

Euro wrap-up

Overview

- Bunds ended the day lower despite a weakening in lending to euro area businesses and a deterioration in German and French consumer confidence.
- On a quiet day for UK economic releases, Gilts made losses in line with the global trend.
- Thursday's data highlights will include the flash German and Spanish inflation estimates and Commission economic sentiment indices, all for September.

Emily Nicol

+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 3.1 09/25	3.221	+0.010
OBL 2.4 10/28	2.800	+0.037
DBR 2.6 08/33	2.834	+0.032
UKT 3½ 10/25	4.850	+0.079
UKT 4½ 06/28	4.465	+0.083
UKT 3¼ 01/33	4.359	+0.040

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

Source: Bloomberg

Euro area

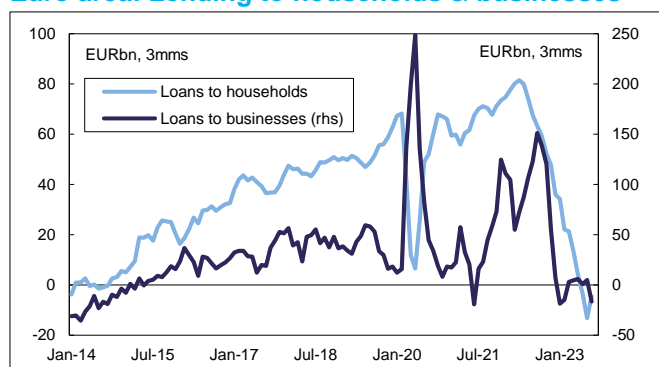
Largest net repayment in business loans since global financial crisis

Today's euro area monetary figures arguably further illustrated the dampening impact of the ECB's aggressive tightening cycle on bank lending, reinforcing the signals from the Governing Council earlier this month that the peak in interest rates has likely been reached. Certainly, today's data flagged a marked weakening in lending to non-financial corporations, which fell by an adjusted (for sales and securitisations) €22bn in August, the most since April 2021 and June 2009 when excluding pandemic-related distortions. As a result, the annual rate of growth in the outstanding stock of business loans eased to just 0.6%Y/Y, the weakest rate for almost eight years. Admittedly, the weakness principally reflected a large net repayment of loans with a maturity of up to one year, likely reflecting diminished demand for working capital amid recent destocking and softer final demand. As a result, the stock of short-term loans was down 7.8%Y/Y, the most in almost two years. More encouragingly, the flow of longer-dated loans – i.e. those with a maturity of more than five years – rose for the fifth consecutive month (€7.7bn). That suggests that some types of business investment, likely including those related to the climate transition and digitisation projects, remain relatively resilient. The flow of new lending to households also picked up in August (€5bn) for the first month in five, reflecting a rise in both consumer credit (€3bn) and lending for house purchase (€6bn), with the latter the firmest since March. Nevertheless, the cumulative rise in mortgage lending over the past three months stood at just €6bn, admittedly an improvement on the decline in the three months to July (-€34bn) when a large adjustment in France distorted the data, but well down on the peak (€78bn) in July last year. And while the annual growth rate in consumer credit picked up 0.5ppt to a four-month high of 3.0%Y/Y, the equivalent growth rate in loans for house purchase slowed to just 0.5%Y/Y, the weakest since 2015.

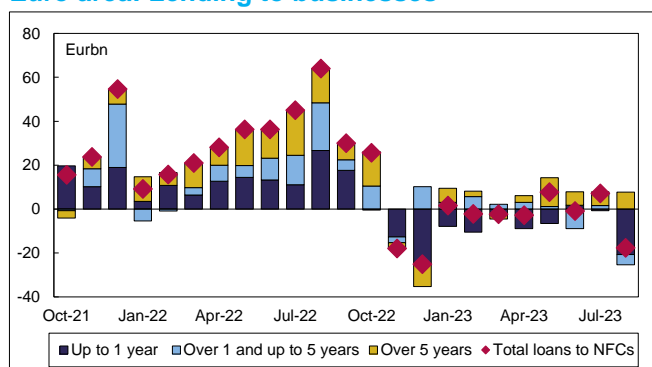
Bank deposits continue to decline in response to rising interest rates

