

Euro wrap-up

Overview

- Bunds made gains as flash inflation figures from France and Spain came in below expectations, while euro area economic confidence fell and German jobless claims rose to a near-four-year high.
- Gilts also made gains on a quiet day for UK economic news.
- The coming week brings the flash euro area inflation estimates for September, as well as updates on euro area unemployment and UK bank lending.

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Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.082	-0.039
OBL 2½ 10/29	1.962	-0.037
DBR 2.6 08/34	2.141	-0.037
UKT 4½ 01/27	3.946	-0.009
UKT 4½ 07/29	3.834	-0.013
UKT 4½ 07/34	3.989	-0.018

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

Euro area

French inflation falls sharply thanks to lower energy and services prices

Ahead of the euro area flash September inflation estimates – due 1 October – today's figures from some of the member states came in below expectations to leave no doubt that the region's headline HICP rate took a sizeable step down this month. In particular, French consumer prices on the EU-harmonised measure fell a hefty 1.2%M/M in September – the most since the series began – to push the annual HICP rate down 0.7ppt to 1.5%Y/Y, the lowest since July 2021. The national CPI rate was also the softest in 3½ years, down 0.4ppt to 1.6%Y/Y. As expected, the decline in part reflected lower energy costs, which fell for a sixth month out of the past seven (-1.9%M/M) and by the most in 14 months due to a sizeable drop in prices of petrol and heating oil. Benefiting also from a notable monthly increase this time last year, energy inflation dropped 3.8ppts to -3.3%Y/Y, the weakest since July 2023. Meanwhile, services prices fell 2.1%M/M, the most in any month since the series began in 1990. This in part reflected one-off effects related to the Olympics and Paralympic Games such as the reversal of the increase in fares on the Parisian transport network during this period, while healthcare prices also fell. So, services inflation fell 0.5ppt to 2.5%Y/Y, the lowest in 2½ years. And while prices of core goods rose on the month (0.4%M/M) due to clothing and footwear, the respective annual rate fell further into negative territory (-0.3%Y/Y) to the lowest since July 2021. As such, French core inflation likely more than reversed August's uptick to ease to its lowest level in more than three years.

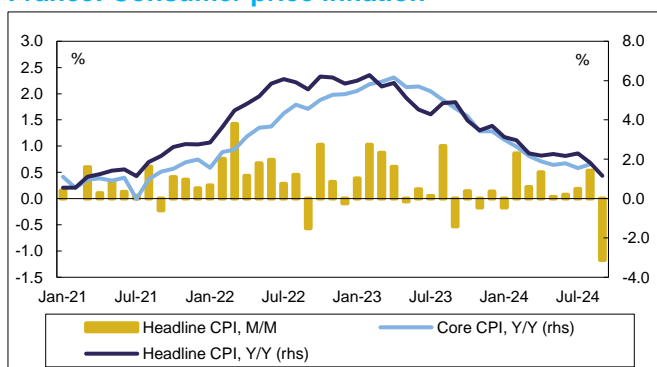
Spain inflation decline largely reflects energy, but core inflation also down to a 33-month low

Spain's flash inflation estimates also came in on the soft side, with the HICP rate declining 0.7ppt to a 15-month low of 1.7%Y/Y. On the national measure, consumer prices fell the most in two years (-0.6%M/M) taking the annual rate down 0.8ppt to 1.5%Y/Y, the lowest for 3½ years. The statistical office (INE) attributed the moderation to lower prices of fuel, electricity and food. But the national measure of core inflation (which in contrast to the HICP measure excludes only fresh foods and energy) also declined 0.3ppt to 2.4%Y/Y, the lowest since the start of 2022. So, while Belgian HICP inflation ticked slightly higher (up 0.2ppt to 4.5%Y/Y), and notwithstanding risks of upside surprises in Monday's German and Italian figures, today's data support our view that euro area headline inflation fell 0.4ppt to 1.8%Y/Y, which would be the first sub-target reading since June 2021. We suspect that the euro area core HICP rate also edged lower, albeit by a more modest 0.1ppt to a five-month low of 2.7%Y/Y, to strengthen the case for the ECB to cut rates again in October.

