

# Euro wrap-up

## Overview

- While French consumer confidence improved, Bunds made gains as euro area bank lending remained subdued and a survey suggested that German firms are increasingly looking to cut headcount.
- Gilts were little changed on a quiet day for UK economic news.
- Thursday will bring the August flash estimates of inflation in Germany and Spain as well as the Commission's Economic Sentiment Indices for the same month.

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### Daily bond market movements

| Bond          | Yield | Change |
|---------------|-------|--------|
| BKO 2.7 09/26 | 2.371 | -0.023 |
| OBL 2½ 10/29  | 2.153 | -0.027 |
| DBR 2.6 08/34 | 2.252 | -0.034 |
| UKT 4½ 01/27  | 4.106 | +0.003 |
| UKT 4½ 07/29  | 3.907 | -0.001 |
| UKT 4½ 07/34  | 3.998 | +0.002 |

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

Source: Bloomberg

## Euro area

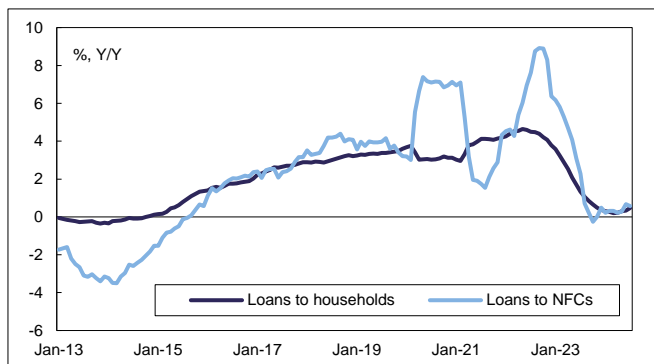
### Bank lending remains subdued to reinforce case for gradual rate cuts

In his speech at Jackson Hole, ECB Chief Economist Lane was less dovish than Fed Chair Powell, arguing that the return of inflation to target "is not yet secure". But he also cautioned against keeping rates too high for too long, recognising that "would deliver chronically below-target inflation over the medium term" and increase the hit on output and jobs. Taking stock of the monetary transmission mechanism, he acknowledged that the ECB's policy tightening had had a greater effect on bank lending than the Fed's and also a greater effect than its models had predicted. Despite the ECB's rate cut in June and slight decline in lending interest rates from their recent peak, loan growth remained highly subdued in July. On an adjusted basis, bank lending to non-financial corporations (NFCs) fell in July for the first month in three, with the flow negative on an unadjusted basis for shorter- and longer-term loans alike. As a result, the annual growth rate in the stock of loans to NFCs slowed slightly to just 0.6%Y/Y, some 3ppts below the average in the 15 years before the pandemic and still firmly in negative real-terms territory. While positive on the month, the net flow of lending to households remained extremely sluggish too, with the annual growth rate up merely to 0.5%Y/Y, similarly well below the long-run average. Consumer credit was up 3.0%Y/Y but loans for house purchase rose just 0.5%Y/Y and the stock of other loans to households remained in reverse at -2.6%Y/Y. With surveys suggesting that credit standards remain tight and loan demand remains weak, and M3 broad money growth similarly well below the long-run average at just 2.3%Y/Y in July, developments in the banking sector strengthen the case for continued monetary easing as the risks of inflation persistence continue gradually to subside.

### French consumer confidence continues to edge higher despite persisting unemployment fears

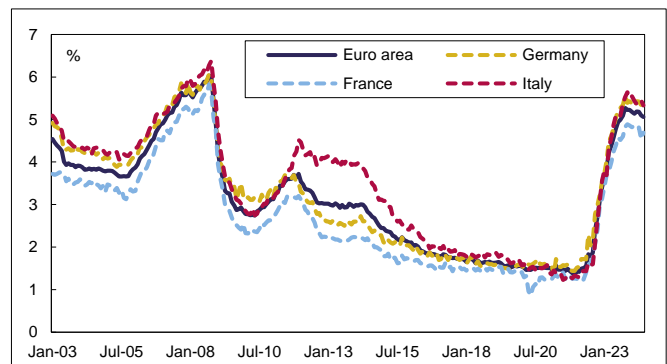
In contrast to Germany, where yesterday's GfK survey reported a deterioration in consumer confidence to a four-month low, households in France are gradually becoming more optimistic. According to today's INSEE survey results, French consumer confidence rose for the second successive month in August to 92, the highest level since Russia's invasion of Ukraine albeit a still substantive 8% below the long-run average. The survey detail reported modest improvements in households' expectations for economic conditions and their own personal finances, in part reflecting falling inflation expectations. As such, the climate for making major purchases was also judged to have improved slightly to the best since May 2022, albeit still well below the long-run average. Concerns about unemployment remained unchanged at a three-year high. Notwithstanding those labour market-related fears, the improvement in consumer confidence tallies with the pickup in business sentiment reported by the equivalent INSEE survey last week to suggest that French GDP continued to expand moderately in Q3. However, weighed not least by the deterioration in Germany, the Commission's flash consumer confidence index for the region fell for the first time in seven months in August, and that decline will likely be confirmed in the final estimate due tomorrow.

