

# Euro wrap-up

## Overview

- Bunds followed US10s lower despite a deterioration in German consumer confidence and confirmation that German consumption and investment were very weak in Q2.
- Gilts also made losses even as a survey signalled deflationary pressures on the UK high street.
- Wednesday will bring new data on euro area bank lending and French consumer confidence.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.390	+0.004
OBL 2½ 10/29	2.173	+0.017
DBR 2.6 08/34	2.277	+0.034
UKT 4½ 01/27	4.100	+0.038
UKT 4½ 07/29	3.905	+0.050
UKT 4½ 07/34	3.994	+0.056

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

Source: Bloomberg

## Euro area

### German GDP contraction in Q2 led by sharp decline in investment and softer household spending

As expected, today's German national accounts confirmed that GDP contracted slightly in Q2 to be, once again, the worst performing of the larger euro area member states. Indeed, the drop of 0.1%Q/Q left the level of economic output on a calendar-adjusted basis unchanged from a year ago and just 0.2% above the pre-pandemic benchmark in Q419. Today's expenditure breakdown, which was published for the first time, confirmed that the weakness was principally driven by fixed investment, which recorded the steepest quarterly decline (-2.2%Q/Q) in eleven quarters and knocked 0.4ppt off GDP. Indeed, the 4.1%Q/Q drop in spending on machinery and equipment took it to the lowest level for four years, while the 2.0%Q/Q decline in construction investment more than offset the weather-assisted boost at the start of the year to take it to its lowest since Q113. But household consumption also fell for the first quarter in five (-0.2%Q/Q) as the increase in real disposable incomes was used to boost savings rather than spending. Perhaps fortuitously, this was offset by the strongest increase in government spending (1.0%Q/Q) in three quarters. But with net trade providing a modest drag (-0.1ppt) as exports fell for the fifth quarter out of the past six, the contraction in German GDP in Q2 was largely limited by a solid contribution from inventories (0.3ppt).

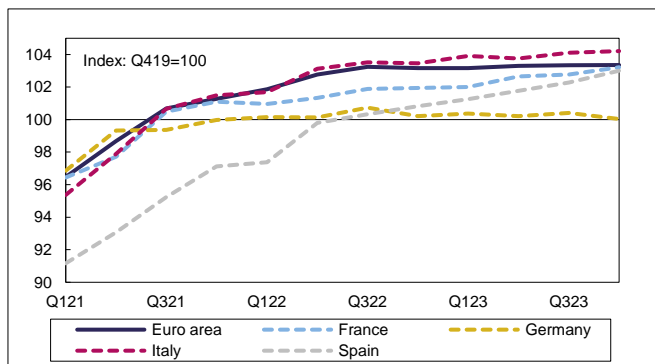
### Consumer confidence slips to four-month low amid a deterioration in income expectations

While the Bundesbank expects economic activity this quarter to be supported by a pickup in household spending amid a significant increase in real incomes, it also acknowledged that Germany's economy continues to face headwinds, not least given that consumer caution has proved more persistent than it previously assumed. Certainly, today's GfK consumer confidence survey flagged a disappointing deterioration in sentiment, with the headline balance – presented as a forecast for September – declining 3.4pts to a four-month low of -22.0. Admittedly, this was down from August's 2½-year high and therefore left the quarterly average in Q3 some 3.4pts above the Q2 level. Within the detail, today's survey signalled a notable deterioration in income expectations – with the monthly drop in the respective index the largest since September 2022 just ahead of the peak in the current inflation cycle – as uncertainties about job security weighed. Against this backdrop, households' willingness to make major purchases unsurprisingly moderated slightly from July's 2½-year high and remained well below the long-run average, suggesting still very subdued spending on goods.

### German ifo suggests firms most downbeat about current situation in four years

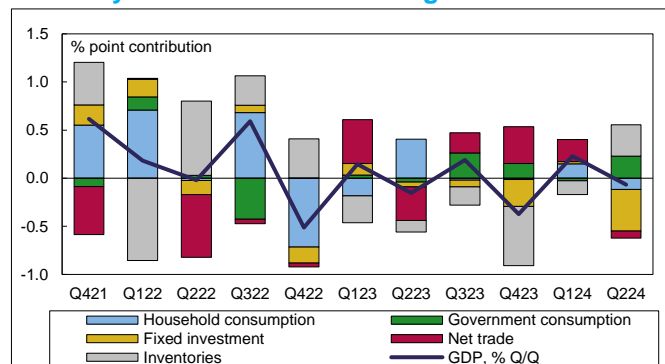
Like last week's [flash PMIs](#), the German ifo business survey was similarly discouraging, with sentiment maintaining a steady downtrend and pointing to a further loss of growth momentum in the middle of Q3. In particular, the headline business

