

# Euro wrap-up

## Overview

- Despite a pickup in euro area negotiated wage growth, Bunds followed USTs higher in the wake of Fed Chair Powell's dovish remarks and after German GDP in Q2 was revised down significantly.
- Gilts also followed USTs despite a pickup in UK consumer confidence to its highest level in the year to-date.
- The coming week will bring flash August inflation data from the four largest euro area member states, the latest German ifo indices and Commission sentiment survey, and the account of the ECB's July policy meeting.

**Chris Scicluna**  
+44 20 7597 8326

**Edward Maling**  
+44 20 7597 8030

### Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	1.939	-0.027
OBL 2.2 10/30	2.270	-0.041
DBR 2.6 08/35	2.716	-0.038
UKT 3% 03/27	3.930	-0.029
UKT 4% 03/30	4.096	-0.024
UKT 4½ 03/35	4.690	-0.037

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

## Euro area

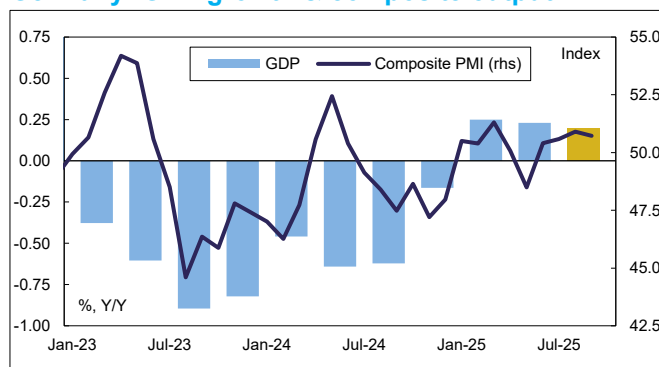
### German GDP revised down in Q2 to reflect weak end to the quarter in manufacturing & construction

As appeared plausible after June's [industrial production](#) data were much weaker than expected, German GDP in Q2 was revised down significantly today. German economic output is now judged to have contracted by 0.3%Q/Q, 0.2ppt more than previously estimated, to almost fully reverse growth in Q1 and be down 0.2%Y/Y. The expenditure detail published for the first time confirmed that private consumption grew for the fifth successive quarter to be up 1.2%Y/Y. But at just 0.1%Q/Q, that growth was softer than expected and marked a slowdown of 0.5ppt from Q1. While consumer confidence picked up in May and June to support a further decline in the savings ratio to the lowest level in more than two years, household spending growth was restrained by a slowdown in real disposable income growth. In terms of domestic demand, however, the biggest disappointment was fixed investment, which contracted 1.4%Q/Q, the most in a year. Construction investment, particularly housebuilding, accounted for two thirds of that drop. Capex on transport equipment was also weak, more than offsetting modest growth in machinery and certain other categories. Given the 2.5%Q/Q surge in exports in Q1, which was the strongest in more than three years, their drop of just 0.1%Q/Q in Q2 was arguably modest. In part, that reflected strength in services exports (1.4%Q/Q) which provided some offset for weakness in goods shipments (-0.6%Q/Q). However, with imports strong for a second successive quarter (1.6%Q/Q), particularly for goods, net trade subtracted 0.7ppt from GDP growth. Inventory accumulation provided significant offset (0.5ppt), as did government consumption (0.2ppt).

