

Euro wrap-up

Overview

- While German wage growth accelerated in Q2 to a series high, Bunds made gains as German and French consumer confidence surveys suggested that willingness to spend is low.
- Gilts also made gains as a survey suggested that inflation on the UK high street moderated to a ten-month low in August.
- Wednesday will bring flash August inflation estimates from Germany and Spain as well as the Commission's euro area economic sentiment indices and BoE bank lending data.

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Daily bond market movements

Bond	Yield	Change
BKO 3.1 09/25	3.019	-0.016
OBL 2.4 10/28	2.535	-0.050
DBR 2.6 08/33	2.510	-0.049
UKT 0% 06/25	5.218	-0.051
UKT 1% 10/28	4.742	-0.043
UKT 3% 01/33	4.417	-0.019

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

Source: Bloomberg

Euro area

German consumers more pessimistic despite pickup in wage growth in Q2

According to last week's flash [Commission estimate](#), euro area consumer confidence deteriorated slightly in August for the first time since March. Today's national survey results suggested that household sentiment in Germany likely explained some of that decline in the euro area, but the weakening in France was minimal. In both of the euro area's two largest member states, however, consumer confidence remains well below the respective long-run average suggesting that private consumption is unlikely to offer support to economic growth over the near term. In Germany, the headline GfK consumer confidence indicator – presented as a forecast for September – fell 0.9pt to a four-month low of -25.5. While it was more than 17pts above October's series low prompted by last year's spike in energy prices, it was more than 28pts below the long-run average indicating relatively widespread pessimism. German consumers were more downbeat in August about prospects for the wider economy and their own incomes, with the former index down to the lowest so far this year. Pessimism appears in part to be related to their somewhat less dovish inflation expectations, which rebounded to a five-month high. In addition, concerns about unemployment reportedly rose in part due to the increase in corporate insolvencies, which – according to experimental preliminary Destatis data – rose 23.8%Y/Y in July. And so, German consumer willingness to buy dropped in August to a five-month low. That would be consistent with ongoing stagnation in private consumption, which failed to grow in Q2 despite a 1.0ppt pickup in nominal wage growth in Q2 to a series high of 6.6%Y/Y. The acceleration in German nominal pay, which was supported by one-off factors such as increased minimum wages and special bonuses, pushed annual real wage growth back into positive territory for the first time in three years, albeit at just 0.1%Y/Y.

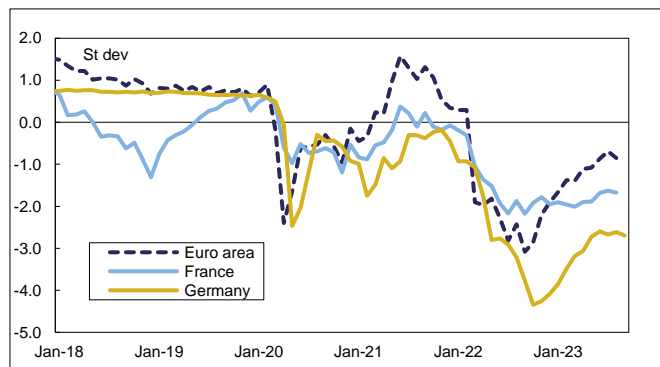
French consumer willingness to spend stable but historically low

The deterioration in French consumer confidence in August was very modest, with the headline INSEE survey index down just 0.3pt to 84.9. Admittedly, that is a little more than 15% below the long-run average. And, as in the German GfK survey, the French indices with respect to perceptions of the outlook for the economy, personal incomes, unemployment and inflation all deteriorated to the worst in three months. Moreover, while readiness to make major purchases was no weaker in August, it was still very low by historical standards and consistent with a third drop in four quarters in household consumption in Q3. Further colour on consumer sentiment in the euro area as a whole will be provided tomorrow with the full results of the Commission sentiment survey.