The impact of the ECB's tightening was also evident in the latest bank deposit data. Indeed, having barely benefited at all from higher interest rates, overnight deposits of households and NFCs dropped in August for the eleventh and twelfth successive months respectively. And while time deposits with maturities of between three months to two years continued to rise, the overall stock of household deposits fell slightly, with that for NFCs down €17bn to the lowest level since March 2022. As such, M1 money supply – which includes currency in circulation and overnight deposits – fell a record 10.4%Y/Y in August. Growth in the broader monetary aggregate M3, to which many members of the Governing Council once attached huge significance as a guide to future inflation pressures, fell 1.3%Y/Y, a series low and well below growth rates that might reasonably be considered consistent with the ECB's price stability target over the medium term.

Euro area: Lending to households & businesses*



Euro area: Lending to businesses*



German confidence falls to a six-month low as consumers prefer to save than spend

Tallying broadly with the downbeat message from today's monetary data, the latest national household surveys from Germany and France suggested sluggish growth in consumer spending at the end of the third quarter. Indeed, according to the latest German GfK household survey, the headline confidence indicator – presented as a forecast for October – fell for the third month out of the past four, by 0.9pt to a six-month low of -26.5. While it was some 16pts above the series low reached a year ago, the index was also almost 30pts below the long-run average indicating relatively widespread pessimism. Admittedly, with the respective indices having deteriorated sharply in August, German consumers were marginally less downbeat about prospects for the wider economy and their own incomes. However, concerns about unemployment reportedly remained to the fore. This aligned with the latest ifo institute employment barometer, which today suggested that the willingness of German firms to hire new staff over the coming three months has fallen to its lowest level since February 2021. While services firms on balance suggested that they intend to continue to add to their workforces, albeit at a softer pace, the share of firms in the manufacturing and construction sectors signaling job cuts rose, with the latter at its highest for thirteen years. So, while German consumer willingness to buy appeared to stabilise at an admittedly weak level in September, there was a notable increase in the share of households preferring to save, with the respective index up 8pts to its highest level since mid-2011, consistent with ongoing stagnation in private consumption.

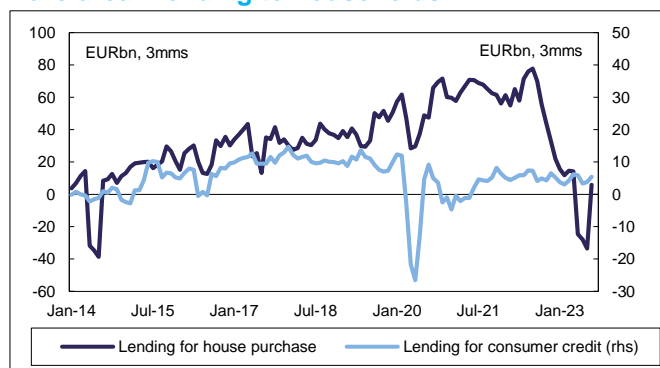
French consumer confidence slips back further as unemployment fears and savings intentions rise

The INSEE household survey also suggested a weakening in French consumer sentiment at the end of Q3, with the headline index down for the second-successive month and by 2pts to a four-month low of 83, well below the long-run average (100). The survey detail suggested that household perceptions of the outlook for the economy and personal incomes worsened in September, with the respective indices well below the long-run averages. And while still notably below the series average, the share of households concerned about the outlook for unemployment rose to its highest in seven months. So, while household willingness to make major purchases improved very slightly in September it was still very low by historical standards. Moreover, with savings intentions continuing to trend higher, like in Germany, today's survey was consistent with very weak consumer spending in Q3, and beyond too.