Well-anchored inflation expectations strengthen case for accelerated easing

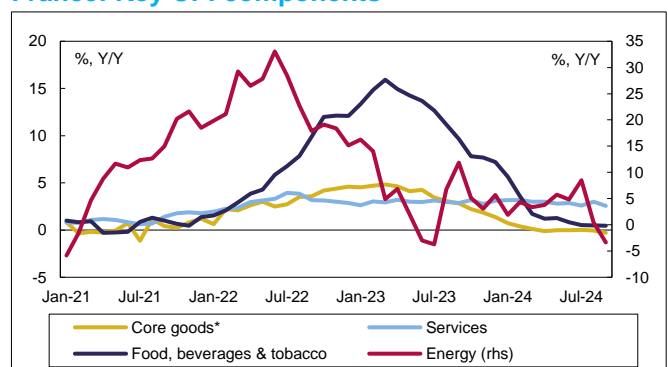
With headline inflation and fuel prices lower, consumer price expectations have continued to moderate. According to the Commission survey, the index of euro area consumer price expectations for the coming 12 months remained below the pre-

France: Consumer price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Key CPI components



*Non-energy industrial goods. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

pandemic average for the seventh successive month in September and eased to the lowest level so far this year. Moreover, the ECB consumer survey reported a further drop in household inflation expectations 12 months ahead to a three-year low of 2.7%Y/Y. And the equivalent three-year ahead measure remained well-anchored, edging back down to 2.3%Y/Y, the bottom of the range of the past 2½ years. Meanwhile, the Commission survey reported that firms' selling-price expectations for the coming three months eased in services and retail to the lowest levels since the first half of 2021. In addition, industry selling-price expectations for the coming three months were steady below the long-run average. Overall, therefore, inflation expectations appear sufficiently target-consistent to represent no obstacle to an accelerated pace of easing.

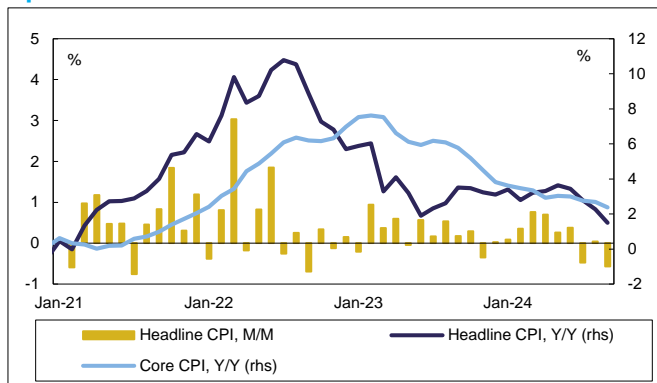
Consumer savings intentions at series high, industrial sector sentiment worst since Covid 1st wave

The bulk of the detail of the Commission survey was also consistent with accelerated rate cuts. The headline euro area Economic Sentiment Index (ESI) edged down slightly in September to 96.2, 3.8ppts below the long-run average. That left the Q3 average negligibly different from Q2, suggesting another quarter of sub-potential GDP growth of 0.2%Q/Q. At the sectoral level, the industry ESI dropped 1pt to -10.9, the worst since the first wave of the pandemic and the euro crisis before that. The retail ESI was also weaker on the month to conclude its worst quarter since the Covid lockdowns of Q121. And while the services ESI rose for the second successive month in September, that still left the Q3 average at its lowest so far this year. Admittedly, today's figures confirmed the unexpected improvement in consumer confidence to the highest level since Russia's invasion of Ukraine, which had been flagged in the flash release. However, the detail revealed a deterioration further below the long-run average in consumers' major purchase intentions as well as a rise in savings intentions to a series high. Among the member states, Germany again predictably stood out for weakness, with its ESI slipping back to a seven-month low. But while the French index also fell by more than 1ppt and the Italian index remained within the recent range, the Spanish ESI jumped almost 2ppts to a 2½-year high consistent with accelerated above-potential GDP growth this quarter.