Striking drop in money supply tallies with diminishing willingness to spend

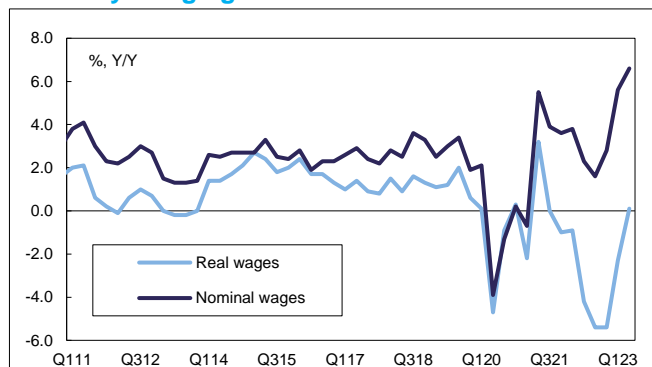
The weak signals on consumer willingness to spend add to the body evidence suggesting that the ECB would be well advised to pause in its tightening cycle next month. That evidence also includes yesterday's monetary data, which reported

Euro area: Consumer confidence



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

Germany: Wage growth



Source: Destatis and Daiwa Capital Markets Europe Ltd.

the first annual decline in the broader M3 measure of money supply since 2010. Growth in this monetary aggregate, to which many members of the Governing Council once attached huge significance as a guide to future inflation pressures, matched the series low of -0.4%Y/Y, well below levels that might reasonably be considered consistent with the ECB's price stability target over the medium term. The annual growth rate of household deposits slowed to 0.7%Y/Y and the equivalent rate for non-financial corporations (NFCs) dropped to -0.6%Y/Y, with both sectors continuing to shift funds from sight deposits to time deposits to suggest diminished willingness to spend. On the lending side, credit to the private sector slowed 0.2ppt to a seven-year low of 1.3%Y/Y. On an adjusted basis, net lending to NFCs picked up on the month to a four-month high of €4.4bn. But that still meant that the respective annual growth rate slowed 0.8ppt to 2.2%Y/Y, the softest since September 2021 when banks had sought to rein back credit following the initial pandemic-related surge. Moreover, on the same basis, and tallying with increased consumer risk aversion, there was a net repayment of household credit for a third successive month and by a record €7.2bn in July. That left the respective annual rate of loans to households down 0.4ppt to 1.3%Y/Y, the softest since 2015. While consumer credit growth was steady at 2.5%Y/Y, lending for house purchase slowed 0.5ppt to an eight-year low of just 0.8%Y/Y and other loans to households fell 2.1%Y/Y.

The day ahead in the euro area

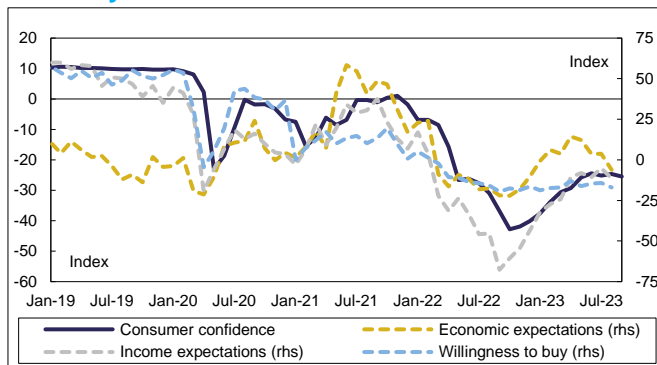
Wednesday's focus will be the first flash estimates of inflation in August, which will come from Germany, Spain, Belgium and Ireland. Most notably, we expect German inflation to ease slightly, with the EU-harmonised HICP measure dropping 0.2ppt to 6.3%Y/Y as lower food and household energy components more than offset a pickup in auto fuel prices. Core German inflation, however, is likely to remain stubbornly high in part due to the base effect related to public transport prices. In addition, Spanish HICP inflation is expected to pick up, by roughly 0.4ppt to 2.5%Y/Y, again driven by higher petrol prices while core components remain relatively steady. Beyond the flash inflation numbers, the Commission's economic sentiment indices for August are likely to echo the findings of the [flash PMIs](#) and top-tier national surveys to flag increased risks of a contraction in euro area GDP in Q3. The survey should also, however, point to diminished inflation expectations across the business sectors, although today's German and French survey results would suggest that household inflation expectations have picked up.