### Q3 GDP likely to be flat on negative carry-over but German recovery should build from Q4

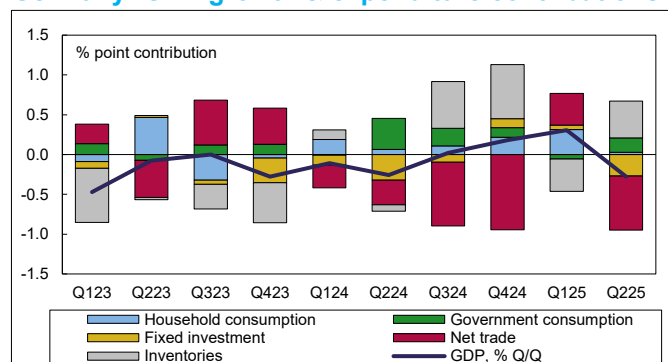
The weakness of production in June represents significant carry-over of negative growth into Q3. Manufacturing output in June was 2.0% below the Q2 average, with construction down 0.6% on the same basis. In services, hospitality also ended the quarter on a soft note to be 3.0% below the Q2 average. So, significant sequential growth from July to September will be required across the major business sectors to avoid a quarterly contraction in Q3. Like the Bundesbank, we expect GDP this quarter to be broadly flat relative to Q2. But there are reasons for cautious optimism. While they were bolstered by major items, new factory orders recently turned gradually higher, as did truck toll mileage, with hints of recovery in construction orders too. While employment has been broadly flat and real wage growth slowed, consumer readiness to make major purchases – illustrated by rising new car registrations in July – appears consistent with ongoing gradual private consumption growth. Crowding-in of private capex from public investment in infrastructure and defence appears underway. Yesterday's joint EU-US statement on the implementation of last month's tariff deal should reduce trade-related downside risks if the both the European Commission and US administration fulfil their commitments. And with yesterday's flash August manufacturing PMIs for output and new orders rising to their highest levels since early 2022 and consistent with growth, we expect recovery in German IP and GDP to be evident in Q4, with momentum likely to build further throughout 2026 too.

### Germany: GDP growth & composite output PMI



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

### Germany: GDP growth & expenditure contributions



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## ECB should keep faith in wage moderation ahead despite a pickup in negotiated wages in Q2

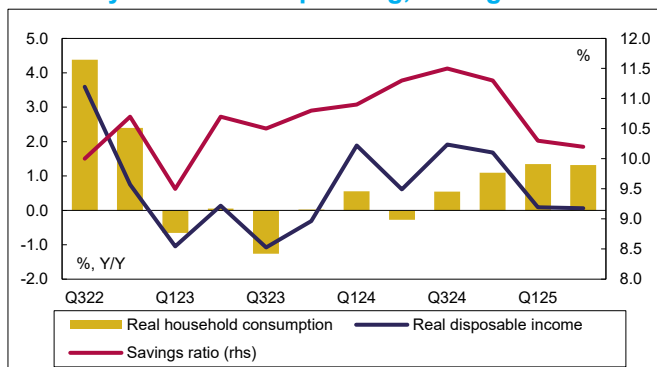
Although euro area negotiated wages slowed sharply in Q1 – moderating a chunky 1.6ppts to 2.5%Y/Y, a 13-quarter low – the softness was in part due to flattering base effects in Germany, where growth was minimal at just 0.9%Y/Y. So, it was perhaps unsurprising that German pay settlement growth rebounded to 5.8%Y/Y last quarter, lifted by increases in the public sector and earlier rises in retail and wholesale trade. As a result, euro area negotiated wage growth rose back to 4.0%Y/Y in Q2, almost fully reversing the decline in Q1. But that figure alone should not materially alter the ECB's assumptions about the downwards trajectory for wage growth. Indeed, amid tepid economic growth and lower inflation, the Bundesbank noted that recent German settlements had been broadly lower and the moderate trend should extend to the 3½ million contracts still to be negotiated this year. And while smoothed settlement growth in Germany was merely flat, negotiated wage growth in France continued to soften, to 1.6%Y/Y, its lowest rate since Q421. More importantly, euro area wage settlement growth of 4.0%Y/Y in Q2 remains consistent with the ECB's forward-looking wage tracker tool, which anticipates a sustained decrease in pay settlements over the course of the second half of the year. While there remain upside risks, including those associated with minimum wage hikes at the start of next year, the ECB should interpret the pay settlement trend to be broadly consistent with the sustained achievement of its 2% inflation target over the horizon.

