

Euro wrap-up

Overview

- Bunds made losses as euro area consumer confidence rose to a 2½-year high and French business sentiment also improved.
- Despite a significant deterioration in UK consumer confidence, Gilts also followed the global trend lower as retail sales grew above expectations.
- The coming week will bring the September flash PMIs as well as the first estimates of French and Spanish inflation in the same month.

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Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.246	+0.031
OBL 2½ 10/29	2.080	+0.030
DBR 2.6 08/34	2.216	+0.021
UKT 4½ 01/27	3.923	+0.008
UKT 4½ 07/29	3.746	+0.005
UKT 4½ 07/34	3.911	+0.021

*Change from close as at 4:00pm BST.
Source: Bloomberg

Euro area

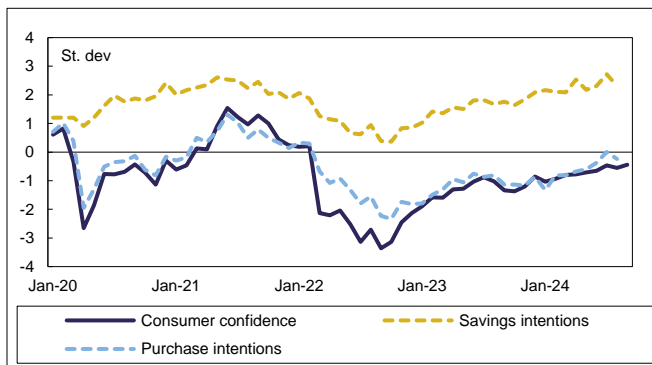
Consumer confidence unexpectedly rises to 2½-year high at end-Q3

Given the recent strength of wage growth, the 0.1%Q/Q drop in euro area private consumption in Q2 was particularly disappointing. More recently, retail sales were sluggish at the start of Q3, edging up marginally on the month in July to be trending below the Q2 average. And given a notable decline in August, new car registrations are on track this quarter for a fourth successive quarterly decline on an adjusted basis. But, having deteriorated in August for the first time in seven months, today's flash Commission estimate of euro area consumer confidence in September rose 0.5pt to -12.9, the highest since Russia's invasion of Ukraine in spring 2022. This left the quarterly index in Q3 more than 1pt above the Q2 average, but nevertheless still below the long-run average. While no survey detail is published with this preliminary figure, we expect the final estimates due in a week's time to suggest an improvement in income expectations, but also to show that savings intentions remain close to July's series high and major purchase intentions remain very subdued. And while growth in spending on services should have offset some of the weakness in spending on goods, that would all still point to the likelihood of another underwhelming quarter for private consumption in Q3.

French business climate firms in September but Olympic payback implies GDP weakness in Q4

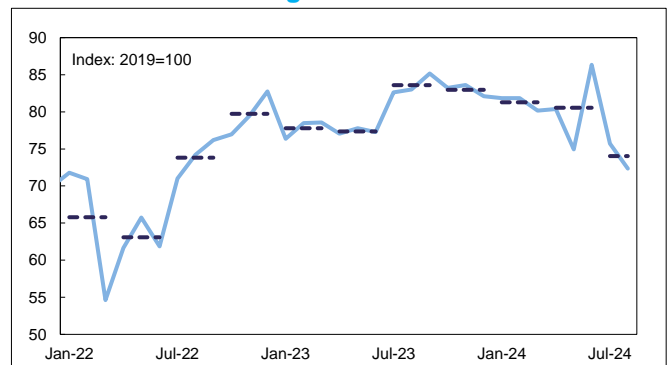
Ahead of the flash September PMIs on Monday, today's INSEE survey results suggested that French economic sentiment continued to improve in September having deteriorated significantly in July. The headline INSEE business climate index rose for the second successive month to a three-month high of 98, still nevertheless 2% below the long-run average. Perhaps surprisingly, the improvement was led by retailers (including car dealers) who were the most upbeat in four months and for whom confidence rose back to the long-run average. Wholesalers were also a touch more upbeat while services were stable, but sentiment in both groups still lagged the long-run average. Constructors were slightly more downbeat, however, and sentiment in manufacturing deteriorated following a bounce in August as a notable weakening in external demand pushed orders back down close to the bottom of the range of the past four years. Overall, the INSEE survey points to a further quarter of French GDP growth in Q3 around the 0.3%Q/Q rate of the previous two quarters. Given extra activity related to the Olympics and Paralympics, which the Bank of France estimates could have added 0.25ppt, the risks to GDP growth this quarter might be skewed to the upside. However, with the performance enhancement provided by those events to be ephemeral, over the near term we should expect temporary adverse payback. Indeed, GDP growth in Q4 might well slow to zero or briefly slip into negative territory before an expansion trend resumes in Q1.