Labour market sentiment softening as German jobless claims rise to highest in almost four years

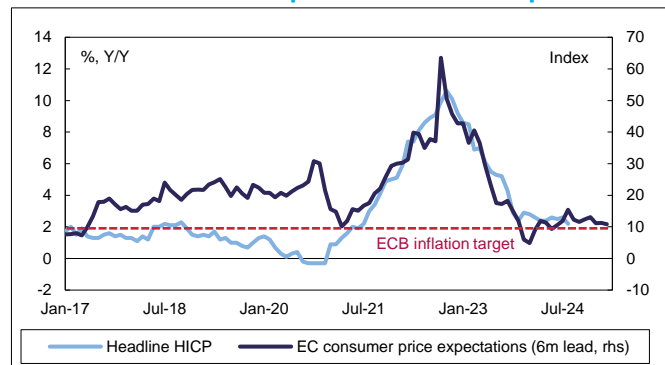
With economic sentiment subdued everywhere bar Spain, Portugal and Greece, the Commission survey also signalled a further softening of the euro area labour market in September. The region's employment expectations indicator remained below the long-run average for a fourth successive month. While firms in services and construction were still content to retain and recruit staff, firms in the industrial and retail sector signalled their desire to shed headcount by the most since the start of 2021 and late 2022 respectively. Consumers were the most concerned about unemployment in about two years. The signals from the labour market from firms and consumers alike were particularly downbeat from Germany, where employment fell in August by the most since January 2021 and data today revealed a bigger-than-expected rise in jobless claims in September of 17k to the highest level since October 2020. With the German economy seemingly back in recession, job vacancies

Spain: Headline & core inflation



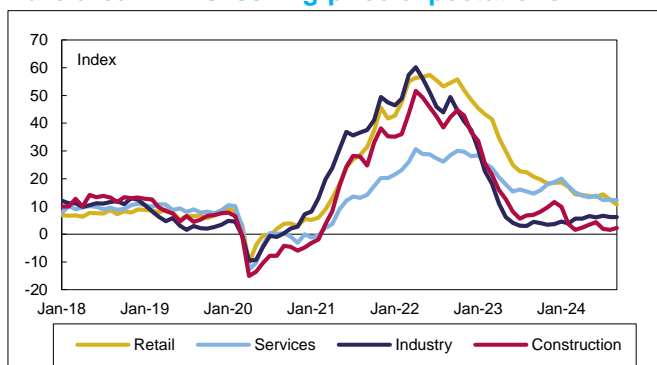
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer price inflation & expectations



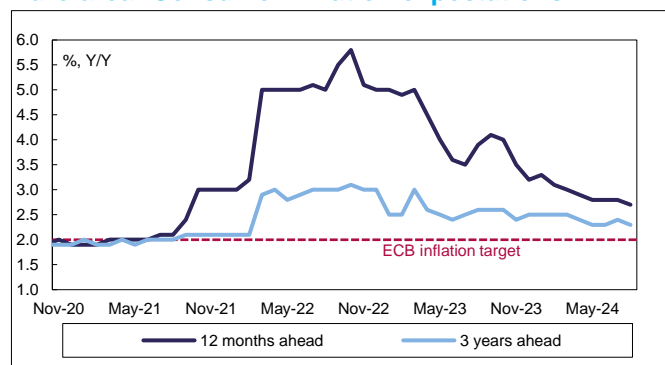
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Firms' selling-price expectations



Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer inflation expectations



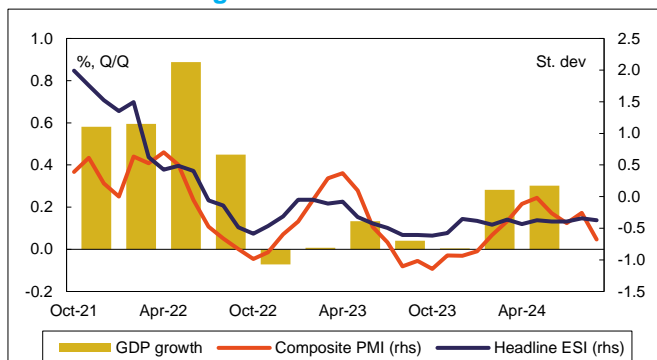
Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

maintained their downtrend. So, the claimant count rate seems likely to rise further by the end of the year from the current 3-year high of 6.0%, which is a full percentage point above its pre-pandemic level.