## The week ahead in the euro area

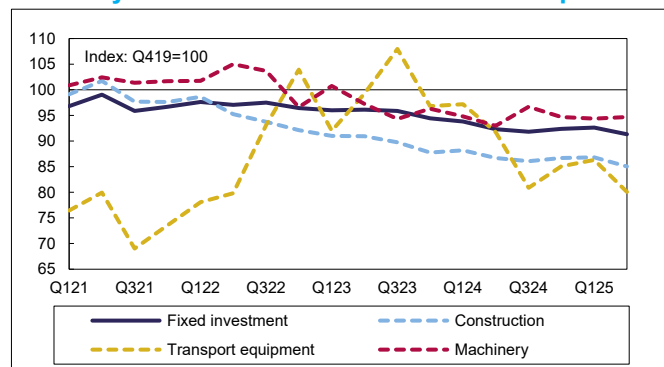
The economic dataflow in the euro area will include a number of further business sentiment survey indicators, including the German ifo indices (Monday) and Commission ESIs (Thursday), which should corroborate the modest, manufacturing-led improvement in activity signalled by August's flash PMIs. ISTAT's sentiment surveys (also Thursday) will provide an update on conditions in Italy ahead of the release of its August PMI figures. Meanwhile, consumer confidence surveys from Germany (Wednesday) and France (Tuesday) will provide advance context to the equivalent detailed euro area indices (Thursday). In light of the deterioration reported by [yesterday's](#) flash Commission euro area figure (down 0.8ppts to -15.5), we might expect to see a similar decline in the two largest member states.

Contrasting today's adverse German revision, stronger industrial output in June should see the final estimates of French GDP (Friday) affirm a pickup in growth last quarter in line with the flash estimate of 0.3%Q/Q. Italian Q2 GDP (also Friday) will bring a first breakdown by expenditure components, which should confirm modest payback (-0.1%Q/Q) for strength in Q1. Euro area monetary statistics (Thursday) will provide an update on the recovery in bank lending at the start of Q3 while German retail sales and labour market data (Friday), for July and August respectively, are also due.

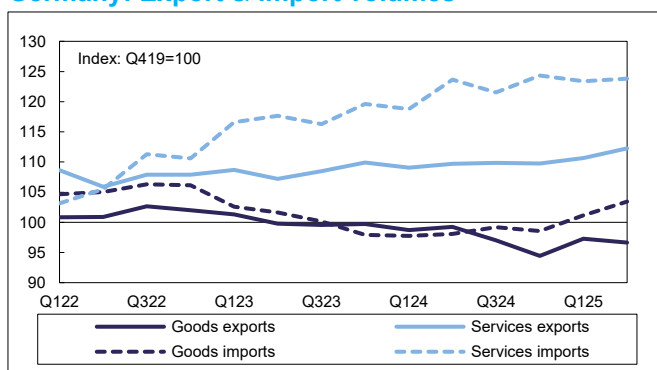
### Germany: Household spending, saving & income



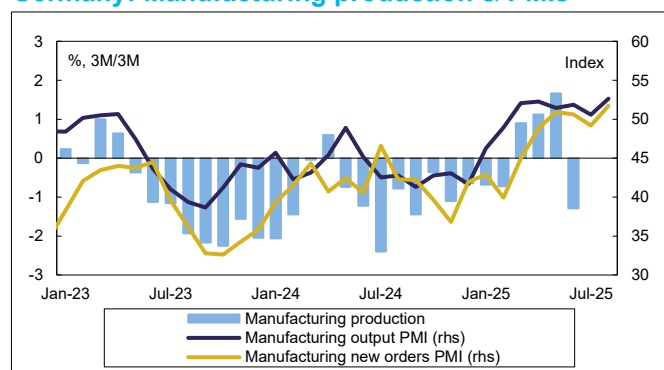
### Germany: Fixed investment – selected components