Euro area: Consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: New car registrations*



*Dashed dark blue lines represent quarterly average. Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the euro area

In a busy week for euro area economic releases, arguably the most notable will be the flash September PMIs (Monday) and Commission economic sentiment survey (Friday), which will provide an update on economic momentum at the end of Q3. The euro area PMIs unexpectedly improved in August – the composite output index rose 0.8pt to a three-month high of 51.0 – due to a significant Olympics-related surge in the French services PMI, which jumped to the highest for more than two years. With the much larger INSEE business survey implying a more measured improvement in conditions over the summer, we would expect some payback in the French PMIs this month. And with conditions still extremely challenging in Germany, the aggregate euro area composite PMI might well point to renewed stagnation at the end of Q3. While the Commission's headline economic sentiment indicator is expected to move broadly sideways at August's eight-month high (96.6), this would still remain some 3½% below the long-run average. Germany's ifo (Tuesday) and Italy's ISTAT indices (Thursday) will provide further insights.

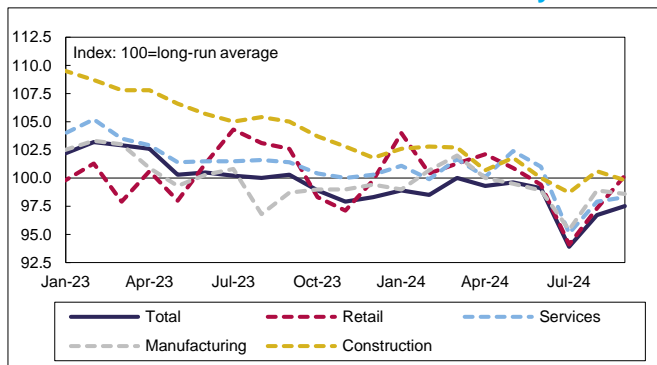
The Commission survey will also provide an update on firms' selling price expectations, which might suggest some renewed downwards pressure in services after ticking slightly higher in August. Given the further decline in petrol prices this month, consumer price expectations might also have resumed a downwards trend. The ECB's consumer survey (due Friday) will also provide an update on households' medium-term inflation expectations in August. But of more relevance to the near-term monetary policy outlook will be the flash September inflation estimates from France and Spain on Friday, which are likely to report a further notable step down this month due not least to base effects in the energy components. Indeed, the French HICP rate is forecast to drop 0.3ppt to 1.9%Y/Y, the lowest since July 2021, with services inflation also expected to reverse some of the Olympics-related boost in August. Meanwhile, Spain's HICP rate is expected to drop more than ½ppt to 1.8%Y/Y, which would be the softest since June 2023. Other notable releases due in the coming week include the ECB's monetary figures for September (Thursday), German labour market data (Friday) and updated national accounts numbers from Italy and Spain.

UK

Retail sales boosted by warmer weather and seasonal discounting

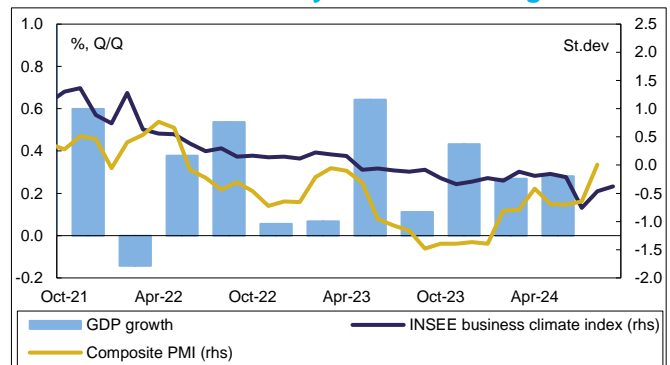
Today's UK retail sales figures beat expectations as warmer weather, seasonal discounting and rising household disposable income seemingly boosted spending on goods over the summer. In particular, the increase in sales volumes in August of 1.0%M/M was double the Bloomberg survey forecast and followed upwardly revised growth in July of 0.7%M/M. This left

