

# Euro wrap-up

## Overview

- Bunds made gains following a drop in German consumer confidence, contrasting the improved expectations among firms in many sectors.
- Having made losses on Tuesday, Gilts finished little changed as Ofgem hiked its household energy price cap a touch more than expected.
- Thursday will bring the account of the ECB's July policy meeting, as well as the Commission's euro area economic sentiment indices for August and the region's bank lending figures for July.

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### Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	1.910	-0.022
OBL 2.2 10/30	2.234	-0.032
DBR 2.6 08/35	2.698	-0.023
UKT 3½ 03/27	3.953	-0.004
UKT 4½ 03/30	4.129	-0.007
UKT 4½ 03/35	4.733	-0.005

\*Change from close as at 5:00pm BST.  
Source: Bloomberg

## Euro area

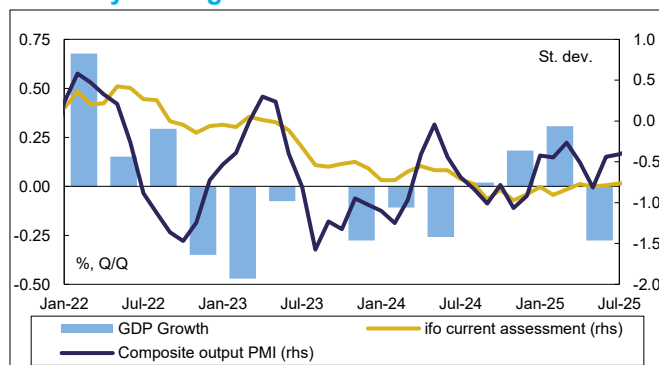
### German household gloom raises question marks over the consumption outlook

If the latest GfK survey is to be believed, German households have become gloomier over the summer. Having risen in June to an eight-month high, in part out of relief that Trump's tariffs might prove somewhat less damaging than initially feared, the GfK's headline consumer confidence index – presented as a forecast for the coming month – dropped for the third successive month and by almost 2pts in September to a five-month low (-23.6), well below the long-run average. Within the survey detail, households downgraded their assessment of the economic outlook to the worst in six months. Income expectations were also the lowest since before Trump's Liberation Day tariff announcement. So, perhaps unsurprisingly, consumers' determination to save remained historically high and their reluctance to make major purchases was the greatest since February. The deterioration in household sentiment over the summer tallies with the deeper-than-expected contraction in [German GDP](#) (-0.3%Q/Q) in Q2, as production and exports retreated after tariff-front-running flattered Q1 growth. It also resonates with concerns that economic activity might struggle to regain momentum this quarter. And with employment having fallen in Q2 for the first quarter in three, the three-year long downtrend in job vacancies having extended into Q3 and wage growth continuing to moderate, households are understandably concerned about the possibility of further labour market weakening. Certainly, after German private consumption slowed in Q2 to a six-quarter low of just 0.1%Q/Q, the GfK survey flags the risk that household spending growth will pause this quarter.

### Business surveys suggest German GDP should gradually return to growth before year-end

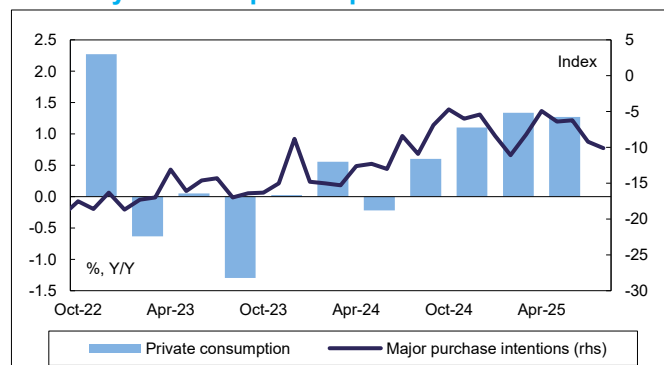
While the deterioration in consumer confidence is a cause for concern, the GfK index of willingness to spend is still consistent with a positive underlying pace of expansion. And a sideways move in spending from Q2 would still deliver an annual rate of household consumption growth slightly above 1.0%Y/Y in Q3. Moreover, in terms of gauging the economic outlook, we place more weight on German business surveys, which point to a gradual resumption in German GDP growth – albeit a patchy one – before year-end. Admittedly, Monday's ifo survey results flagged increased concern amongst retailers in August, consistent with a softening of consumer spending. But wholesalers are anticipating incremental improvement over coming quarters. And while services firms were less upbeat than in June and July, the respective ifo business climate index remained firmly above the range of the second half of 2024 and first five months of 2025. Most importantly, while not quite as encouraging as the flash PMIs – which point to the firmest growth in factory output and new orders since Russia's invasion of Ukraine – the ifo indices suggest that conditions in the manufacturing sector in Q3 are the best in five quarters with optimism about the coming six months the greatest since early 2022. Despite persisting concerns about US tariffs, orders data point to a degree of resilience in foreign demand. Most importantly, the government's infrastructure and defence-led investment programme should steadily boost domestic demand over coming quarters too. So, while German GDP growth will likely be no more than ½%Y/Y over 2025 as a whole, we still look for growth of close to 1%Y/Y in 2026, rising to 1½%Y/Y in 2027.

