

# Euro wrap-up

## Overview

- Bunds followed USTs higher while the Commission survey pointed to economic resilience in the euro area at the end of Q3 but minimal pickup in growth momentum.
- Despite a pickup in UK bank lending, Gilts outperformed after BoE Deputy Governor Ramsden intimated that he might back a rate cut by year-end and government ministers refused to rule out manifesto-breaking tax hikes.
- Tuesday will bring flash September inflation estimates from Germany, France and Italy, alongside a UK shop price survey.

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### Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	2.014	-0.009
OBL 2.2 10/30	2.307	-0.025
DBR 2.6 08/35	2.706	-0.038
UKT 3½ 03/27	3.976	-0.028
UKT 4½ 03/30	4.139	-0.033
UKT 4½ 03/35	4.697	-0.046

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

Source: Bloomberg

## Euro area

### Commission survey points to resilience in activity but minimal pickup in growth momentum

Like last week's flash euro area PMIs, the Commission's Economic Sentiment Indices (ESIs) suggested that economic activity remained broadly resilient in September, albeit with only minimal improvement in growth momentum. The headline euro area ESI rose just 0.2pt this month to 95.5, still 4½% below the long-run average. Nevertheless, that left the Q3 average up more than 1ppt from Q2, albeit like the pickup in the composite PMI, consistent with GDP growth of no more than ¼%Q/Q this quarter. While the flash PMIs had implied that Germany led the way at the end of Q3, the ESIs suggested that the improvement was principally concentrated in Spain, where the respective index jumped more than 3pts to a 12-month high of 104.7, well above the long-run average. Sentiment also improved slightly in Italy and, to a lesser extent in France. Business confidence was broadly flat in most member states and, on average, in most of the main sectors. Nevertheless, the demand outlook in services was judged to be the best so far this year. And autos firms were the least downbeat in 18 months to stand out from the pack in the factory sector. In contrast, confidence among retailers deteriorated to a five-month low back firmly below the long-run average.

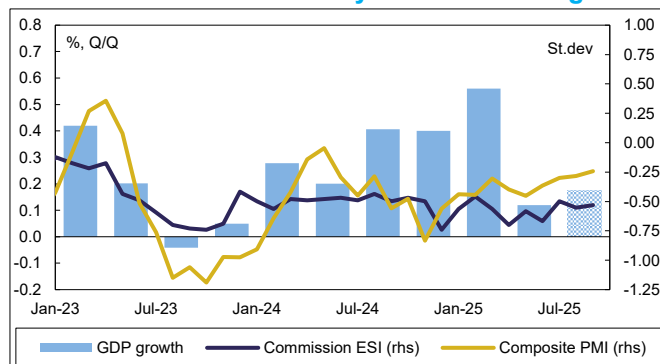
### Consumer outlook for making a major purchase most propitious in nearly 4 years

Overall, however, the ESIs were buoyed principally by consumer sentiment, which as suggested by the flash estimate rose back in line with the average for the year to date. While no more confident in the economic outlook and slightly more concerned about unemployment, households were more upbeat about the outlook for their own personal finances. As such, conditions for making a major purchase over the coming 12 months were judged to be the most favourable in almost four years. In part, that likely reflected an easing in consumer price expectations. Encouragingly too, services firms' expectations for their own prices moderated to a three-year low, while industrial firms' inflation expectations remained below the long-run average. That easing in business inflation expectations, however, went hand in hand with a weakening in employment intentions to the lowest since February 2021, with services firms seemingly now seeing little need to add headcount and retailers pointing to the biggest cuts in staffing in almost five years too.

### The day ahead in the euro area

Building up to September's flash euro area inflation release, Tuesday's focus will be on the remaining flash estimates from the large member states. For the most part, these will be expected to mirror the effects on display in today's figures from Spain where core inflation softened a touch while headline inflation predictably rose on unfavourable base effects relating to fuel and electricity prices. On the EU-harmonised basis, that took the headline rate up 0.3ppt to 3.0%Y/Y, a 15-month high,

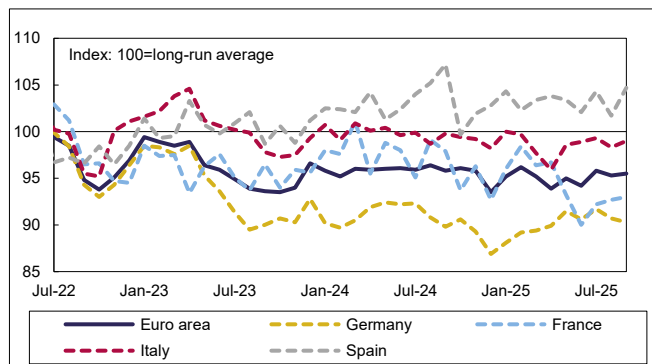
### Euro area: Economic survey indices & GDP growth\*



\*Q325 GDP figure is Daiwa forecast.

