

Euro wrap-up

Overview

- Bunds made gains as French consumer confidence slumped to its lowest level since the euro crisis and the ECB Bank Lending Survey suggested tighter credit conditions will weigh more heavily on loan demand in Q4.
- While a measure of UK shop price inflation jumped to its highest level since February 2024, Gilts were little changed.
- Wednesday will bring the German GfK consumer confidence survey alongside the first UK Budget of the Burnham government.

Emily Nicol
+44-20-7597-8331

Edward Maling
+44-20-7597-8030

Daily bond market movements

Bond	Yield	Change
BKO 3 12/28	3.074	-0.028
OBL 2.9 10/31	3.174	-0.019
DBR 3 08/36	3.352	-0.012
UKT 4 05/29	4.937	+0.007
UKT 4½ 03/31	4.999	+0.003
UKT 4¾ 07/36	5.342	-0.001

*Change from close as of 4:30pm GMT.

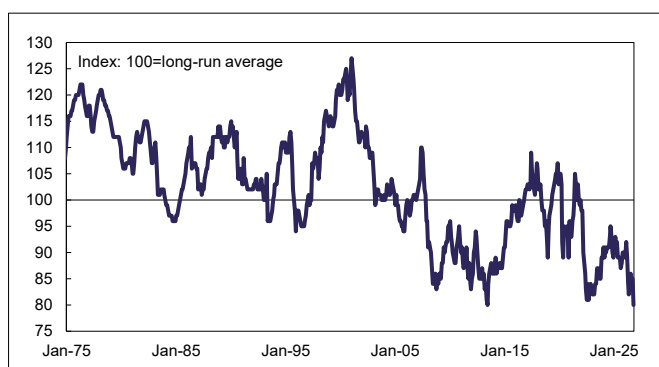
Source: Bloomberg

Euro area

French consumer confidence slumps to its lowest level since the euro crisis

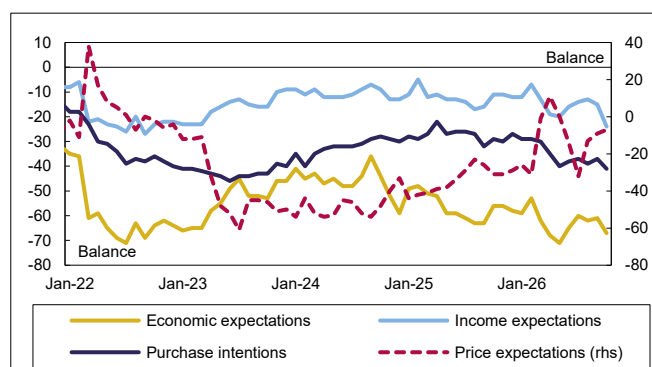
While the French [INSEE business survey](#) suggested that conditions held up relatively well at the start of Q4, today's consumer survey painted a much bleaker picture, underscoring the fragility of the economic backdrop in the face of heightened political uncertainty, tighter financing conditions, squeezed household budgets and social unrest. In particular, the headline consumer confidence index slumped 5pts in October to 80, some 20% below the long-run average, matching its weakest level since the euro crisis in 2013, which itself represented the lowest on the series dating back to the early 1970s. Unsurprisingly, the deterioration was broad-based. With firms having signalled their intention to cut headcount in the months ahead, household unemployment fears rose to their highest level since early 2021 during the second Covid wave. With price expectations pushing higher on the back of record-high petrol prices and continued pressures in wholesale energy markets, household income expectations fell sharply to the lowest level in four years. Against that backdrop, the share of households judging it a good time to make major purchases dropped to its lowest level in three years, suggesting that household consumption will likely provide little support to growth in Q4. Indeed, the risks to spending appear firmly tilted to the downside. With the majority of responses typically collected during the first two weeks of the survey period (25 September to 19 October), today's figures are likely to understate the impact of the recent unrest. And with political and fiscal uncertainty set to persist, we would expect consumer confidence to deteriorate further in November, reinforcing the prospect of a very subdued end to the year for the French economy and suggesting that weakness is likely to continue into 2027.