### Germany: Export & import volumes



### Germany: Manufacturing production & PMIs



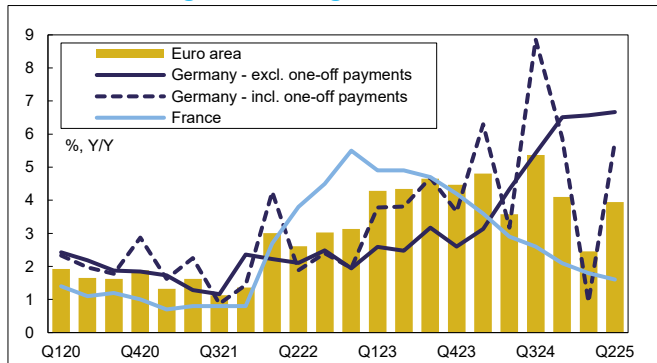
With regards to the ECB, the account of July's Governing Council meeting will inevitably be studied to assess the Governing Council's appetite for future easing. But given the hawkish tone of Lagarde's press conference, it seems highly likely to paint a cautious picture, emphasizing that risks to inflation remain two-sided and that monetary policy remains well-positioned to respond to any further developments. It should, therefore, infer that a cut in September (and potentially thereafter) is unlikely to materialize, noting the recent target-consistent data on inflation, resilience in activity, alleviation of some (but not all) trade uncertainty and the boost to activity and inflation likely to come from fiscal policy in Germany. August's flash inflation readings from the four largest member states (Friday) could also be supportive of the ECB's 'wait-and-see' stance. Indeed, while inflation in most member states has broadly converged close to the ECB's target, we expect energy components to contribute slightly more to the headline HICP rate in the coming two months, reflecting base effects from the accelerated decline of fuel prices last year. And while core goods inflation may soften a touch on base effects, seasonal pressures in tourism-adjacent services and rising food inflation make for upside risks.

## UK

### Consumer confidence up to its best so far in 2025 with willingness to spend up too

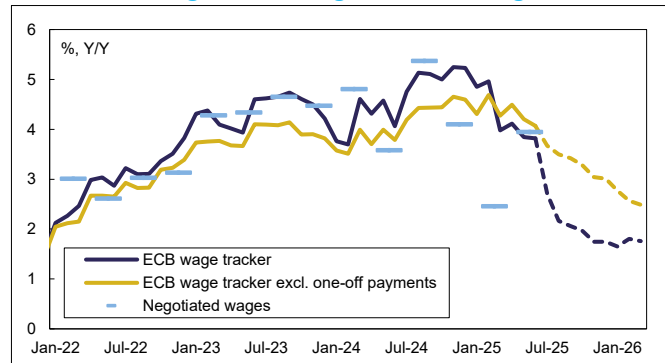
Yesterday brought some relief for Chancellor Reeves with UK public borrowing tracking no higher than the OBR's forecast and the August flash composite PMI suggesting the firmest economic growth momentum in a year. Today's GfK consumer confidence survey for August also beat expectations, with the headline sentiment index rising 2pts to the highest level so far this year (-17) in contrast to the consensus forecast of no change. With continued expectations that taxes will be hiked again in the autumn and greater uncertainty about the future path of BoE monetary policy, households were still no more upbeat about the economic outlook. But perhaps reflecting signs of greater resilience in the labour market and tallying also with stronger-than-expected GDP growth in both Q1 and Q2, they judged that the recent performance of the economy and their own personal finances had not been quite as bad as previously feared. They also revised up their assessment of the outlook for incomes to the best in a year. And while households had suggested last month that they had wanted to save more than any time in the past 18 years, this month they were less parsimonious. Indeed, the GfK survey suggested that the climate for making major purchases was the most favourable in a year and matched the best since Russia's invasion of Ukraine in early 2022. While there are significant concerns about the veracity of recent retail sales data, which caused today's release of July's figures to be postponed, the path of household spending in the national accounts has appeared plausible. Private consumption rose for a fourth successive quarter in Q2, albeit slowing to just 0.1%Q/Q. And while real incomes are being squeezed by higher inflation and moderating wage growth, today's GfK survey results suggest that we should continue to expect a fifth successive quarter of private consumption growth in Q3 and at a slightly stronger pace than last quarter.

#### Euro area: Negotiated wage rates



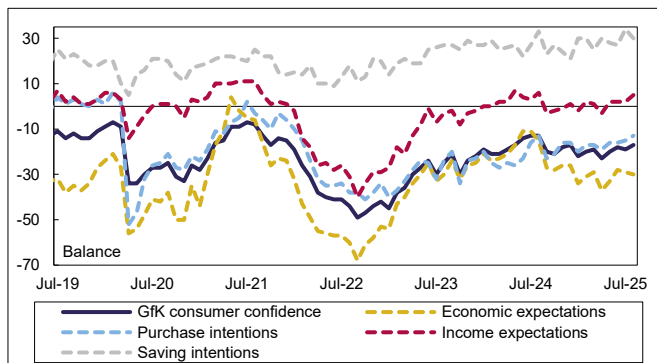
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Negotiated wages & ECB wage tracker