The day ahead in the euro area

Ahead of Friday's flash euro area inflation estimates, tomorrow brings the preliminary figures from Germany, Spain and Belgium. In particular, German inflation will take a notable step down this month as base effects associated with last year's heavily discounted travel pass fall out of the calculation. The Bloomberg survey consensus forecasts a drop in the headline

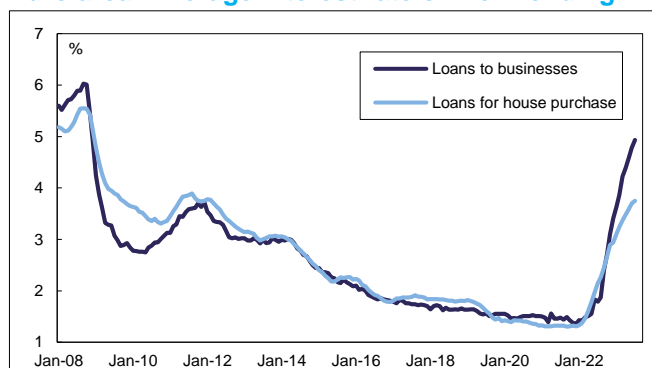
Euro area: Lending to households*



*Unadjusted for sales and securitisations.

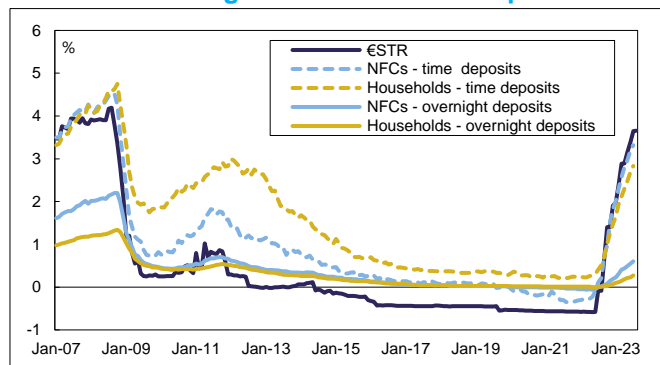
Source: ECB and Daiwa Capital Markets Europe Ltd.

Euro area: Average interest rate on new lending



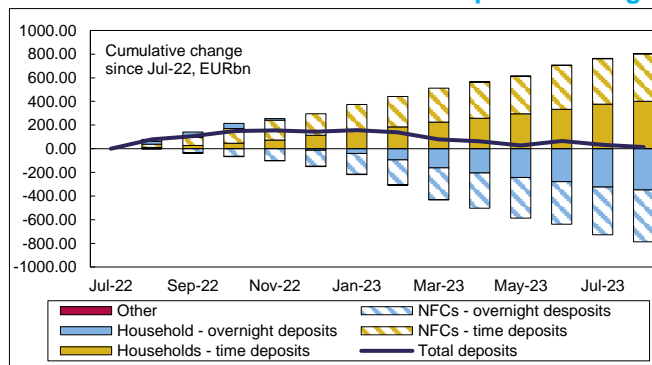
Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Euro area: Average interest rates on deposits



Source: ECB and Daiwa Capital Markets Europe Ltd.