### Euro area: Loans to NFCs & households



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### Euro area: Interest rate on loans to NFCs\*



\*Composite cost of borrowing. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## German jobs climate deteriorates to softest in 2½ years

Tallying with the deterioration in German business sentiment to a four-year low in August reported by the headline ifo indices, today's ifo employment barometer suggested that firms in the euro area's largest member states are looking to cut headcount by the most since February 2021. In particular, the headline employment index fell for a third successive month to 94.8, about 3% below the long-run average. Consistent with broader sentiment at the sectoral level, labour market conditions have weakened most acutely in manufacturing and retailing (including the motor trade), where the respective employment indices fell to the lowest levels since September 2020 and February 2021 against the backdrop of persistently soft demand. Despite weakness in certain subsectors such as warehousing, transportation and hospitality, however, on balance hiring intentions remained marginally positive in services, not least thanks to optimism in IT and tourism. And construction firms looked to keep headcount broadly stable despite the low level of activity in the sector. Overall, however, the steady softening of German labour market conditions suggests that the ECB hawks' concerns about inflation persistence related to wages are no longer valid.

## The day ahead in the euro area

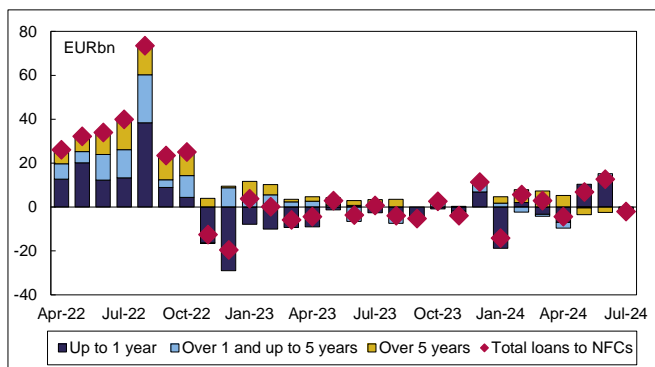
Ahead of Friday's euro area figures, Thursday will bring the flash inflation data for August from Germany and Spain. Due in particular to a large base effect associated with fuel prices, which rose sharply in this month last year but likely declined significantly this year, headline inflation should decline in both countries. On the EU-harmonised HICP measure, German inflation is expected to drop 0.4ppt to 2.2%Y/Y, which would be the lowest since June 2021. Spanish inflation is expected to fall by the same amount to a 12-month low of 2.5%Y/Y. But the declines in core inflation are likely to be more modest. Separately, the Commission economic sentiment indices for August will provide a cross-check on last week's flash PMIs, which suggested a modest pickup in growth momentum this month thanks principally to an improvement in French services. In part reflecting the deterioration in Germany, the Commission's industry confidence indicator is expected to drop to the lowest level since the first wave of Covid-19. But services sentiment should be steady.

## UK

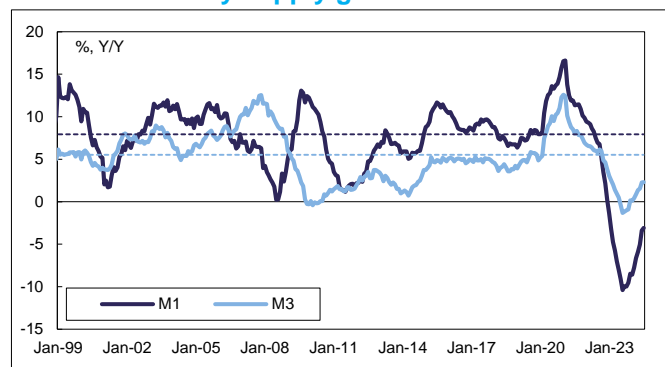
### The day ahead in the UK

Like today, Thursday will bring no top-tier economic data from the UK.