### Euro area: GDP levels in selected member states



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: Contributions to GDP growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

climate index fell for a fourth consecutive month in August, by 0.4pt to 86.6, a six-month low and almost 10% below the long-run average. Firms judged current conditions to have worsened again in August to be the most downbeat since the global financial crisis when excluding the initial pandemic period. And expectations with respect to the coming six months were the weakest in six months. Consistent with the PMIs, manufacturers were the most pessimistic about the current business situation in four years, with order backlogs the lowest since 2010 (excluding the initial pandemic slump). And the situation remained particularly challenging for investment goods, suggesting little improvement in the capex outlook over the near term. Given a notable weakening in overseas demand, manufacturers were the most pessimist about expectations for the coming six months since February. Although the deterioration in services sentiment was less marked, expectations for the near-term outlook were also the weakest since February. And while retailers were somewhat less downbeat, construction firms considered conditions to remain challenging. Overall, the latest surveys suggest that risks to the near-term outlook remain firmly skewed to the downside, with German growth certain to remain below potential and a non-negligible risk that the economy will fail to grow for yet another quarter in Q3.

**The day ahead in the euro area**

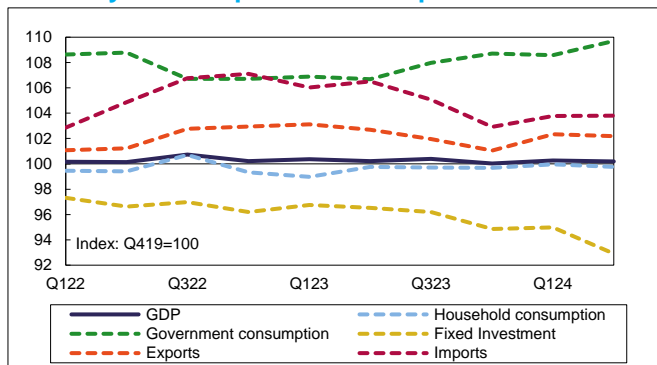
Wednesday will bring the release of the ECB’s monetary data for July, which should underscore that lending to businesses and households remained subdued amid relatively tight credit conditions and soft demand. The French INSEE consumer confidence survey is also due. In contrast to the deterioration in Germany, French consumers are expected to be the most upbeat since February 2022 – albeit the headline index will remain some 8% below the long-run average – perhaps supported by a feel-good factor from the Paris Olympics. Political noise, however, poses a downside risk.

**UK**

**BRC survey signals deflation on the high street in August**

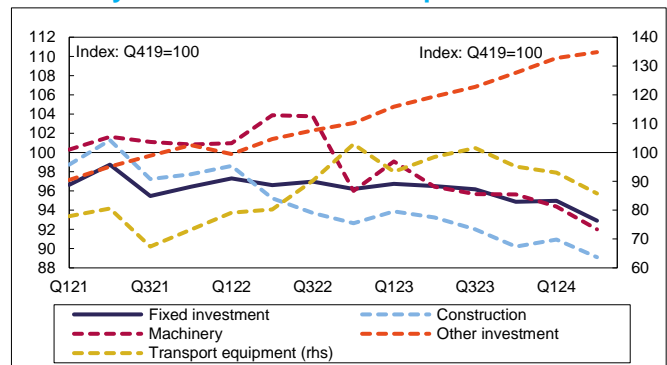
According to the British Retail Consortium (BRC), UK shop prices were in deflationary territory in August, dropping 0.3%Y/Y, the most in three years. The negative print reflected non-food prices, which reportedly declined for the fifth month out of the past six to be down on the survey measure by 1.5%Y/Y, the most since July 2021. According to the BRC, retailers again resorted to heavy discounting to shift seasonal stock, particularly for clothing, footwear and certain household goods, following a summer of erratic weather. Prices of furniture, however, rose on the month for the first time in six months. Meanwhile, the BRC measure of food inflation moderated to 2.0%Y/Y, the softest since November 2021, as prices of fresh items dropped 0.4%M/M, the most since 2020. Inevitably, the BRC figures in July differ somewhat from their equivalent CPI measures. But today’s survey suggests that the CPI components for core goods (0.1%Y/Y in July) and food (1.4%Y/Y in