Euro area: Household & business deposit holdings



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

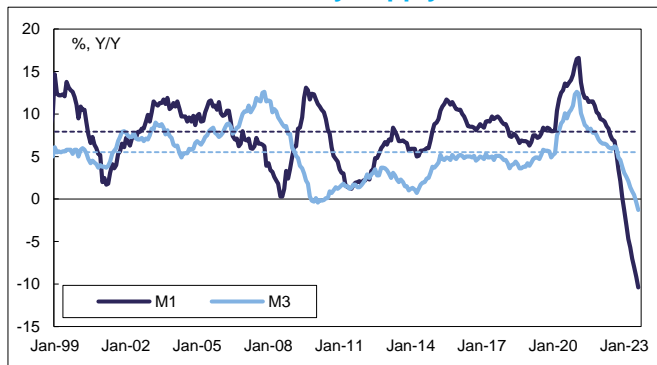
HICP rate of almost 2ppts to 4.5%Y/Y in September, which would be the lowest level since September 2021. In contrast, the headline Spanish HICP rate is expected to rise for a second-successive month on the back of higher energy prices. Meanwhile, the European Commission's economic surveys will provide an update on price expectations, which ticked up in August most likely in response to the higher oil price. But arguably of most interest from the surveys will be the extent of the slowdown in GDP growth implied by the headline economic sentiment indicator, which in August declined to 93.3, the lowest since November 2020 and more than 6½% below the long-run average.

UK

The day ahead in the UK

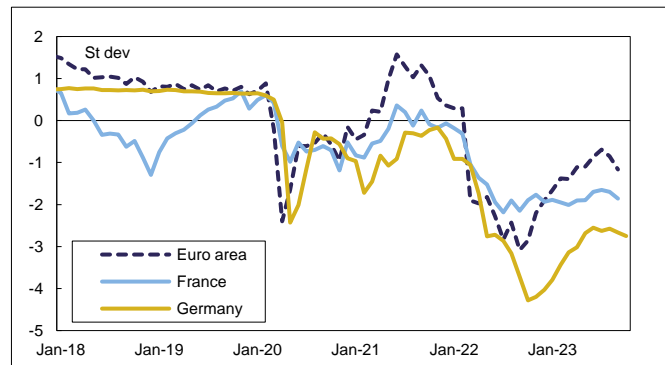
It should be another quiet day in the UK tomorrow, with no economic data scheduled for release.

Euro area: M1 & M3 money supply*



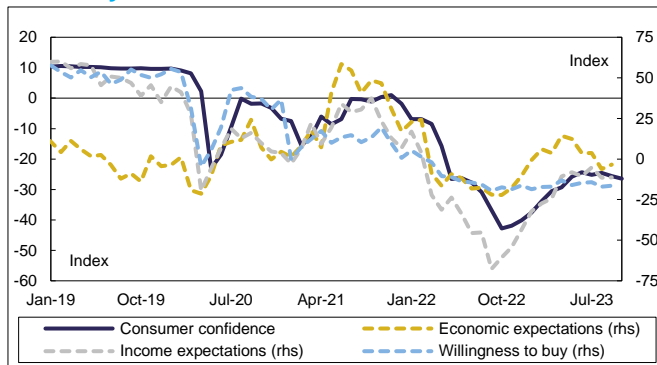
*Dashed lines are long-run averages. Source: Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer confidence indices



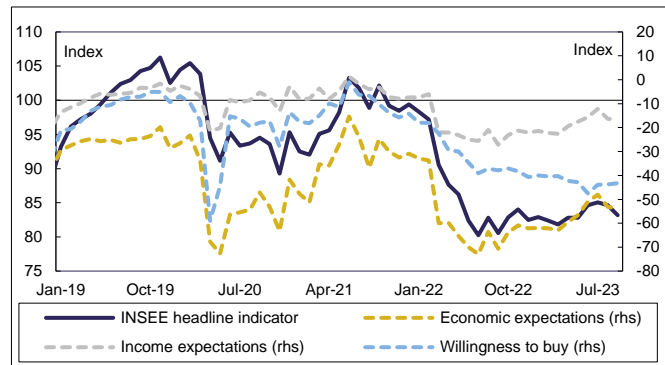
Source: EC, GfK, INSEE, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Germany: Consumer confidence indices