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

### Euro area: Economic sentiment indices



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

while the national CPI measure rose to a seven-month high of 2.9%Y/Y. We expect those same base effects to drive the step up across each of the largest member states tomorrow, with a steeper rise in France corresponding with the post-Olympics drop in transport and hospitality prices a year ago. Elsewhere, the day ahead will bring a handful of relevant German data releases. While revisions have watered down the extent of July's decline in retail sales volumes to just 0.9%M/M, that weakness still implies a strong likelihood of payback in August. September's jobseekers' data will also be of interest, having last month hinted at possible stabilisation with a first monthly reduction in claims since January 2024. Beyond the data, ECB President Lagarde is due to speak at a conference organised by the Finnish central bank.

## UK

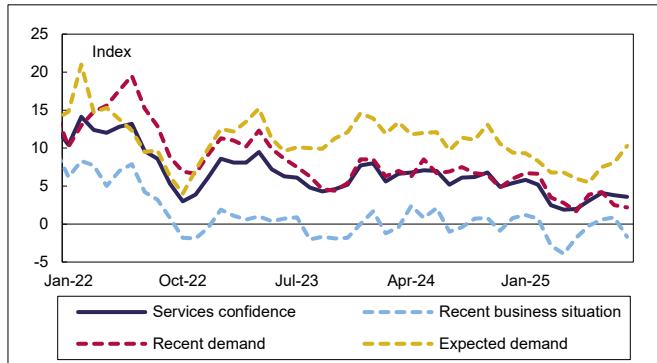
### Recovery in lending to firms and households continues as rate cuts gradually feed through

In part reflecting the usual lags to monetary policy, the majority of MPC members thought that past restrictiveness continued to weigh on domestic demand over the summer. But today's BoE data showed further signs of recovery in bank lending to firms and households as this year's rate cuts gradually fed through. Businesses increased borrowing for a fifth month out of the past six in August, by a net £3.2bn. That was more than fully accounted for by loans to large firms, which took the respective annual growth rate to 8.6%Y/Y, a near-three-year high. But while SMEs made a modest net repayment (£0.2bn), this was just the second in 11 months. As such, annual growth in the stock of loans to SMEs rose to 1.2%Y/Y, the most in four years. Loans to households for consumption purposes also recorded an above-average net increase for a third consecutive month in August (£1.7bn) to be up 7.1%Y/Y. And growth in such loans on a three-month annualised basis jumped to an 18-month high of 8.4%, broadly in line with the pre-pandemic five-year average, suggesting that summer spending was in part credit-driven. Today's data also showed a further increase in household bank deposits (up a net £5.4bn). But there was a further outflow from interest-bearing time deposits into sight deposits, perhaps further reflecting lower rates and possibly an associated greater willingness to spend rather than save.

### Mortgage lending firm in August but approvals slip back amid housing tax reform speculation

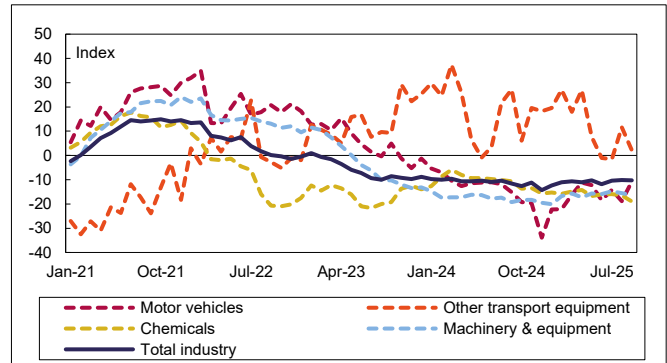
Survey indicators such as the RICS indices have recently flagged a softening in housing market conditions amid speculation surrounding potential new tax reforms to come in the government's end-November Budget. However, perhaps benefiting from the decline in borrowing costs on many of the most popular mortgage products to the lowest rates in three years, there was also another above-average increase in mortgage lending in August (£4.3bn). This took the net rise in the three months to August to £14.2bn, the most for three years when excluding the distortion earlier in the year ahead of April's change to Stamp Duty thresholds. And while new mortgage approvals slipped back last month (64.8k), they remained close to the average of the past twelve months.