The week ahead in the euro area

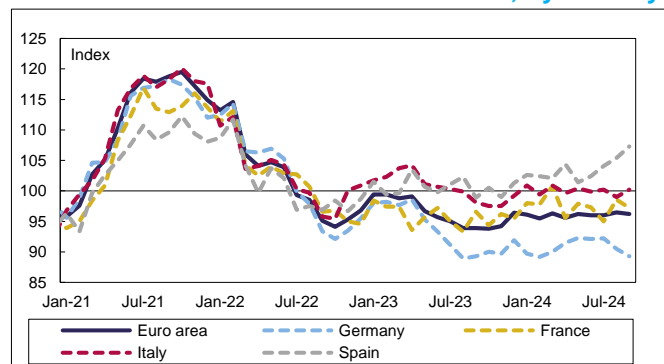
The main focus in the euro area in the coming week will be the aforementioned flash inflation estimates for September. We expect the headline euro area HICP rate to drop 0.4ppt to 1.8%Y/Y, which would be the first sub-target reading since June 2021. The decline this month will be led by energy as petrol and heating gas oil prices were trending in the first three weeks of the month down between 3½-4½%M/M. But with services inflation also set to moderate and core goods inflation to remain subdued, we expect core inflation to also ease 0.1ppt to a five-month low of 2.7%Y/Y. National inflation figures from Germany, Italy, Ireland and Portugal on Monday will provide a further guide to the euro area figure, while euro area producer price inflation figures (Thursday) will give an update of factory pipeline pressures over the summer. Meanwhile, although the risks are skewed to the upside, euro area unemployment numbers for August (Wednesday) are expected to show that the jobless rate remained steady at July's series low of 6.4%. Among the national activity releases, French and Spanish industrial production data for August (Friday) are expected to report only a modest pickup in output that month, merely reversing the declines in July (-0.5%M/M and -0.4%M/M respectively) to maintain a broadly sideways trend since May. The final manufacturing (Tuesday), services (Thursday) and construction PMI surveys (Friday) for September are also due. The flash surveys signalled a notable deterioration in conditions in September, with the composite PMI suggesting that economic output contracted this month and broadly stagnated over the third quarter as a whole.

Euro area: GDP growth & sentiment indices



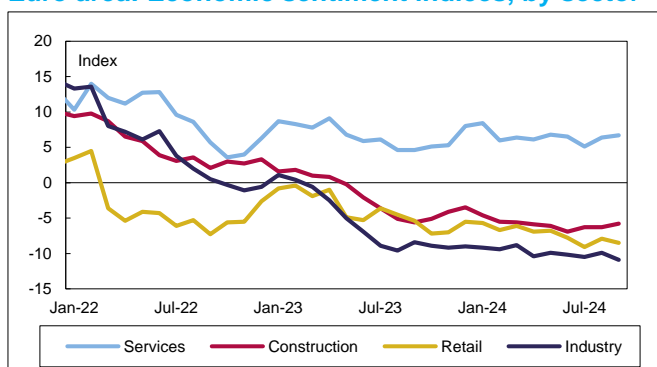
Source: EC, Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Euro area: Economic sentiment indices, by country



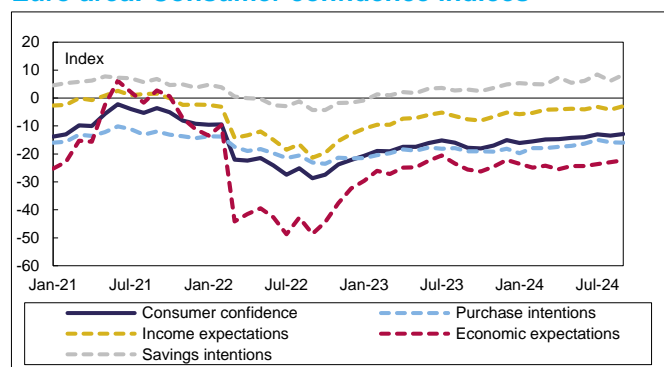
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Economic sentiment indices, by sector



Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer confidence indices



Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

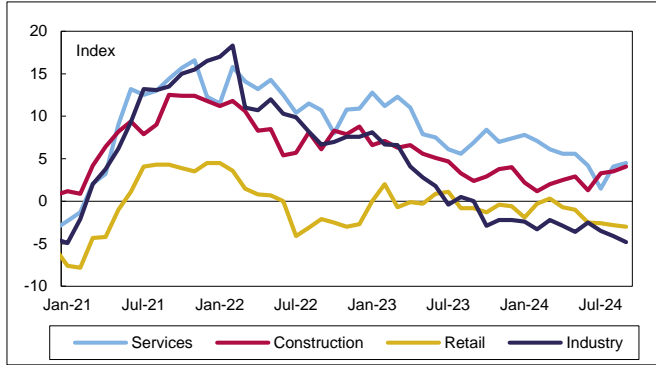
UK

The week ahead in the UK

In a relatively quiet week for top-tier releases, arguably the most relevant for the monetary policy outlook will be the results of the BoE's Decision Maker Panel survey (DMP) on Thursday, which will provide an update on firms' inflation and wage growth expectations. In August, the DMP reported that CPI inflation expectations in three years' time ticked marginally higher, by 0.2ppt to 2.7%Y/Y, although this was still more than 2ppts below the peak in September 2022. But firms' output price expectations fell to the lowest level in three years. Meanwhile, wage growth expectations moved sideways at a 27-month low of 4.1%3M/Y. The BRC shop price index will also provide an update on price pressures on the High Street at the end of Q3. The final manufacturing (Tuesday), services (Thursday) and construction (Friday) PMIs are expected to align with the flash

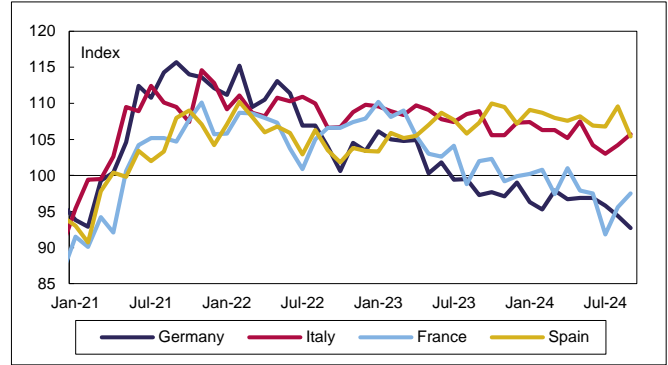
estimates that were consistent with GDP growth of 0.3%Q/Q in Q3. Of course, this would represent a marked moderation from Q2, with updated national accounts figures (due Monday) likely to confirm GDP growth of 0.6%Q/Q last quarter. This release will also bring balance of payments figures for Q2, with the current account deficit expected to have widened considerably due to a marked deterioration in the trade deficit. Other data due the same day are expected to report a further modest pickup in bank lending in August supported not least by the cut in Bank Rate at the start of the month. In addition, the Nationwide housing report will provide an update on house price growth and affordability at the end of Q3.

Euro area: Employment expectations indices



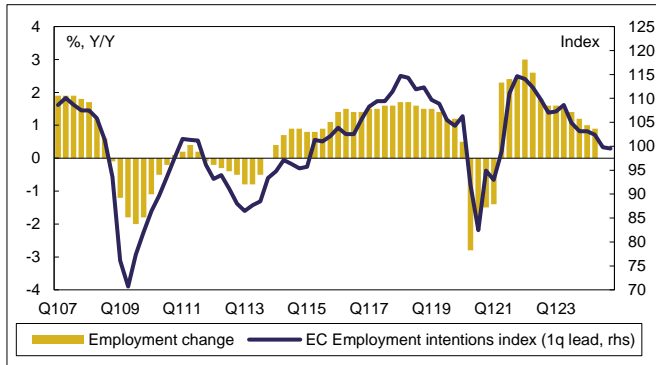
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Employment expectations indices