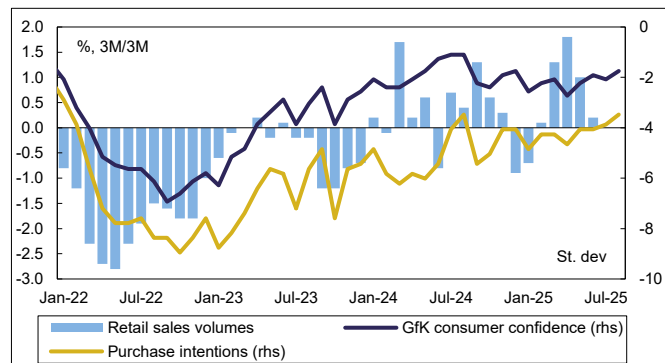
Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Consumer confidence & retail sales\*



\*Benchmarked against pre-pandemic series.










Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## The week ahead in the UK

It looks set to be a quieter week ahead for UK economic news. Markets will be closed on Monday for the Bank Holiday. But comments on Saturday by Governor Bailey on a Jackson Hole panel discussing the labour market alongside ECB President Lagarde and BoJ Governor Ueda could have an impact when they reopen. Otherwise, the releases of relevance to the inflation outlook should be of most interest in the coming week, starting on Tuesday with an update to the BRC's shop price index, which will provide a view as to developments in core goods and food price inflation ahead of the August CPI release. The announcement by Ofgem of its household energy price cap in Q425 (Wednesday) will help to clarify assumptions about administered energy prices from October. A modest increase (1%Q/Q) is expected, which will not be welcomed by consumers. But that increase will be weaker than the 9.5%Q/Q rise in the same quarter last year, so energy inflation will be expected to moderate from October. The same day should also see the ONS publish an updated series of its suspended PPI data through to June 2025 to reflect methodological changes applied this week. And ahead of the postponed release of the ONS's retail sales data for July, the CBI's distributive trades survey will provide a perspective on retail conditions in August.