#### Euro area: Services confidence indices



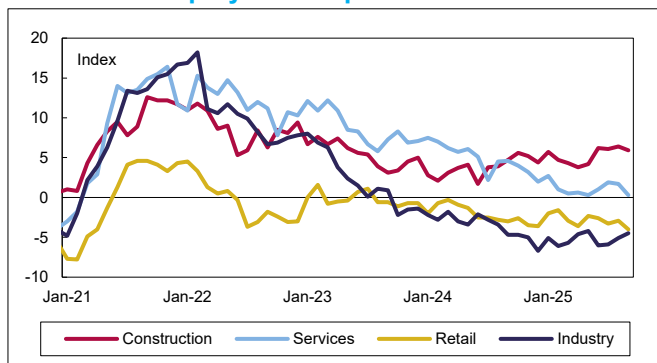
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Industry sentiment by selected subsector



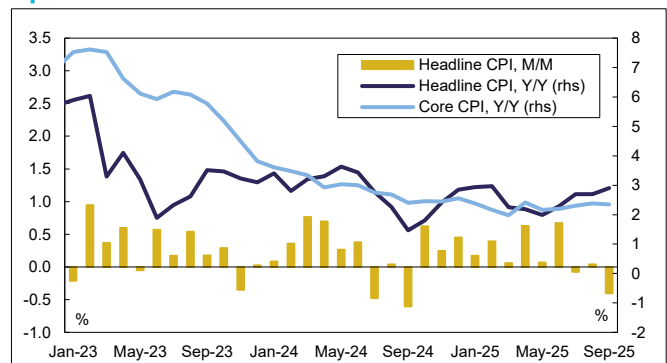
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Employment expectations indices



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

#### Spain: CPI inflation

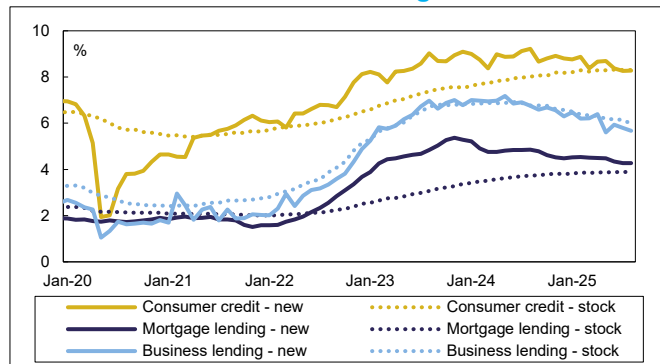


\*National CPI measure. Source: INE, Macrobond and Daiwa Capital Markets Europe Ltd.

## The day ahead in the UK

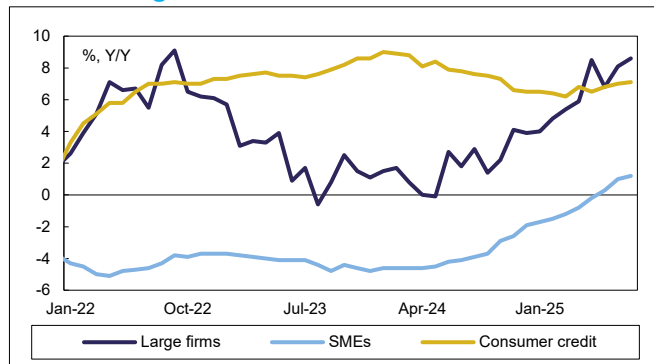
While Tuesday will also bring final Q2 national accounts data and the BRC's gauge of shop price inflation, of most importance to markets might be the various comments from BoE ratesetters. Among those, Deputy Governor Lombardelli and external MPC member Mann might suggest a preference for maintaining policy restrictiveness for longer, reinforcing expectations that they will again vote to leave rates unchanged in November. But after Deputy Governor Ramsden today intimated that he might be amenable to a further cut before year-end, comments later in the day from Deputy Governor Breeden will give a better indication as to the position of the MPC's median voter. On the data front, the national accounts will be expected to affirm their preliminary estimates of a slowdown in GDP growth in Q2 (0.3%Q/Q) while providing new detail on income, savings and the external current account deficit.