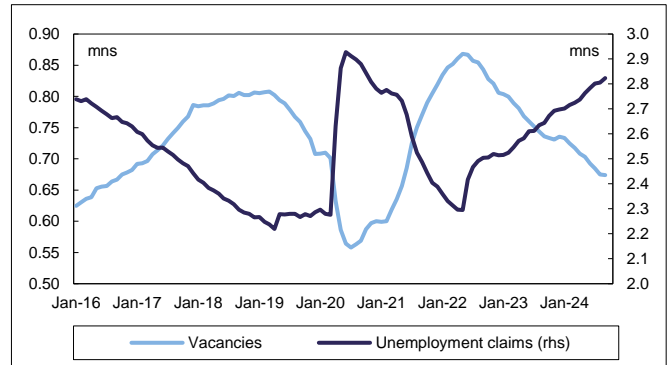
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Employment growth & EEI












Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Unemployment & vacancies



Source: 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	1.0
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	2.2	2.0	1.7	1.7	5.4	2.4	1.9
Core HICP 	2.8	2.8	2.8	2.5	2.0	1.8	4.9	2.9	2.1
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	3.00	2.50	2.25	2.25	4.00	3.00	2.25
Refi Rate 	4.25	3.65	3.15	2.65	2.40	2.40	4.50	3.15	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/ <i>Daiwa</i> forecast	Previous	Revised
Euro area 	ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Aug	2.7 (2.3)	2.7 (2.3)	2.8 (2.4)	-
	Commission economic sentiment indicator	Sep	96.2	96.5	96.6	96.5
	Commission industrial (services) confidence indicator	Sep	-10.9 (6.7)	-9.9 (6.2)	-9.7 (6.3)	-(6.4)
	Final Commission consumer confidence indicator	Sep	-12.9	<u>-12.9</u>	-13.5	-
Germany 	Unemployment rate % (change 000s)	Sep	6.0 (17.0)	6.0 (12.0)	6.0 (2.0)	-(4.0)
France 	Preliminary HICP (CPI) Y/Y%	Sep	1.5 (1.2)	1.9 (1.6)	2.2 (1.8)	-
	PPI Y/Y%	Aug	-6.3	-	-5.4	-5.7
	Consumer spending M/M% (Y/Y%)	Aug	0.2 (0.0)	-0.1 (-0.6)	0.3 (-0.6)	0.2 (-0.7)
Italy 	PPI Y/Y%	Aug	-1.1	-	-1.6	-
Spain 	GDP – final estimate Q/Q% (Y/Y%)	Q2	0.8 (3.1)	<u>0.8 (2.9)</u>	0.8 (2.6)	-21.9
	Preliminary HICP (CPI) Y/Y%	Sep	1.7 (1.5)	1.8 (1.9)	2.4 (2.3)	-
UK 	CBI distributive trades survey – reported retail sales balance	Sep	4	-	-27	95.7 (86.7)






































Auctions

Country	Auction
Italy 	sold €1.0bn of 3% 2029 bonds at an average yield of 2.68%
	sold €2.5bn of 3% 2029 bonds at an average yield of 2.76%
	sold €1.75bn of 2030 floating-rate bonds at an average yield of 4.68%
	sold €3.5bn of 3.85% 2035 bonds at an average yield of 3.43%