France: Headline consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Consumer confidence indices



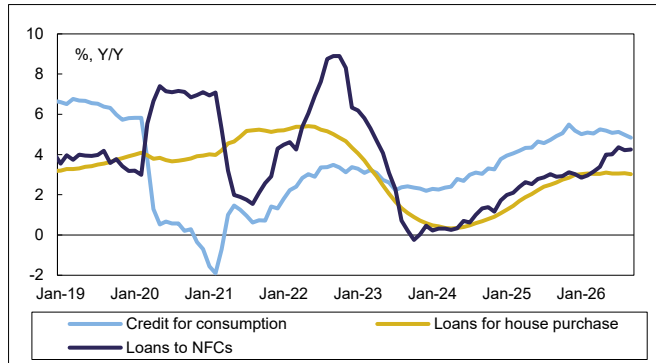
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Tighter credit standards weigh on business loan demand in Q3

Given the ECB's rate hike in September, the second of the current cycle, its latest Bank Lending Survey (BLS) was always expected to report some tightening in credit standards over the past quarter. But today's results also highlighted a sharper tightening of lending conditions in France, as banks perceived risks to be the greatest since Q420 amid heightened political turmoil, concerns over fiscal sustainability and the associated widening in OAT spreads. Indeed, the net tightening in credit standards for French business loans was the most severe since the first half of 2023 and particularly pronounced for SMEs. At the aggregate level, however, unchanged credit standards in Italy and Spain meant that the overall net tightening for loans to NFCs in the euro area was less acute than in Q2. Nevertheless, given higher borrowing costs, banks reported the steepest decline in business loan demand in two years. And while today's monthly monetary figures showed business lending growth remaining robust in September at 4.2%Y/Y, net lending flows have slowed in recent months. Indeed, demand for loans with maturities of more than five years fell to an 18-month low in the three months to September, suggesting that

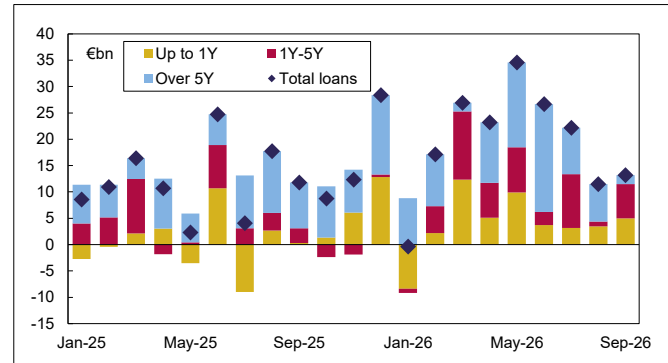
tighter financing conditions are starting to weigh on firms' investment appetite and potentially the growth outlook into 2027. For now at least, and contrasting the signals from the BLS, lending flows to households remained relatively robust in Q3. Nevertheless, with the impact of higher interest rates increasingly being felt alongside deteriorating housing market perceptions and weaker consumer confidence, banks expect a more marked decline in household loan demand in Q4, by the most in more than three years. So, while the ECB on Thursday is likely to leave the door open to further tightening before year-end, today's reports provide further evidence that the hikes already delivered, combined with greater risk aversion, are increasingly feeding through to credit conditions and demand.

Euro area: Loan growth to households & NFCs



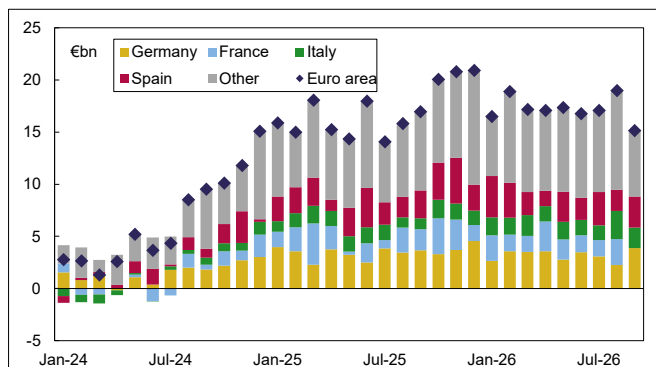
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Loan flows to NFCs



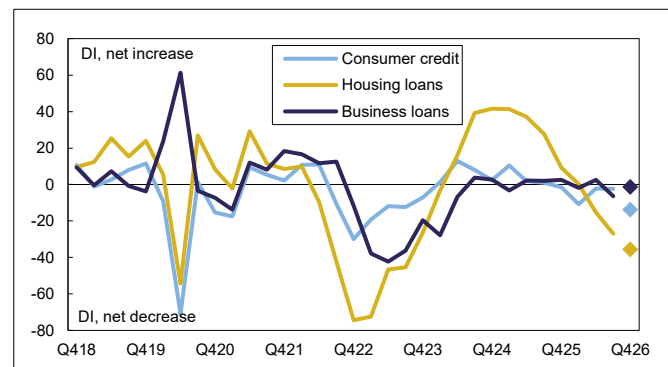
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Loan flows to households