UK

Disinflation of goods prices continued in August

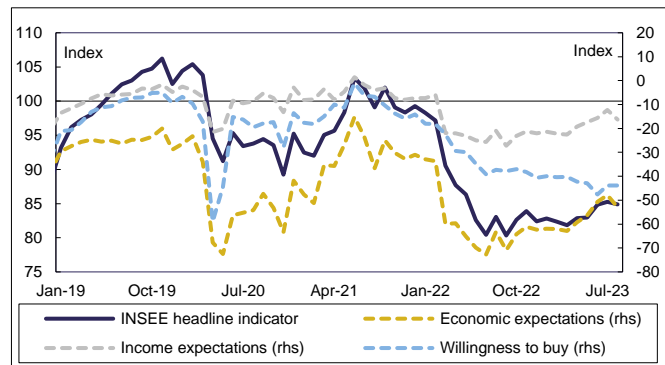
According to the BRC survey, UK shop price inflation moderated for a third successive month in August to a ten-month low, dropping a chunky 0.7ppt to 6.9%Y/Y. But unlike in July, when the BRC reported that prices on the UK high street fell from

Germany: Consumer confidence



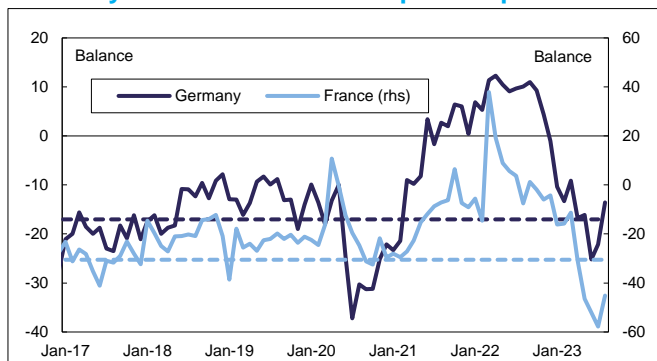
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

France: Consumer confidence



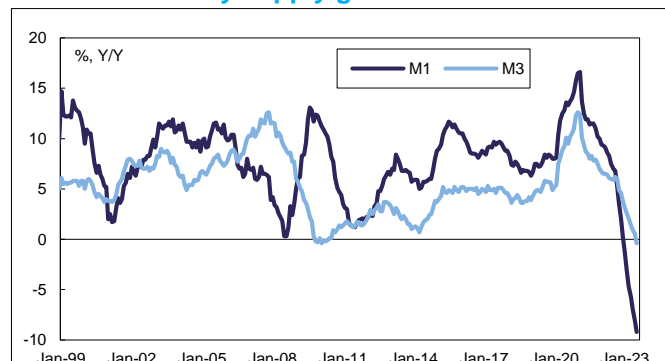
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Germany & France: Consumer price expectations*



*Next twelve months. Dashed lines represent long-run averages. Source: GfK, INSEE, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Euro area: Money supply growth



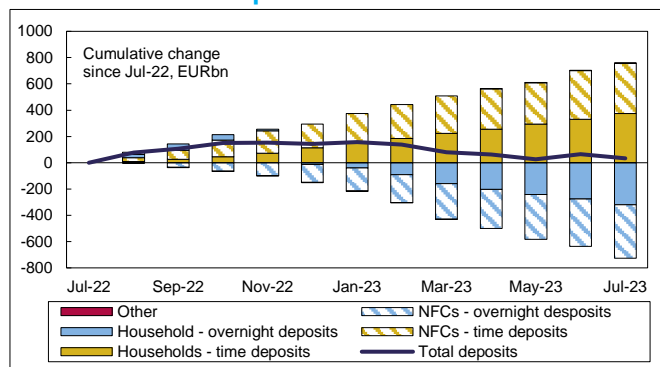
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

the previous month for the first time in two years, prices in August reportedly rose again in most categories. So, the big step down in inflation on the BRC measure was in large part related to the base effect from a year earlier, which had seen the second biggest monthly increase in prices of the recent inflation shock. Indeed, the decline in August was fully accounted for by food inflation, which moderated almost 2ppts to an eleven-month low of 11.5%Y/Y, with declines in both the fresh and ambient categories. Nonfood inflation was stable at July's rate of 4.7%Y/Y, matching the lowest rate since December. Given less aggressive summer discounting, clothes inflation rose 1.3ppt to 0.0%Y/Y. But disinflation intensified for certain other categories of goods, such as electrical and DIY-related items. That tallies with the recent weakening in producer output price inflation and the price signals from surveys – e.g. the manufacturing output price PMI fell more than 1pt in August to 48.9, the lowest level since 2016. The steady decline in consumer price inflation of goods is positive news for households. However, the BoE has already factored such disinflation into its baseline forecast. And developments in services inflation and the labour market will be far more important in determining the path of monetary policy over coming months.