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 forecast/</i>	Previous
Monday 30 September 2024					
Germany		13.00 Preliminary HICP (CPI) Y/Y%	Sep	1.9 (1.7)	2.0 (1.9)
Italy		10.00 Preliminary HICP (CPI) Y/Y%	Sep	0.7 (1.7)	1.2 (1.1)
UK		00.01 Lloyds business barometer (own price expectations)	Sep	-	50 (54)
		07.00 GDP – final estimate Q/Q% (Y/Y%)	Q2	<u>0.6 (0.9)</u>	0.7 (0.3)
		07.00 Current account balance £bn	Q2	-32.7	-21.0
		07.00 Nationwide house price index M/M% (Y/Y%)	Sep	0.2 (2.7)	-0.2 (2.4)
		09.30 Net consumer credit £bn (Y/Y%)	Aug	1.4 (8.0)	1.2 (7.8)
		09.30 Net mortgage lending £bn (mortgage approvals 000s)	Aug	2.7 (63.9)	2.8 (62.0)
Tuesday 1 October 2024					
Euro area		09.00 Final manufacturing PMI	Sep	44.8	45.8
		10.00 Preliminary headline (core) HICP Y/Y%	Sep	<u>1.8 (2.7)</u>	2.2 (2.8)
Germany		08.55 Final manufacturing PMI	Sep	40.3	42.4
France		08.50 Final manufacturing PMI	Sep	44.0	43.9
Italy		08.45 Manufacturing PMI	Sep	49.0	49.4
Spain		08.15 Manufacturing PMI	Sep	50.2	50.5
UK		00.01 BRC shop price index Y/Y%	Sep	-0.3	-0.3
		09.30 Final manufacturing PMI	Sep	51.5	52.5
Wednesday 2 October 2024					
Euro area		10.00 Unemployment rate %	Aug	6.4	6.4
France		07.45 Budget balance YTD €bn	Aug	-	-156.9
Spain		08.00 Unemployment (employment) change 000s	Sep	-	21.9 (30.2)
Thursday 3 October 2024					
Euro area		09.00 Final composite (services) PMI	Sep	48.9 (50.5)	51.0 (52.9)
		10.00 PPI Y/Y%	Aug	-2.4	-2.1
Germany		08.55 Final composite (services) PMI	Sep	47.2 (50.6)	48.4 (51.2)
France		08.50 Final composite (services) PMI	Sep	47.4 (48.3)	53.1 (55.0)
Italy		08.45 Composite (services) PMI	Sep	- (51.1)	50.8 (51.4)
Spain		08.15 Composite (services) PMI	Sep	- (54.2)	53.5 (54.6)
UK		09.30 Final composite (services) PMI	Sep	52.9 (52.8)	53.8 (53.7)
		09.30 DMP 3M output price (1Y CPI) expectations Y/Y%	Sep	-	3.6 (2.6)
Friday 4 October 2024					
Euro area		08.30 Construction PMI	Sep	-	41.4
Germany		08.30 Construction PMI	Sep	-	38.9
France		07.45 Industrial production M/M% (Y/Y%)	Aug	0.5 (-1.9)	-0.5 (-2.2)
		08.30 Construction PMI	Sep	-	40.1
Italy		08.30 Construction PMI	Sep	-	46.6
		09.00 Deficit to GDP YTD %	Q2	-	8.8
		11.00 Retail sales M/M% (Y/Y%)	Aug	-	0.5 (1.0)
Spain		08.00 Industrial production M/M% (Y/Y%)	Aug	-	-0.4 (-0.4)
UK		09.00 New car registrations Y/Y%	Sep	-	-1.3
		09.30 Construction PMI	Sep	53.1	53.6

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 30 September 2024		
- Nothing scheduled -		
Tuesday 1 October 2024		
Euro area	 10.30	Auction: to sell €4bn of 2.5% 2029 bonds
	 10.30	Auction: to sell €4bn of 2.5% 2029 bonds
Germany	 10.30	Auction: to sell €4bn of 2.5% 2029 bonds
UK	 10.00	Auction: to sell £2.25bn of 4.75% 2043 bonds
	 15.00	BoE Chief Economist Pill to deliver speech at the CBI Economic Growth Board
Wednesday 2 October 2024		
Germany	 10.30	Auction: to sell €4.5bn of 2.6% 2034 bonds
UK	 10.00	Auction: to sell £4bn of 4.125% 2029 bonds
Thursday 3 October 2024		
France	 09.50	Auction: to sell 1.25% 2034; 1.25% 2034; 3% 2049; & 3.25% 2055 bonds
Spain	 09.30	Auction: to sell 2.5% 2027; 1.45% 2029; 2.05% 2039; & 4.7% 2041 bonds
Friday 4 October 2024		
Italy	 10.00	ISTAT to release revised GDP quarterly series to Q224

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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