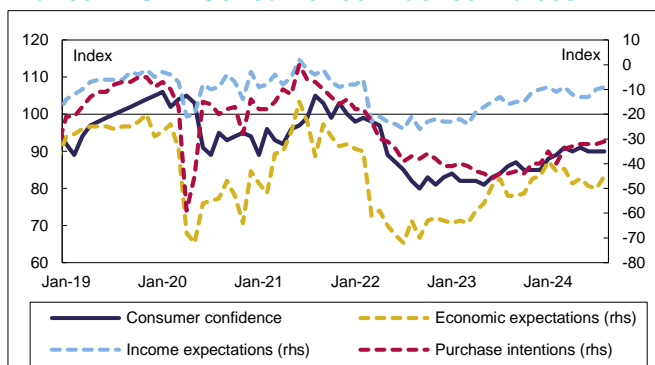
### Euro area: Net new loans to NFCs



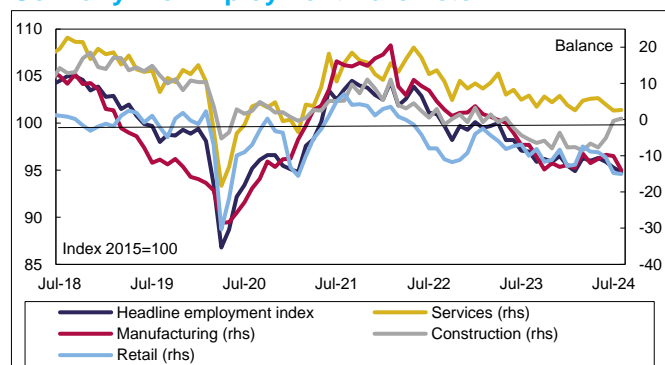
### Euro area: Money supply growth\*



### France: INSEE Consumer confidence indices





### Germany: ifo Employment Barometer




## European calendar

### Today's results

#### Economic data

| Country   | Release                             | Period | Actual | Market consensus/<br><i>Daiwa forecast</i> | Previous | Revised |
|---|-------------------------------------|--------|--------|--|----------|---------|
| Euro area  | M3 money supply Y/Y%                | Jul    | 2.3    | 2.7  | 2.2      | 2.3     |
| France     | INSEE consumer confidence indicator | Aug    | 92     | 92   | 91       | -       |







#### Auctions

| Country  | Auction  |
|--|--|
| UK  | sold £1.5bn of 0.75% 2033 inflation-linked bonds at an average yield of 0.462% |





Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tomorrow's releases

#### Economic data

| Country   | BST   | Release   | Period | Market consensus/<br><i>Daiwa forecast</i> | Previous    |
|---|-------|---|--------|--|-------------|
| Euro area  | 05.00 | New car registrations Y/Y%                            | Jul    | -  | 2.8         |
|            | 10.00 | Commission Economic Sentiment indicator               | Aug    | 95.8                                       | 95.8        |
|           | 10.00 | Commission industrial (services) confidence indicator | Aug    | -10.8 (5.2)                                | -10.5 (4.8) |
|          | 10.00 | Final Commission consumer confidence indicator        | Aug    | -13.4                                      | -13.0       |
| Germany  | 13.00 | Preliminary HICP (CPI) Y/Y%                           | Aug    | 2.2 (2.1)                                  | 2.6 (2.3)   |
| Spain    | 08.00 | Preliminary HICP (CPI) Y/Y%                           | Aug    | 2.5 (2.4)                                  | 2.9 (2.8)   |

#### Auctions and events

|   |       |  |  |  |  |
|---|-------|--|--|--|--|
| Euro area  | 10.15 | ECB Chief Economist Lane speaks on panel at CEBRA conference, Frankfurt. |  |  |  |
| Italy      | 10.00 | Auction: to sell up to €4.5bn of 3% 2029 bonds                           |  |  |  |
|            | 10.00 | Auction: to sell up to €1.5bn of 2032 floating bonds                     |  |  |  |
|            | 10.00 | Auction: to sell up to €3.25bn of 3.85% 2035 bonds                       |  |  |  |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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