The day ahead in the UK

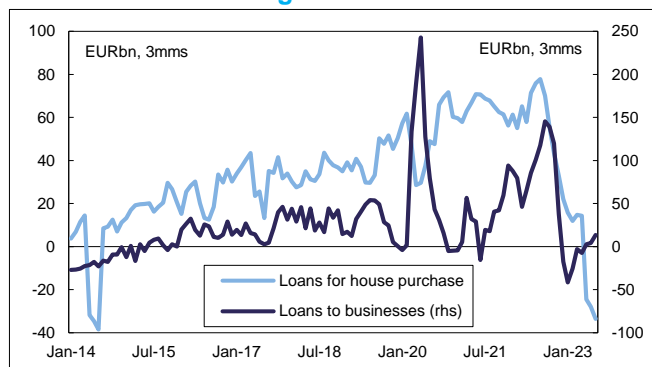
In the UK, Wednesday will bring the BoE's July money supply and bank lending data. Net mortgage lending seems highly likely to remain historically soft, in part due to significant repayments by existing borrowers. Likewise, higher interest rates seem likely to have contributed to an ongoing slowing in net lending to businesses as well as continued accumulation of time deposits.

Euro area: Bank deposits



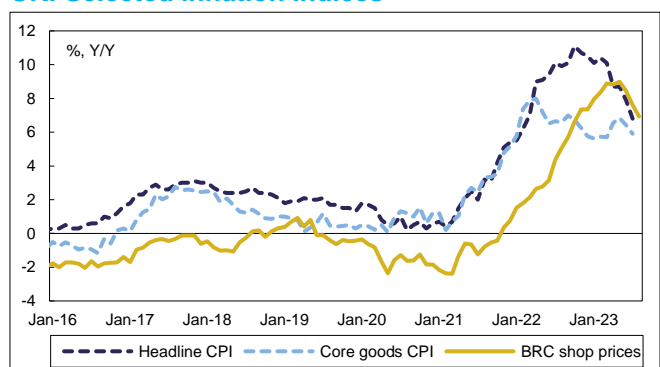
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Euro area: Net lending



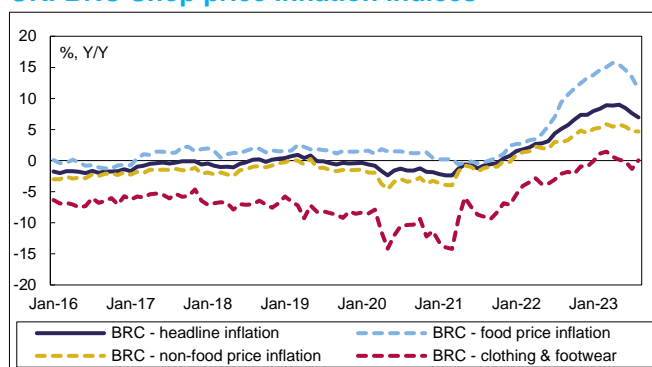
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

UK: Selected inflation indices



Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

UK: BRC Shop price inflation indices







Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <u>Daiwa forecast</u>	Previous	Revised
Germany	 GfK consumer confidence	Sep	-25.5	-24.4	-24.4	-24.6
France	 INSEE consumer confidence	Aug	85	85	85	-
Spain	 Retail sales Y/Y%	Jul	7.3	-	6.4	6.5
UK	 BRC shop price index Y/Y%	Aug	6.9	-	7.6	-


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/ <u>Daiwa forecast</u>	Previous	Revised
Euro area	 M3 money supply Y/Y%	Jul	-0.4	0.0	0.6	-











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/ <u>Daiwa forecast</u>	Previous
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	106.6	106.7
Spain		08.00 Preliminary HICP (CPI) Y/Y%	Aug	2.3 (2.5)	2.1 (2.3)
UK		09.30 Net consumer credit £bn (Y/Y%)	Jul	1.4 (-)	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)

Auctions and events

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 1.15% 2031 bonds
		10.00 Auction: €1.5bn of 4.35% 2033 bonds
		10.00 Auction: €3.75bn of 4.2% 2034 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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