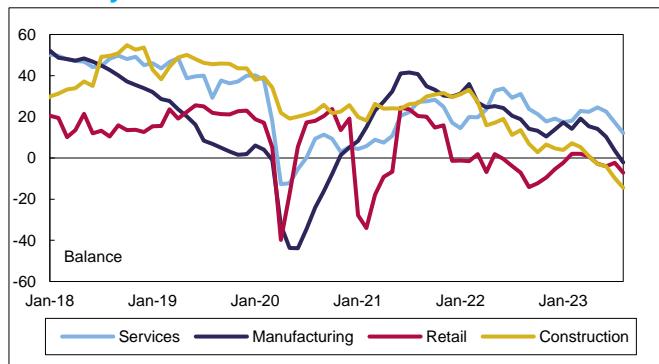
Improvement in consumer confidence offers some mild relief from the gloomy business surveys

The GfK consumer confidence survey today provided some welcome (albeit mild) relief from the past week's gloomy UK business survey results. This suggested some resilience in household sentiment amid strong wage growth and easing inflation, with the headline sentiment index jumping in August, by 5pts to -25, largely reversing the drop recorded in July to its second-strongest reading since January 2022. This notwithstanding, the index was still trending in Q3 only slightly firmer than in Q2 and well below the long-run average (-10). Encouragingly, the improvement was broad based, with the index measuring economic developments over the previous twelve months rising to its highest since Russia's invasion of Ukraine. Households were a touch less pessimistic about the outlook for the economy over the coming twelve months too. And with expectations for personal financial situations having also improved, with the respective survey index (-3) substantially closer to the long-run average (3) than the recent trough (-40). As such, households were seemingly less downbeat about their spending intentions, with the respective index (up 8pts to -24) the joint-highest since February 2022. Admittedly, the index in the first two months of Q3 was trending a touch below the Q2 average and still well below the long-run average (-2), suggesting that, despite the improvement in households' disposable incomes, consumer spending will likely remain lacklustre over the near term.

The week ahead in the UK

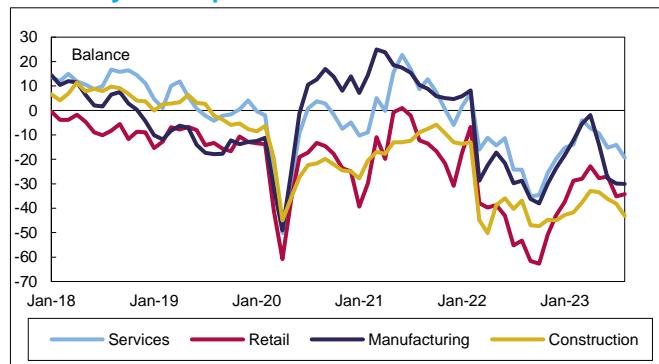
In contrast with the euro area, the coming week will be relatively light for top-tier UK economic data. Wednesday's release of the BoE's monetary data for July will be of interest and provide an update on the impact of the MPC's aggressive tightening this cycle on bank lending and deposits. Indeed, reflecting rising borrowing costs, mortgage lending is expected to remain historically subdued, with mortgage approvals to remain well below the pre-pandemic average. And while consumer credit jumped in June, this was due to higher demand for car dealership and personal loans, perhaps reflecting concerns that interest rates were set to rise further and stay higher for longer. Ahead of this, the BRC shop price index (Tuesday) is likely to report a further easing in shop price inflation in August, reflecting a dampening impact from developments in global goods prices as well as weaker household demand. Indeed, the final manufacturing PMI survey (Friday) is likely to confirm that the input price index (42.8) fell to its lowest since the start of 2016 and was consistent with a deflationary trend. The flash survey also showed the output index declining sharply further in August, to 43.3, the lowest in twelve months and signalling significant contraction over the summer. Friday will also bring an update on house prices, with the Nationwide house price report expected to show a steeper pace of decline in annual price growth.

Germany: ifo current assessment indices



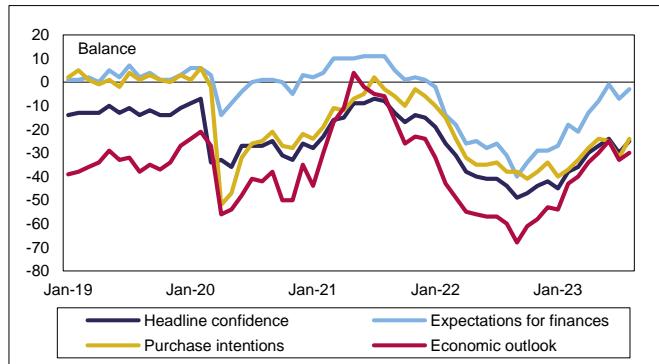
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Germany: ifo expectations indices



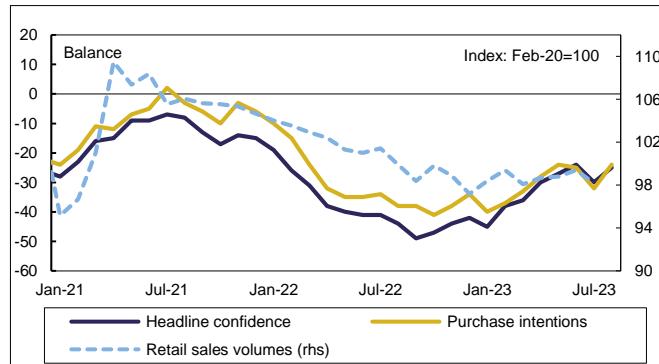
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