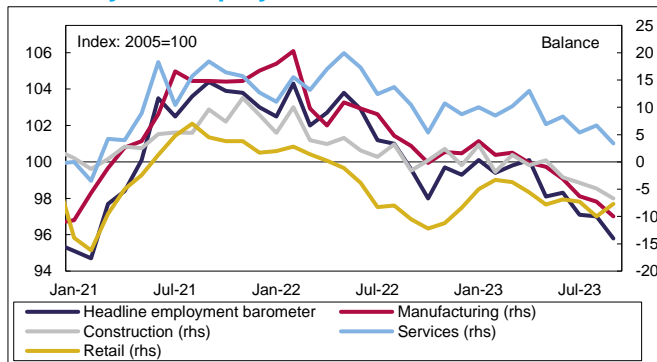
Source: GfK, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

France: Consumer confidence indices



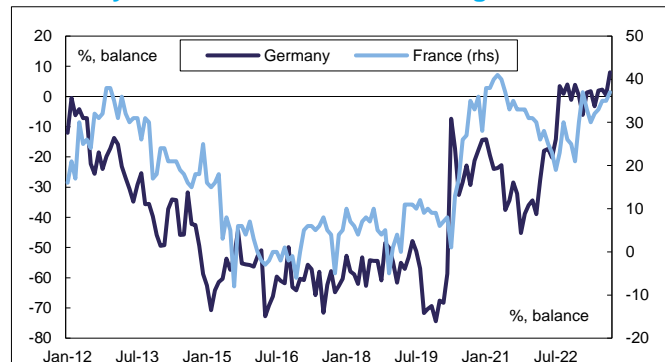
Source: INSEE, Refinitiv Datastream and Daiwa Capital Markets Europe Ltd.

Germany: ifo employment barometer



Source: ifo institute and Daiwa Capital Markets Europe Ltd.

Germany & France: Consumer savings intentions






Source: GfK, INSEE, Bloomberg 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
Euro area	 M3 money supply Y/Y%	Aug	-1.3	-1.0	-0.4	-
Germany	 GfK consumer confidence index	Oct	-26.5	-26.0	-25.5	-25.6
France	 INSEE consumer confidence index	Sep	83	84	85	-

Auctions

Country	Auction
Germany	 sold €3.25bn of 2.60% 2033 bonds at an average yield of 2.78%
UK	 sold £750mn of 1.125% 2073 bonds at an average yield of 4.289%






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Yesterday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
- Nothing to report -						








Auctions

Country	Auction
Germany	 sold €3.25bn of 2.40% 2028 bonds at an average yield of 2.76%
Italy	 sold €3.00bn of 3.60% 2025 bonds at an average yield of 3.97%
	 sold €768mn of 1.50% 2029 index-linked bonds at an average yield of 2.05%
	 sold €982mn of 2.55% 2041 index-linked bonds at an average yield of 2.59%
UK	 sold £3.00bn of 0.875% 2033 bonds at an average yield of 4.315%







Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country		BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area		10.00	European Commission's Economic Sentiment index	Sep	92.4	93.3
		10.00	European Commission's final consumer confidence index	Sep	<u>-17.8</u>	-16.0
		10.00	European Commission's industrial (services) index	Sep	-10.5 (3.4)	-10.3 (3.9)
Germany		13.00	Preliminary HICP (CPI) Y/Y%	Sep	4.6 (4.6)	6.4 (6.1)
Italy		09.00	ISTAT business (manufacturing) confidence index	Sep	- (97.0)	106.8 (97.8)
		09.00	ISTAT consumer confidence index	Sep	105.5	106.5
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Sep	3.3 (3.5)	2.4 (2.6)
		08.00	Retail sales Y/Y%	Aug	-	7.3

Auctions and events

Euro area		09.00	ECB publishes Economic Bulletin
		17.30	ECB's de Cos scheduled to speak on globalisation
Italy		10.00	Auction: €5.00bn of 4.10% 2029 bonds
		10.00	Auction: €3.00bn of 4.20% 2034 bonds
		10.00	Auction: €750mn of 2026 floating-rate bonds
		10.00	Auction: €750mn of 2030 floating-rate bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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