

Euro wrap-up

Overview

- Bunds had a mixed performance, as Lagarde reiterated that the ECB's policy stance will stay restrictive for as long as necessary, but a German business survey continued to offer a relatively bleak assessment.
- Gilts followed the global trend lower, while a UK retail survey beat expectations, reporting a notably softer pace of decline.
- Focus tomorrow will be on a keynote address from ECB Chief Economist Lane, while ECB monetary figures for August are due on Wednesday alongside German and French consumer confidence survey results.

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Daily bond market movements

Bond	Yield	Change
BKO 3.1 09/25	3.212	-0.024
OBL 2.4 10/28	2.750	+0.007
DBR 2.6 08/33	2.782	+0.047
UKT 3½ 10/25	4.805	+0.005
UKT 4½ 06/28	4.389	+0.026
UKT 3¼ 01/33	4.311	+0.066

*Change from close as at 4:15pm BST.

Source: Bloomberg

Euro area

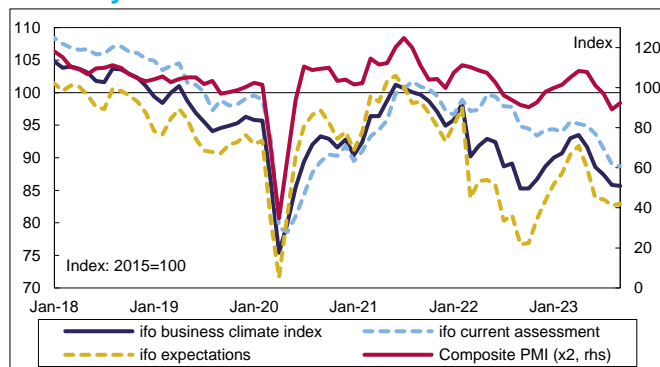
German ifo business survey beat expectations but still offered a bleak assessment at end-Q3

Today's German ifo institute business survey offered a relatively bleak assessment of economic conditions, further suggesting that GDP contracted in the euro area's largest member state in Q3. However, like last week's [flash PMIs](#), it also raised hopes that the bottom might have been reached. Indeed, the headline business climate index beat expectations, falling in September by just 0.1pt – the smallest drop in five months – to 85.7. Admittedly, this still marked the lowest level in eleven months and left the average in Q3 down 5pts from Q2 at the lowest quarterly reading since the first wave of the pandemic in Q220 and the global financial crisis before that. Moreover, the current assessment balance fell for the sixth consecutive month, by 0.3pt to 88.7, the lowest for more than three years. The extent of the decline was curbed by some stabilisation in the manufacturing sector, with the respective index rising 0.5pt to -1.8, nevertheless the second-lowest level since October 2020. But sentiment among services firms was reportedly dented by weaker than expected revenues, with the current situation balance down 3pts to its lowest since April 2021. And similar declines in the retail and construction indices suggested that firms in those sectors were the most pessimistic in eleven months and twelve years respectively. The survey was at least less downbeat about the near-term outlook, with the overall expectations balance rising for the first month in five, by 0.2pt to 82.9, supported by a modest improvement in services and retail firms' outlooks. But this increase is small beer compared with the 9pt cumulative drop seen since April. And with the index still well below the long-run average (96.7), Germany's near-term economic recovery appears highly likely to be sluggish at best.

German construction orders remain very weak amid declining house prices

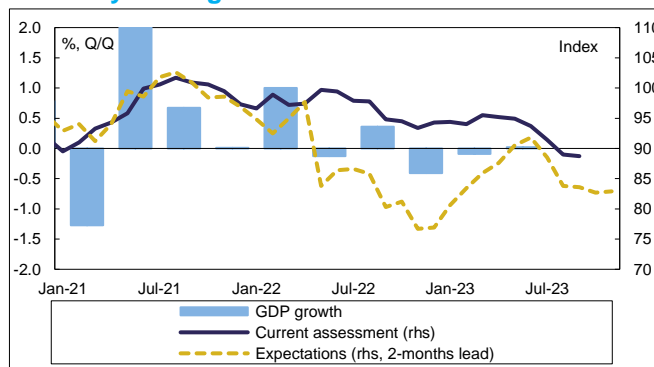
While today's survey offered tentative signs that Germany's economy might have reached its trough, the outlook for the country's construction sector remains more uncertain. Certainly, the ifo survey implied a worsening in both current conditions and the outlook for the coming three months. Part of the recent weakness reflects payback for the weather-assisted strength seen at the start of the year, when output surged more than 5%Q/Q in Q1. But it also reflects the ongoing adjustment in Germany's housing sector amid higher input costs and the steady rise in the cost of borrowing. Indeed, the average interest rate on new loans for house purchase in Germany stood at 4.00% in July, some 285bps above the trough at end-2020 and the highest rate in twelve years. Data published by Destatis last week also showed that residential property prices fell for a third consecutive quarter in Q2, by 1.5%Q/Q, to leave prices down a sizeable 9.9%Y/Y, the steepest annual decline since the series began in 2000. And while data published today showed that new construction orders increased 9.6%M/M in July, this in part reflected a jump in incoming civil engineering orders (14.6%M/M) amid several large orders. Indeed, despite an increase on the month, orders for building construction (4.4%M/M) were still down 9.4%Y/Y. Overall, in the first seven months of 2023, total construction orders were 10.7% lower than the equivalent period in 2022.