### Germany: GDP growth & business sentiment



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

### Germany: Consumption & purchase intentions



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

## The day ahead in the euro area

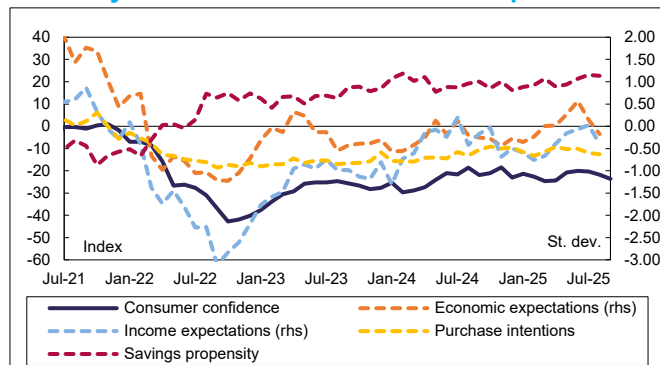
While Thursday will bring August's round of Commission economic sentiment indicators (ESIs) and July's bank lending data, the ECB's account of its July monetary policy meeting might be most insightful. But given the tone of Lagarde's press conference, the account seems bound to convey greater caution on the Governing Council about the path ahead for policy. Certainly, it will underscore that the risks to the inflation outlook remain two-sided, and that monetary policy remains well-positioned to respond to any further shifts in either direction. As such, it should infer that the bar for a further rate cut in September is particularly high, noting among other things the relative resilience of leading indicators of activity and diminished concerns about the possibility of a sustained inflation undershoot not least given fiscal loosening in Germany. With respect to Thursday's economic data, the Commission ESIs will provide a cross-check on the manufacturing-led uptick in last week's flash PMIs. The deterioration of consumer confidence indicators in Germany and France this week should also confirm the weaker flash Commission reading for the euro area (-15.5, down almost 1pt from July). Finally, benefiting from past ECB easing, we expect mortgage and business lending to have maintained a steady uptrend at the start of Q3.

## UK

### BRC signals likelihood of another firm increase in food prices in August

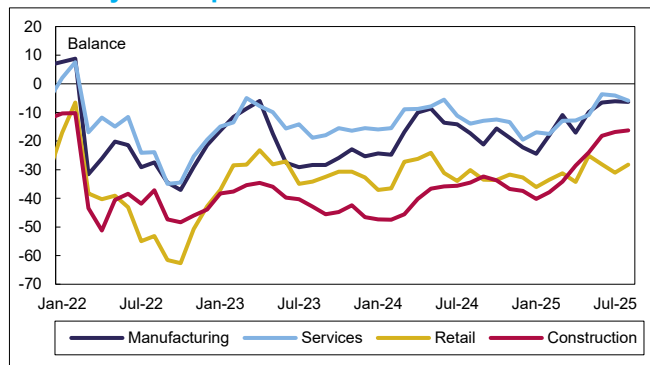
Among a handful of inflation-relevant signals so far this week, yesterday's BRC shop price index appeared to suggest that ongoing softness in core goods inflation continued into August, as sustained discounting in clothing and electricals continued to dampen prices in non-food categories (-0.8%Y/Y; up 0.2ppt). But with yet another firm monthly increase in the survey measure of food prices (0.4%M/M), inflation in that category reportedly continued its uptrend (4.2%Y/Y; up 0.2ppt), driven principally on this occasion by fresh food (4.1%Y/Y; up 0.9ppt). And with the ONS's measure of food CPI inflation having just risen to a 17-month high of 4.6%Y/Y in July, the prospect of a further increase in August will be of particular concern to many members of the MPC. The BoE's updated projection for food inflation over the remainder of the year – to rise, and remain, above 5%Y/Y from August – was among the chief contributors of its upwards revision to the outlook for headline inflation. And external MPC member Catherine Mann – among the four policymakers who had preferred to pause the rate-cut cycle at that meeting – yesterday highlighted the importance of the accelerated uptrend in food prices for her decision, not least given the sensitivity of consumer inflation expectations to such prices and the associated risks of 'persistent inflation persistence'. Certainly, sustained further momentum in food inflation represents a potential obstacle to our expectation that the cycle of quarterly rate cuts will continue in November.