**Germany: GDP expenditure components**



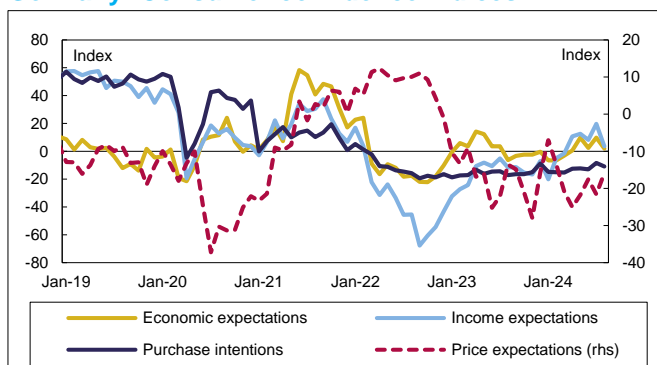
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Germany: Fixed investment components**



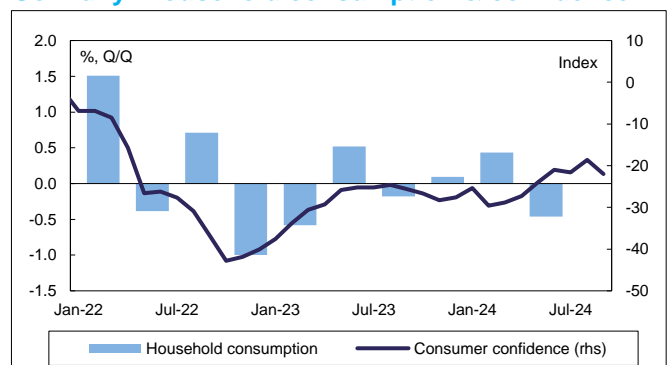
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Germany: Consumer confidence indices**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

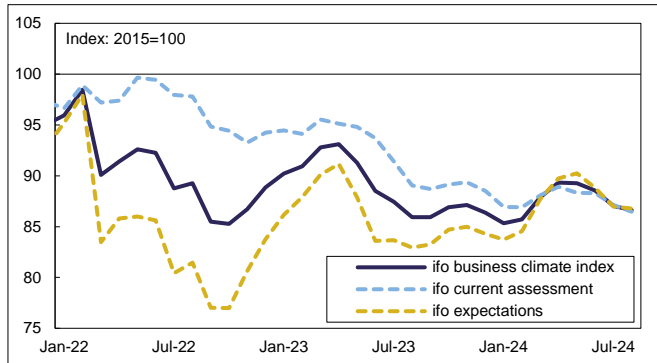
**Germany: Household consumption & confidence**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

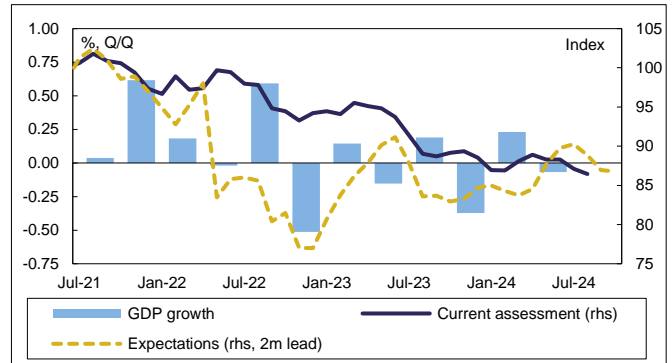
July) should remain well-behaved in August, and indeed into the autumn, reflecting relatively diminished costs faced by suppliers, intense competition and still sub-par demand.

**Germany: ifo business sentiment indices**



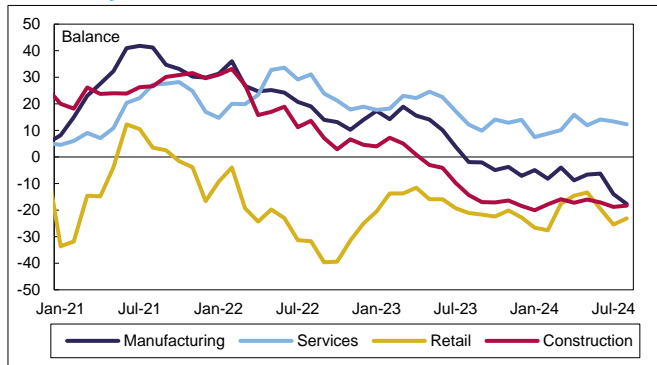
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Germany: GDP growth & ifo business sentiment**