Germany: Business sentiment indices



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

Germany: GDP growth & ifo business sentiment



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

The coming two days in the euro area

On a day bereft of top-tier euro area data tomorrow, focus will turn to ECB speak, with Chief Economist Lane scheduled to give a welcoming address at a Bank of France conference on 'Monetary policy challenges for European macroeconomics'. Meanwhile, on Wednesday, the ECB will publish its latest monetary figures for August, which are likely to illustrate the dampening impact of the ECB's aggressive tightening cycle on bank lending. Overall, M3 money supply is expected to have declined for the second successive month and at a steeper pace of -1.1%Y/Y, which would be the most on record. Meanwhile, consistent with the modest deterioration in the [Commission's preliminary consumer confidence](#) indicator, the German GfK and French INSEE household surveys are expected to signal a slight worsening in sentiment at the end of Q3.

UK

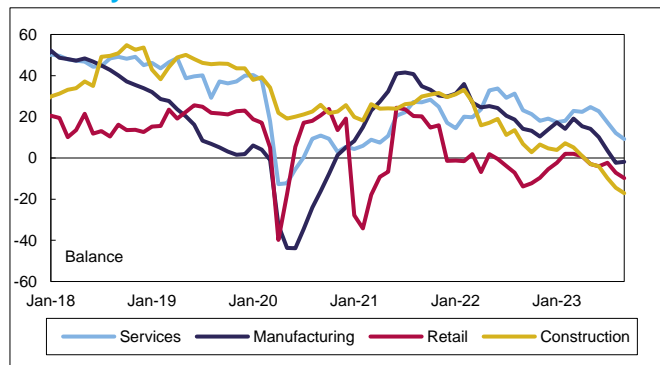
CBI retail survey offers more favourable outlook, but still suggests that sales down from a year ago

While last week's flash UK PMIs implied a further slowing in services activity in September, today's CBI distributive trades survey offered a somewhat more favourable assessment of conditions in the retail sector at the end of Q3. While the survey suggested that sales fell in the year to September for a fifth consecutive month, the pace of decline was much softer than of late. Moreover, sales were seen as marginally above the average for the time of year. In particular, the headline sales index rose a larger-than-expected 30pts to -14, a three-month high. When smoothing for monthly volatility, given weakness at the start of Q3, sales volumes on a three-month basis were still judged to be the weakest since April 2021 when households shifted spending from goods to services in response to the relaxation of lockdown rules. Nevertheless, with consumer confidence having improved, pay growth firm and household real disposable income set to receive a boost by the further reduction in Ofgem's energy price cap, retailers were once again less downbeat about the outlook for sales next month. Indeed, the respective index rose 13pts to -8, a three-month high, with sales in October expected to be broadly in line with the norm for the time of year. Notwithstanding the improvement in today's survey, however, with the GfK survey suggesting that household purchase intentions remain well below the long-run average and [official sales](#) data trending in August some ½% below the Q2 average, retail sales still look likely to provide a modest drag on GDP growth in Q3.

The coming two days in the UK

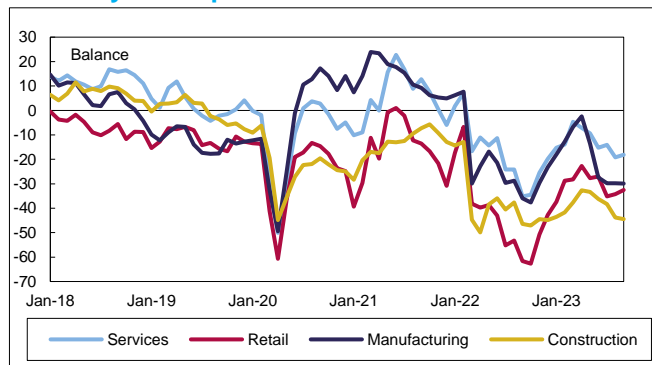
The coming two days will be quiet for UK economic news, with no top-tier data scheduled for release.