France: INSEE business climate indices by sector



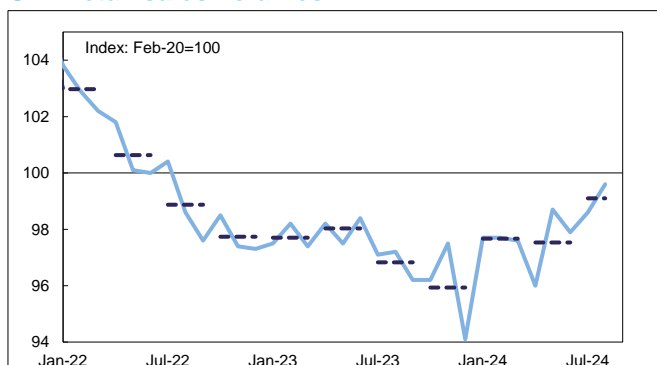
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Business survey indices & GDP growth



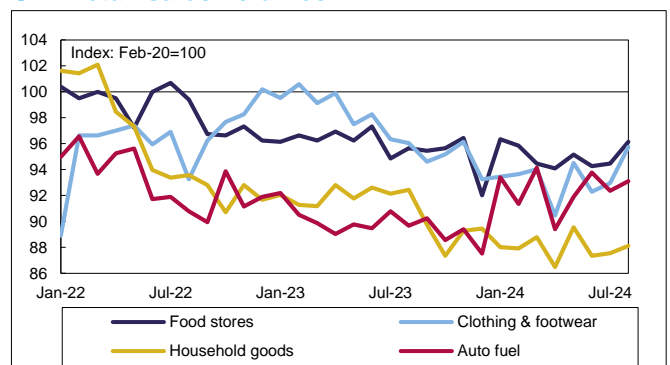
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes*



*Dashed dark blue lines represent quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

sales at their highest level since July 2022 and up 2.5%Y/Y, the strongest annual growth rate since February 2022. Moreover, sales were trending so far in Q3 some 1.6% above the Q2 average, suggesting that retailers will once again provide a non-negligible contribution to GDP growth in the current quarter. Within the detail, spending at food stores (1.8%M/M) rose for a second successive month to a seven-month high resulting in the strongest annual growth rate since the summer of 2021. Auto fuel sales (0.8%M/M) were given a boost by lower petrol prices, a trend that should continue into September. Meanwhile, clothing sales were the strongest category in August (2.9%M/M), rising to the highest level in nine months, which retailers attributed to the warmer weather and end of season sales. A pickup in spending at garden centres, DIY stores, and on sports equipment and jewellery also helped to offset an ongoing downtrend in furniture store sales.

Consumer confidence deteriorates most in eleven months to flag downside risks to the outlook

While retail sales have had a stronger third quarter, the prospects for Q4 look less rosy. According to today's GfK survey results, consumer confidence weakened in September by the most in eleven months to a six-month low (-20) some way below the long-run average. The detail of the survey suggested that households have become markedly more downbeat about the future, with significant negative adjustments to perceptions of the outlook for the economy, incomes and climate for making major purchases. At the same time, while still historically high, savings intentions were downgraded too. The broad-based deterioration in sentiment chimes with increasing concerns about the extent and precise nature of tax hikes and cuts to certain categories of public spending to come in the Government's Budget announcement on 30 October. The Government's relentlessly negative messaging, seeking to condition expectations ahead of that announcement, have reinforced fears about what might be in store at the end of next month. Despite rising household real incomes, the GfK survey results highlight how that downbeat political narrative risks snuffing out consumer willingness to spend while business capex plans might also be placed on ice despite expectations of further rate cuts to come.

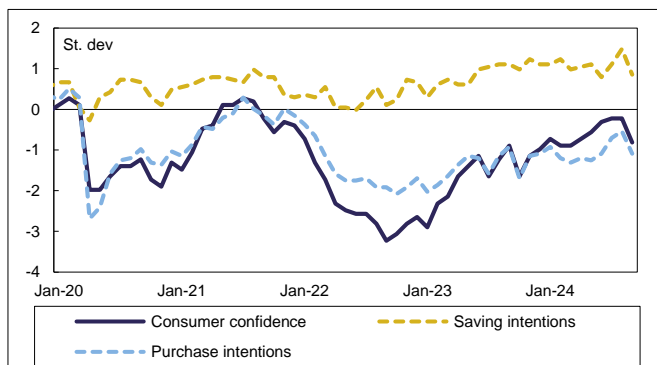
Public borrowing overshoots OBR projection path but case for tightening overblown