UK: Consumer confidence



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

UK: Consumer confidence & retail sales



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

The coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <u>Daiwa forecast/actual</u>	Previous
Monday 28 August 2023					
Euro area	09.00	M3 money supply Y/Y%	Jul	0.0	0.6
Tuesday 29 August 2023					
Germany	07.00	GfK consumer confidence	Sep	-24.4	-24.4
France	07.45	INSEE consumer confidence	Aug	85	85
Spain	08.00	Retail sales Y/Y%	Jul	-	6.4
UK	00.01	BRC shop price index Y/Y%	Aug	-	7.6
Wednesday 30 August 2023					
Euro area	10.00	European Commission economic sentiment indicator	Aug	93.6	94.5
	10.00	European Commission industrial (services) confidence indicator	Aug	-10.0 (5.0)	-9.4 (5.7)
	10.00	Final European Commission consumer confidence indicator	Aug	<u>-16.0</u>	-15.1
Germany	13.00	Preliminary HICP (CPI) Y/Y%	Aug	6.2 (6.0)	6.5 (6.2)
Italy	09.00	ISTAT business (manufacturing) confidence indicator	Aug	- (98.0)	109.1 (99.3)
	09.00	ISTAT consumer confidence indicator	Aug	-	106.7
Spain	08.00	Preliminary HICP (CPI) Y/Y%	Aug	-	2.1 (2.3)
UK	09.30	Net consumer credit £bn (Y/Y%)	Jul	-	1.7 (7.6)
	09.30	Net mortgage lending £bn (approvals '000s)	Jul	- (52.0)	0.1 (54.7)
	09.30	M4 money supply M/M% (Y/Y%)	Jul	-	-0.1 (0.1)
Thursday 31 August 2023					
Euro area	10.00	Preliminary (core) HICP Y/Y%	Aug	<u>5.2 (5.3)</u>	5.3 (5.5)
	10.00	Unemployment rate %	Jul	6.4	6.4
Germany	07.00	Retail sales M/M% (Y/Y%)	Jul	0.1 (-1.4)	-0.6 (0.4)
	08.55	Unemployment change '000s (rate %)	Aug	10.0 (5.7)	-4.0 (5.6)
France	07.45	Preliminary HICP (CPI) Y/Y%	Aug	5.3 (4.3)	5.1 (4.3)
	07.45	Consumer spending M/M% (Y/Y%)	Jul	-	0.9 (-2.8)
	07.45	PPI Y/Y%	Jul	-	3.0
	07.45	Final GDP Q/Q% (Y/Y%)	Q2	<u>0.5 (0.9)</u>	0.1 (0.9)
Italy	10.00	Preliminary HICP (CPI) Y/Y%	Aug	5.3 (5.0)	6.3 (5.9)
Friday 01 September 2023					
Euro area	09.00	Final manufacturing PMI	Aug	43.7	42.7
Germany	08.55	Final manufacturing PMI	Aug	39.1	38.8
France	08.50	Final manufacturing PMI	Aug	46.4	45.1
	-	New car registrations* Y/Y%	Aug	-	19.9
Italy	08.45	Manufacturing PMI	Aug	-	44.5
	09.00	Final GDP Q/Q% (Y/Y%)	Q2	-0.3 (0.6)	0.6 (2.0)
	10.00	PPI Y/Y%	Jul	-	-8.2
	17.00	New car registrations Y/Y%	Aug	-	8.8
Spain	08.15	Manufacturing PMI	Aug	-	47.8
	-	New car registrations* Y/Y%	Aug	-	10.7
UK	00.01	Nationwide house price index M/M% (Y/Y%)	Aug	-	-0.2 (-3.8)
	09.30	Final manufacturing PMI	Aug	42.5	45.3

*Approximate date of release. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 28 August 2023		
UK		- National holiday
Tuesday 29 August 2023		
Germany		10.30 Auction: €4bn of 2.4% 2028 bonds
Wednesday 30 August 2023		
Germany		10.30 Auction: €1.5bn of 1.3% 2027 bonds
Italy		10.00 Auction: €3.25bn of 3.8% 2028 bonds
		10.00 Auction: €1.5bn of 4.35% 2033 bonds
		10.00 Auction: €3.75bn of 4.2% 2034 bonds
Thursday 31 August 2023		
Euro area		12.30 ECB publishes account of 27 July monetary policy meeting
		12.30 ECB's Schnabel scheduled to speak – 'Inflation: Drivers and dynamics'
		17.00 ECB's de Guindos scheduled to speak at an academic seminar
UK		08.15 BoE Chief Economist Pill scheduled to speak on 'Back to target, monetary policy in advanced economies'
Friday 01 September 2023		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Today's results

Economic data						
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	Final GDP Q/Q% (Y/Y%)	Q2	0.0 (-0.2)	<u>0.0 (-0.2)</u>	-0.1 (-0.2)	-
	Ifo business climate	Aug	85.7	86.7	87.3	87.4
	Ifo current assessment (expectations) balance	Aug	89.0 (82.6)	90.0 (83.5)	91.3 (83.5)	91.4 (83.6)
UK	GfK consumer confidence	Aug	-25	-29	-30	-
Auctions						
Country	Auction					
Italy	sold €2.75bn of 3.6% 2025 bonds at an average yield of 3.63%					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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