### UK: Interest rates on outstanding & new loans



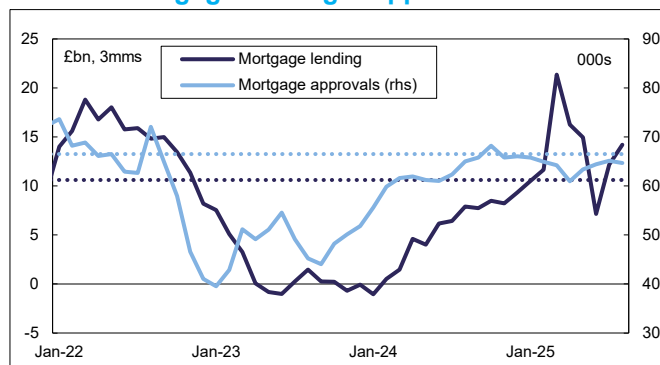
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Lending to businesses & consumer credit



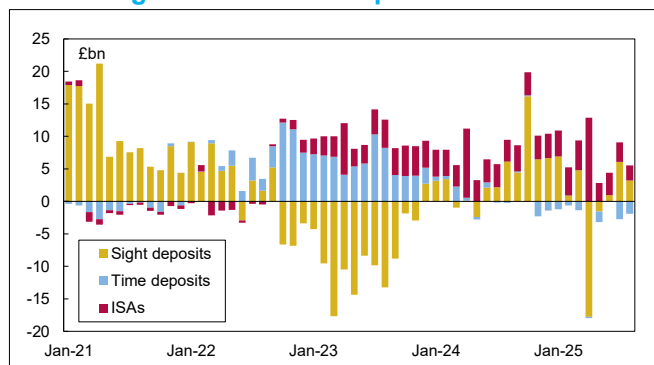
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Net mortgage lending & approvals\*



\*Dotted lines represent pre-pandemic five-year average.  
 Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Change in household deposits



Source: Macrobond 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	Commission economic sentiment indicator	Sep	<b>95.5</b>	95.3	95.2	95.3
	Commission services (industrial) confidence indicator	Sep	<b>3.6 (-10.3)</b>	3.9 (-10.5)	3.6 (-10.3)	3.8 (-10.2)
	Final Commission consumer confidence indicator	Sep	<b>-14.9</b>	<u>-14.9</u>	-15.5	-
Spain	Preliminary HICP (CPI) Y/Y%	Sep	<b>3.0 (2.9)</b>	3.0 (3.1)	2.7 (2.7)	-
	Retail sales M/M% (Y/Y%)	Aug	<b>4.5</b>	4.7	4.7	-
UK	Net consumer credit £bn (Y/Y%)	Aug	<b>1.7 (7.1)</b>	1.5 (-)	1.6 (7.0)	1.7 (-)
	Net mortgage lending £bn (mortgage approvals 000s)	Aug	<b>4.3 (64.7)</b>	4.8 (64.6)	4.5 (65.4)	- (65.2)

#### 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
Germany		07.00 Retail sales M/M% (Y/Y%)	Aug	0.5 (2.5)	-0.9 (3.0)
		07.00 Import prices M/M% (Y/Y%)	Aug	-0.2 (-1.4)	-0.4 (-1.4)
		08.55 Unemployment claims rate % (change 000s)	Sep	6.3 (10)	6.3 (-9)
France		13.00 Preliminary HICP (CPI) Y/Y%	Sep	2.2 (2.3)	2.1 (2.2)
		07.45 Preliminary HICP (CPI) Y/Y%	Sep	1.3 (1.3)	0.8 (0.9)
		07.45 Consumer spending M/M% (Y/Y%)	Aug	0.3 (-0.3)	-0.3 (-0.1)
Italy		10.00 Preliminary HICP (CPI) Y/Y%	Sep	1.7 (1.7)	1.6 (1.6)
UK		00.01 BRC shop price index Y/Y%	Sep	1.2	0.9
		00.01 Lloyds business barometer (own price expectations) % balance	Sep	-	54 (65)
		07.00 GDP – final estimate Q/Q% (Y/Y%)	Q2	<u>0.3 (1.2)</u>	0.7 (1.3)
		07.00 GDP – private consumption Q/Q%	Q2	<u>0.1</u>	0.4
		07.00 GDP – government consumption Q/Q%	Q2	<u>1.2</u>	-0.4
		07.00 GDP – gross fixed capital formation Q/Q%	Q2	<u>-1.1</u>	2.0
		07.00 Current account balance £bn	Q2	-24.9	-23.5

**Auctions and events**

Euro area		13.50 ECB President Lagarde to give keynote speech at Bank of Finland conference, Helsinki
UK		12.50 BoE Deputy Governor Lombardelli to join panel on 'monetary policy and uncertainty' at Bank of Finland conference, Helsinki
		14.25 External MPC member Mann to speak in keynote interview on geopolitics at a Financial Times conference, London
		16.30 BoE Deputy Governor Breeden to give speech at Cardiff Business School

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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