Today's public finances data for August showed that net borrowing in the first five months of the current fiscal year reached £64.1bn. That was only marginally above the level in the same period last year but £6.2bn above the path consistent with the OBR's March forecast due principally to higher public spending than previously planned. While the last fiscal year's target was also exceeded and the plans for current public expenditure inherited from the last Conservative government were unrealistically low, such an overshoot need not merit significant fiscal tightening in the forthcoming Budget. Some taxes will indeed be raised next month to fund higher current spending over the horizon. But the Government has scope to relax its public debt objective, in part via amending the accounting treatment of QE-related losses, to allow for higher public borrowing over the horizon and thus facilitate the increase in public investment that many Labour voters in May's election will have been anticipating and that an improved outlook for productivity and economic growth will in part rely upon.

The week ahead in the UK

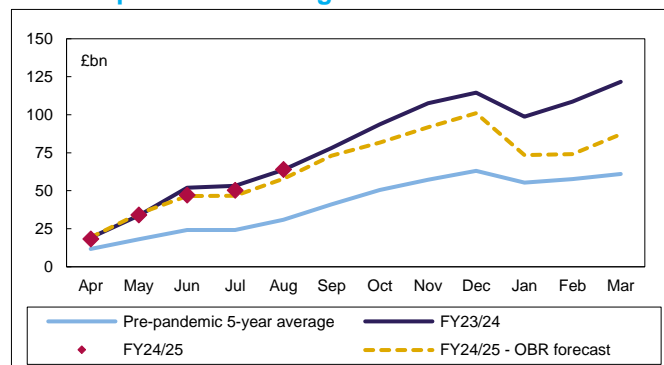
Like in the euro area, the flash September PMIs will represent the key UK economic data release in the coming week. Having slipped back at the end of Q2, the composite PMI in August signalled renewed acceleration in economic recovery momentum in the middle of Q3, rising to a four-month high of 53.8 and close to the long-run average. The pickup was led by services activity (53.7), while the manufacturing output index (54.4) remained close to July's 2½-year high. The PMIs are expected to move broadly sideways at the end of Q3, to be consistent with GDP growth around 0.3%Q/Q. The price PMIs will also be in focus. A further notable moderation in services input costs in August and softer wage growth in July should push the index for services output inflation to the lowest since the start of 2021. And with shipping freight costs having fallen significantly over recent weeks, factory input cost pressures will also likely have moderated, with the output price index similarly remaining below the long-run average. In addition to the CBI's industrial trends survey (also due Monday), its distributive trade survey (Friday) will offer insights into retailing conditions at the end of Q3.

UK: Consumer confidence












Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Net public borrowing*







*Excluding banks. Source: OBR, Macrobond and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

	2024			2025			2023	2024	2025
	Q2	Q3	Q4	Q1	Q2	Q3			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.2	0.2	0.2	0.3	0.3	0.3	0.5	0.7	1.1
UK 	0.6	0.3	0.3	0.3	0.3	0.4	0.1	1.1	1.3
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.5	2.2	2.4	2.2	1.8	1.7	5.4	2.4	1.9
Core HICP 	2.8	2.9	3.1	2.7	1.9	1.3	4.9	3.0	1.9
UK									
Headline CPI 	2.1	2.1	2.6	2.5	2.0	2.2	7.3	2.6	2.2
Core CPI 	3.6	3.4	3.5	3.3	2.2	2.0	6.2	3.8	2.4
Monetary policy, %									
ECB									
Deposit Rate 	3.75	3.50	3.25	2.75	2.50	2.25	4.00	3.25	2.25
Refi Rate 	4.25	3.65	3.40	2.90	2.65	2.40	4.50	3.40	2.40
BoE									
Bank Rate 	5.25	5.00	4.50	4.00	3.50	3.00	5.25	4.50	3.00

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.