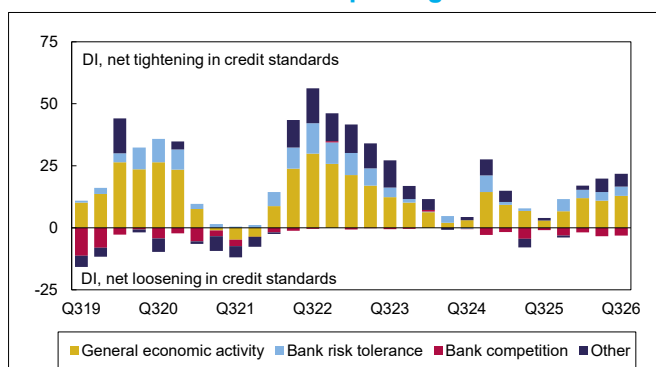
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: BLS loan demand*



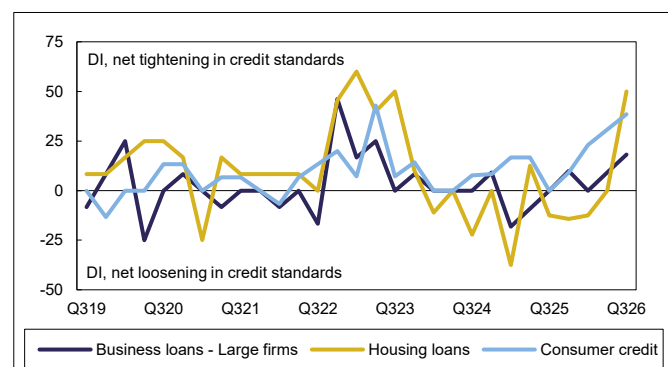
*Diamonds represent forecast for Q426. Source: ECB Bank Lending Survey, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: BLS reasons impacting credit conditions*



*To NFCs. Source: ECB Bank Lending Survey, Macrobond and Daiwa Capital Markets Europe Ltd.

France: BLS credit conditions



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

The day ahead in the euro area

Ahead of Thursday's ECB announcement, it looks set to be a relatively quiet day for economic data in the euro area. Contrasting with the deterioration in today's French survey, we expect the update on German consumer sentiment – presented by GfK as a forecast for November – to report modest improvement. Indeed, domestic political turbulence last

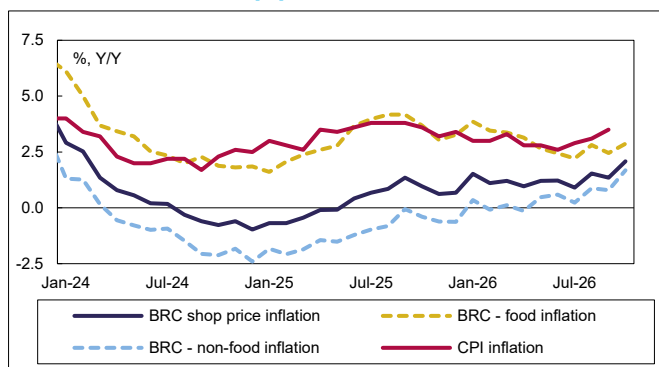
month appeared already to contribute to the downturn in German confidence (-30.6, a five-month low), compounding concerns of rising energy prices. And while the Commission's flash reading suggests that, overall, confidence will remain subdued, the reimposition of fuel tax cuts from October raises the potential for some upside. Italian PPI figures for September are also due.