Germany: ifo current assessment indices



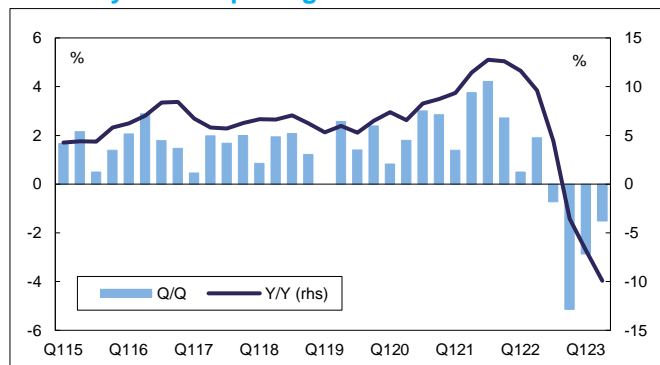
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Germany: ifo expectations



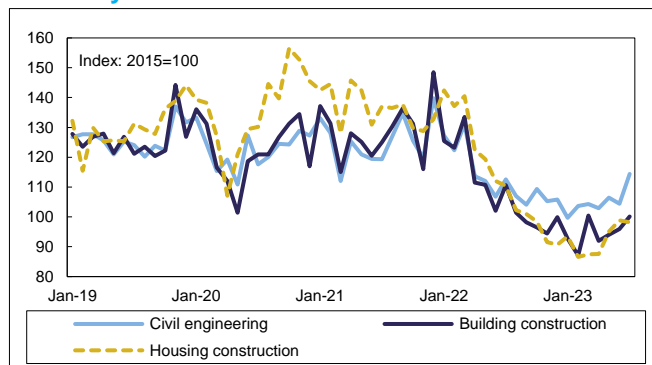
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Germany: House price growth



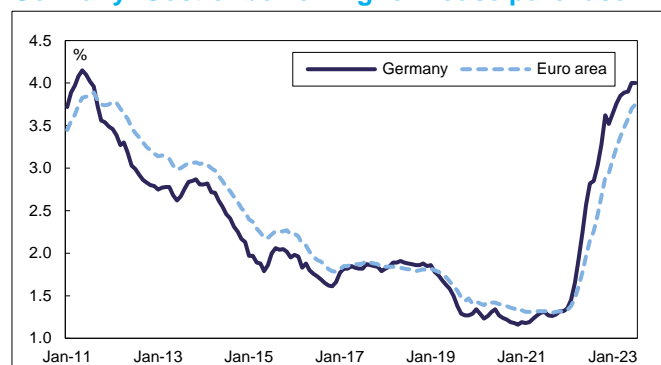
Source: Destatis and Daiwa Capital Markets Europe Ltd.

Germany: Construction new orders

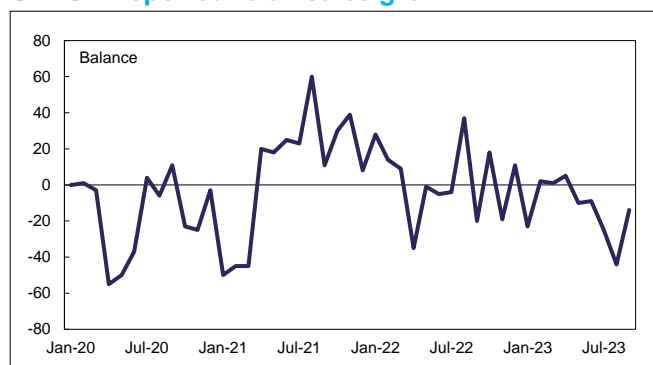


Source: Destatis and Daiwa Capital Markets Europe Ltd.

Germany: Cost of borrowing for house purchase



UK: CBI reported retail sales growth



The next edition of the Euro wrap-up will be published on 27 September 2023

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	Ifo business climate balance	Sep	85.7	85.2	85.7	85.8
	Ifo current assessment (expectations) balance	Sep	88.7 (82.9)	88.0 (83.0)	89.0 (82.6)	- (82.7)
UK	CBI distributive trades, reported sales	Sep	-14	-35	-44	-

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
- Nothing scheduled -					

Auctions and events



Euro area		08.00	ECB's Chief Economist Lane scheduled to speak on "monetary policy challenges for European macroeconomics"		
Germany		10.30	Auction: €4bn of 2.40% 2028 bonds		
Italy		10.00	Auction: €3bn of 3.60% 2025 bonds		
		10.00	Auction: 1.50% 2029 index-linked bonds		
		10.00	Auction: 2.55% 2041 index-linked bonds		
UK		10.00	Auction: £3.0bn of 0.875% 2033 green bonds		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases
Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area 	09.00	M3 money supply Y/Y%	Aug	-1.1	-0.4
Germany 	07.00	GfK consumer confidence index	Oct	-26.0	-25.5
France 	07.45	INSEE consumer confidence index	Sep	84	85

Auctions and events

Germany 	10.30	Auction: €4bn of 2.60% 2033 bonds
UK 	10.00	Auction: £750mn of 1.125% 2073 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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