European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised	
Euro area 	Preliminary Commission consumer confidence indicator	Sep	-12.9	-13.2	-13.5	-13.4	
Germany 	PPI Y/Y%	Aug	-0.8	-1.0	-0.8	-	
France 	INSEE business (manufacturing) confidence indicator	Sep	98 (99)	98 (99)	97 (99)	-	
	Retail sales Y/Y%	Aug	0.2	-	-0.5	-0.8	
UK 	GfK consumer confidence indicator	Sep	-20	-13	-13	-	
	Retail sales – including auto fuel M/M% (Y/Y%)	Aug	1.0 (2.5)	0.4 (1.3)	0.5 (1.4)	0.7 (1.5)	
	Retail sales – excluding auto fuel M/M% (Y/Y%)	Aug	1.1 (2.3)	0.5 (1.1)	0.7 (1.4)	1.0	
	Public sector net borrowing £bn	Aug	13.7	12.6	3.1	-	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.









The coming week's data calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa</i> <i>forecast/actual</i>	Previous	
Monday 23 September 2024						
Euro area		09.00	Preliminary manufacturing (services) PMI	Sep	45.7 (52.3)	45.8 (52.9)
		09.00	Preliminary composite PMI	Sep	50.5	51.0
Germany		08.30	Preliminary manufacturing (services) PMI	Sep	42.2 (51.0)	42.4 (51.2)
		08.30	Preliminary composite PMI	Sep	48.2	48.4
France		08.15	Preliminary manufacturing (services) PMI	Sep	44.3 (53.2)	43.9 (55.0)
		08.15	Preliminary composite PMI	Sep	52.0	53.1
UK		09.30	Preliminary manufacturing (services) PMI	Sep	52.2 (53.5)	52.5 (53.7)
		09.30	Preliminary composite PMI	Sep	53.5	53.8
		11.00	CBI industrial trends survey – total orders (selling price) balance %	Sep	-23 (-)	-22 (15)
Tuesday 24 September 2024						
Germany		09.00	Ifo business climate indicator	Sep	86.0	86.6
		09.00	Ifo current assessment (expectations) indicator	Sep	86.1 (86.5)	86.5 (86.8)
Wednesday 25 September 2024						
France		07.45	INSEE consumer confidence indicator	Sep	92	92
Spain		08.00	PPI Y/Y%	Aug	-	-1.4
Thursday 26 September 2024						
Euro area		09.00	M3 money supply Y/Y%	Aug	2.5	2.3
Germany		07.00	GfK consumer confidence indicator	Oct	-22.5	-22.0
Italy		09.00	ISTAT consumer confidence indicator	Sep	97.0	96.1
		09.00	ISTAT business (manufacturing) confidence indicator	Sep	- (87.2)	94.7 (87.1)
Spain		08.00	Retail sales Y/Y%	Aug	-	1.0
Friday 27 September 2024						
Euro area		09.00	ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Aug	2.7 (2.3)	2.8 (2.4)
		10.00	Commission economic sentiment indicator	Sep	96.5	96.6
		10.00	Commission industrial (services) confidence indicator	Sep	-9.9 (6.2)	-9.7 (6.3)
		10.00	Final Commission consumer confidence indicator	Sep	<u>-12.9</u>	-13.5
Germany		08.55	Unemployment rate % (change 000s)	Sep	6.0 (12.0)	6.0 (2.0)
France		07.45	Preliminary HICP (CPI) Y/Y%	Sep	1.9 (1.6)	2.2 (1.8)
		07.45	PPI Y/Y%	Aug	-	-5.4
		07.45	Consumer spending M/M% (Y/Y%)	Aug	-	0.3 (-0.6)
Italy		10.00	PPI Y/Y%	Aug	-	-1.6
Spain		08.00	GDP – final estimate Q/Q% (Y/Y%)	Q2	<u>0.8 (2.9)</u>	0.8 (2.6)
		08.00	Preliminary HICP (CPI) Y/Y%	Sep	1.8 (1.9)	2.4 (2.3)
UK		11.00	CBI distributive trades survey – reported retail sales balance %	Sep	-	-27

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 23 September 2024		
Italy 	09.00	ISTAT to release revised GDP annual series 1995-2023
Tuesday 24 September 2024		
Germany 	10.30	Auction: to sell €4.5bn of 2.7% 2026 bonds
UK 	10.00	Auction: to sell £1.5bn of 0.75% 2033 inflation-linked bonds
Wednesday 25 September 2024		
Germany 	10.30	Auction: to sell €3bn of 2.4% 2030 bonds
Italy 	10.00	Auction: to sell inflation-linked bonds
UK 	10.00	Auction: to sell £3.75bn of 4% 2031 bonds
Thursday 26 September 2024		
Euro area 	09.00	ECB to publish Economic Bulletin
Friday 27 September 2024		
Italy 	10.00	Auction: to sell bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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