UK

BRC shop price inflation jumps to highest rate since February 2024

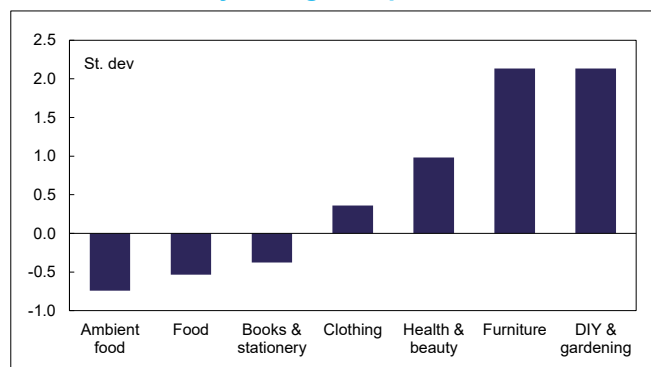
While the indirect effects on inflation from the energy shock have so far remained relatively contained, with the September CPI figures showing core goods inflation at a still subdued 1.0%Y/Y, today's BRC shop price monitor offered tentative signs that pipeline pressures are beginning to feed through to the high street. Indeed, headline shop price inflation jumped 0.7ppt to 2.1%Y/Y in October, its highest rate since February 2024 and 1ppt above its level at the onset of the US-Iran war. This principally reflected a sharp acceleration in non-food prices, which rose 0.7%M/M, the largest increase in any October since 2022, pushing the annual rate up a chunky 0.9ppt to a near-three-year high of 1.7%Y/Y. While inflation in electrical goods was unchanged at a series high for a third successive month, upward price pressures broadened elsewhere, with higher energy and transport costs reportedly feeding through to furniture, flooring and DIY products – indeed, furniture prices recorded their largest October increase in the survey's two-decade history. Food prices, meanwhile, remained relatively well behaved by historical standards, although a steeper decline a year earlier pushed annual inflation in the category up to a six-month high of 2.9%Y/Y. Within that, ambient food inflation rose to 3.2%Y/Y, its highest since last September, while fresh food inflation was unchanged at September's 16-month low of 2.6%Y/Y. Nevertheless, while food producer input inflation remains very subdued, we continue to expect higher operating costs and the impact of the summer heatwave to feed through increasingly to consumer food prices over the coming months. And, overall, today's release points to some upside risk to our forecast for non-energy industrial goods inflation in this month's CPI report. Together with the jump in household energy tariffs, we expect this to lift headline CPI inflation to a 12-month high of 3.6%Y/Y in October, with inflation then rising steadily above 4%Y/Y in early 2027.

UK: CPI & BRC shop price inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: BRC monthly changes in prices in October*



*Change in same month of each year since 2006. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the UK

Unsurprisingly, all eyes in the UK will be on the Budget announcement, the first of PM Burnham's government. But as September's [public finances data](#) reemphasised, Chancellor Healey has limited scope for any substantive giveaways as rising inflation caused by the war in the Middle East continues to erode his fiscal headroom. Of course, there remains considerable uncertainty regarding the economic outlook and, as a result, the net effects on expected borrowing of the OBR's various assumptions for inflation, yields, GDP and wages. But given the severity of the energy price shock, we suspect that Healey will be willing to accept a slightly smaller buffer than the £24bn earmarked by his predecessor – perhaps somewhere between £15-20bn. At the same time, decisions on strategic spending priorities such as defence and regional devolution are likely to be deferred until a spending review sometime next year. So, overall, Wednesday's announcement looks set to be a relatively low-key affair, characterised by relatively low-cost measures targeting the cost of living alongside a modest package of tax rises include additional gambling levies, as well as restoring the tax surcharge on banks to its pre-2023 rates. Ultimately, that should entail little material change to the broader fiscal stance. And, despite the present overshoot in public borrowing, we also don't expect the DMO's plans for gilt issuance to be revised materially higher this fiscal year.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 M3 money supply Y/Y%	Sep	3.5	3.4	3.5	-
France	 INSEE consumer confidence indicator	Oct	80	85	86	85
UK	 BRC shop price index Y/Y%	Oct	2.1	1.6	1.4	-

Auctions

Country	Auction
Germany	 sold €3.79bn of 3% 2028 bonds at an average yield of 3.08%
Italy	 sold €2bn of 3% 2028 bonds at an average yield of 3.55%
	 sold €750mn of 1.25% 2032 inflation-linked bonds at an average yield of 1.69%
	 sold €750mn of 2.35% 2035 inflation-linked bonds at an average yield of 2.10%
UK	 sold £4.5bn of 4.625% 2032 bonds at an average yield of 5.036%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany	 07.00	GfK consumer confidence indicator	Nov	-30.3	-30.6
France	 11.00	Total jobseekers mn	Q3	-	3.32
Italy	 10.00	PPI Y/Y%	Sep	-	13.5

Auctions and events

Germany	 10.30	Auction: to sell up to €5.5bn of 3% 2036 bonds
UK	 12.30	Chancellor of the Exchequer John Healey to present the UK Budget to Parliament

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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