*The next Euro wrap-up will be published on Wednesday 27 August 2025*

## Daiwa economic forecast

		2025				2026		2025	2026	2027
		Q1	Q2	Q3	Q4	Q1	Q2			
GDP		%, Q/Q						%, Y/Y		
Euro area		0.6	0.1	0.1	0.2	0.2	0.3	1.3	0.9	1.3
UK		0.7	0.3	0.4	0.3	0.3	0.3	1.4	1.2	1.4
Inflation, %, Y/Y										
Euro area										
Headline HICP		2.3	2.0	2.0	2.3	1.9	1.9	2.2	1.8	1.8
Core HICP		2.6	2.4	2.3	2.4	2.3	1.7	2.4	1.8	1.6
UK										
Headline CPI		2.8	3.5	3.9	3.6	3.3	2.6	3.5	2.6	1.9
Core CPI		3.6	3.7	3.8	3.6	3.5	2.7	3.7	2.7	1.7
Monetary policy, %										
ECB										
Deposit Rate		2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Refi Rate		2.65	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
BoE										
Bank Rate		4.50	4.25	4.00	3.75	3.50	3.25	3.75	3.25	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 forecast</i>	Previous	Revised
Euro area	 Negotiated wages Y/Y%	Q2	4.0	-	2.5	-
Germany	 GDP – final estimate Q/Q% (Y/Y%)	Q2	-0.3 (-0.2)	-0.1 (0.0)	0.4 (-0.2)	-
	 GDP – private consumption Q/Q%	Q2	0.1	0.2	0.5	0.6
	 GDP – government spending Q/Q%	Q2	0.8	0.3	-0.3	-
	 GDP – fixed investment Q/Q%	Q2	-1.4	-0.8	0.9	0.3
France	 INSEE business (manufacturing) confidence indicator	Aug	96 (96)	-	96 (96)	-
	 BdF retail sales Y/Y%	Jul	-1.9	-	-1.1	-
UK	 GfK consumer confidence indicator	Aug	-17	-20	-19	-
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 forecast</i>	Previous
<b>Monday 25 August 2025</b>					
Germany		09.00 ifo business climate indicator	Aug	88.8	88.6
		09.00 ifo current assessment (expectations) indicator	Aug	86.7 (90.8)	86.5 (90.7)
Spain		08.00 PPI Y/Y%	Jul	-	0.8
<b>Tuesday 26 August 2025</b>					
France		07.45 INSEE consumer confidence indicator	Aug	89	89
UK		00.01 BRC shop price index Y/Y%	Aug	1.0	0.7
<b>Wednesday 27 August 2025</b>					
Germany		07.00 GfK consumer confidence indicator	Sep	-21.4	-21.5
UK		11.00 CBI distributive trades survey – reported retail sales balance %	Aug	-34	-34
<b>Thursday 28 August 2025</b>					
Euro area		05.00 New car registrations Y/Y%	Jul	-	-7.5
		09.00 M3 money supply Y/Y%	Jul	3.5	3.3
		10.00 Commission economic sentiment indicator	Aug	96.0	95.8
		10.00 Commission services (industrial) confidence indicator	Aug	3.9 (-10.0)	4.1 (-10.4)
		10.00 Final Commission consumer confidence indicator	Aug	<u>-15.5</u>	-14.7
Italy		09.00 ISTAT consumer confidence indicator	Aug	96.5	97.2
		09.00 ISTAT business (manufacturing) confidence indicator	Aug	-	93.6 (87.8)
<b>Friday 29 August 2025</b>					
Euro area		09.00 ECB consumer expectations survey – 1Y (3Y) CPI Y/Y%	Jul	2.5 (2.4)	2.6 (2.4)
Germany		07.00 Retail sales M/M% (Y/Y%)	Jul	-0.3 (2.6)	1.0 (2.4)
		08.55 Unemployment claims rate % (change 000s)	Aug	6.3 (10)	6.3 (2)
		13.00 Preliminary HICP (CPI) Y/Y%	Aug	2.0 (2.1)	1.8 (2.0)
France		07.45 GDP – final estimate Q/Q% (Y/Y%)	Q2	<u>0.3 (0.7)</u>	0.1 (0.6)
		07.45 Total (private sector) payrolls Q/Q%	Q2	- <u>(0.0)</u>	-0.1 (-0.1)
		07.45 Preliminary HICP (CPI) Y/Y%	Aug	0.9 (1.0)	0.9 (1.0)
		07.45 PPI Y/Y%	Jul	-	0.2
		07.45 Consumer spending M/M% (Y/Y%)	Jul	-	0.3 (0.9)
Italy		09.00 GDP – final estimate Q/Q% (Y/Y%)	Q2	<u>-0.1 (0.4)</u>	0.3 (0.7)
		10.00 Preliminary HICP (CPI) Y/Y%	Aug	1.8 (1.6)	1.7 (1.7)
Spain		08.00 Preliminary HICP (CPI) Y/Y%	Aug	2.8 (2.8)	2.7 (2.7)
		08.00 Retail sales Y/Y%	Jul	-	6.2
UK		00.01 Lloyds business barometer (own price expectations) % balance	Aug	-	52 (61)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions

Country	BST	Event / Auction
<b>Monday 25 August 2025</b>		
UK		- Summer Bank Holiday
<b>Tuesday 26 August 2025</b>		
Italy		10.00 Auction: to sell up to €3bn of 2.1% 2027 bonds
<b>Wednesday 27 August 2025</b>		
Germany		10.30 Auction: to sell €4bn of 2032 bonds
UK		09.30 ONS to republish amended PPI data to June 2025
		10.00 Auction: to sell £5bn of 4.375% 2028 bonds
<b>Thursday 28 August 2025</b>		
Euro area		12.30 ECB to publish monetary policy account of July 23-24 Governing Council meeting
Italy		10.00 Auction: to sell bonds*
<b>Friday 29 August 2025</b>		
- Nothing scheduled -		

\*Details to be announced. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

#### Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: [https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit\\_ratings.pdf](https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf). If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

#### IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.