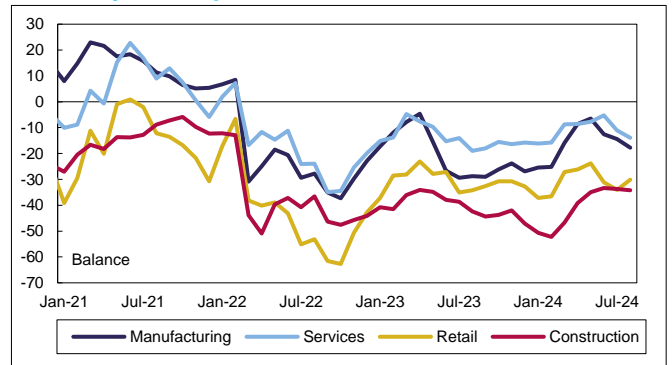
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Germany: ifo current situations indices**



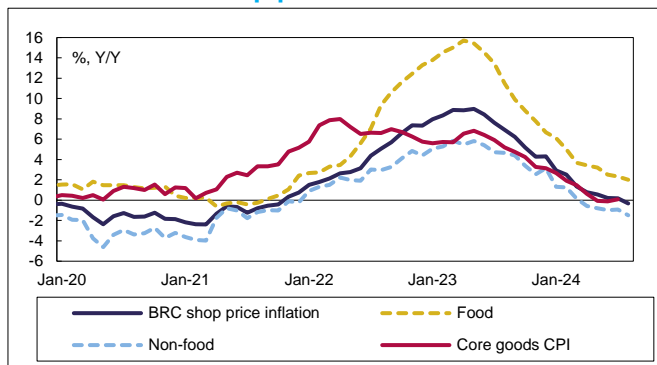
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**Germany: ifo expectations indices**



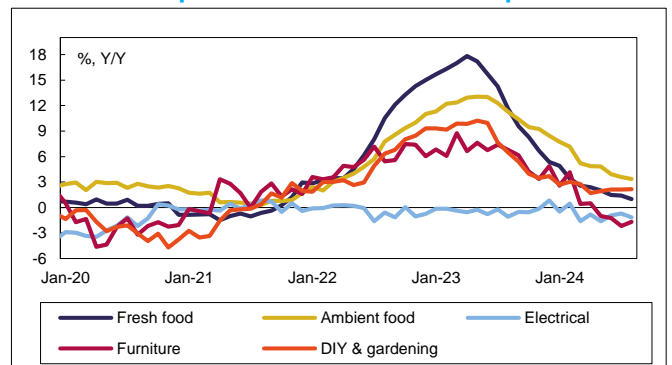
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK: CPI & BRC shop price inflation**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

**UK: BRC shop inflation – selected components**



Source: Macrobond and Daiwa Capital Markets Europe Ltd.




**The day ahead in the UK**

It should be a relatively quiet day with no top-tier UK economic data scheduled for release.



## European calendar

### Today's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 GDP – final estimate Q/Q% (Y/Y%)	Q2	<b>-0.1 (0.0)</b>	<u>-0.1 (-0.1)</u>	0.3 (-0.1)	-
	 GfK consumer confidence indicator	Sep	<b>-22.0</b>	-18.2	-18.4	-18.6
UK	 BRC shop price index Y/Y%	Aug	<b>-0.3</b>	-	0.2	-




#### Auctions

Country	Auction
Germany	 sold €3.352bn of 2.5% 2029 bonds at an average yield of 2.17%
Italy	 sold €2.5n of 3.1% 2026 bonds at an average yield of 2.89%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Monday's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Ifo business climate indicator	Aug	<b>86.6</b>	86.0	87.0	-
	 Ifo current assessment (expectations) indicator	Aug	<b>86.5 (86.8)</b>	86.5 (85.8)	87.1 (86.9)	-(87.0)
Spain	 PPI Y/Y%	Jul	<b>-1.4</b>	-	-3.5	-3.2



#### 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
Euro area	 09.00	M3 money supply Y/Y%	Jul	2.7	2.2
France	 07.45	INSEE consumer confidence indicator	Aug	92	91

#### Auctions and events

UK	 10.00	Auction: to sell £1.5bn of 0.75% 2033 inflation-linked bonds
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Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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