### Germany: Consumer confidence & components



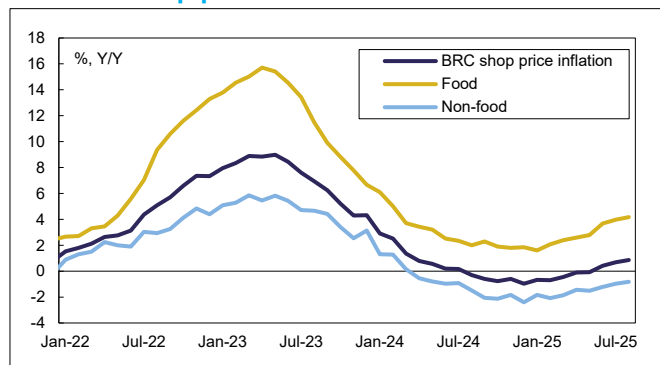
Source: GfK, Macrobond and Daiwa Capital Markets Europe Ltd.

### Germany: ifo expectations indices



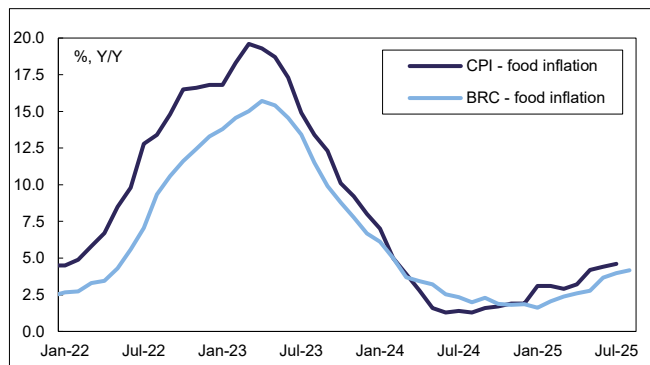
Source: ifo, Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: BRC shop price index



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Food inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## Indicative PPI data show a gradual uptrend in manufacturing output prices to June

Other price-related releases today also present a challenge. While the ONS's regular producer price series remains suspended until October pending further quality assurances, today's partial release of the data through June revealed a disconcerting divergence between manufacturers' input and output costs. Despite deflation in input costs (-1.0%Y/Y), prices at the factory gate rose at the firmest rate in two years in June (1.9%Y/Y, up 1.8ppts since December). Domestic food costs, again, look to have contributed to that rise, with output price inflation for that category at a 21-month high (4.5%Y/Y). Perhaps optimistically, the manufacturing PMIs infer that output price pressure should recede relatively briskly. And the equivalent PPI for services firms was more consistent with expectations for continued moderation in services consumer price inflation over the near term, edging lower to a four-year low of 2.1%Y/Y in Q2. We caution, however, that the quarterly rate of increase, unchanged at 0.8%Q/Q, remained almost twice as high as the 5-year pre-pandemic average.

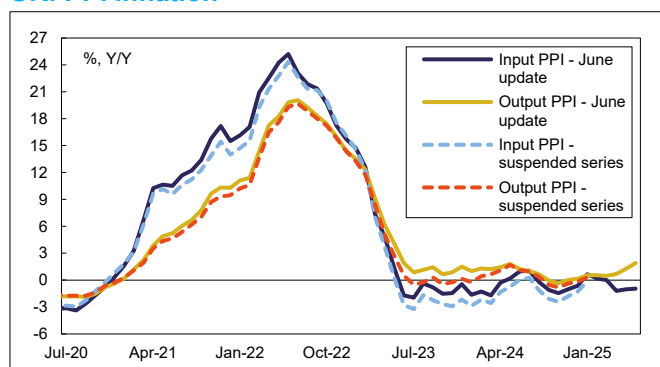
## Regulated energy prices to rise a touch above expectations in October, reducing drag from energy

Finally, today's announcement of a 2% increase in the Ofgem household energy price cap from October was a touch firmer than expectations of a rise of 1%. The increase also came despite a near-2%Q/Q decline in wholesale costs, with network and policy costs, the latter tied to an extension of the Warm Home Discount scheme for low-income households, principally responsible for the increase. Though considerably softer than the 9.5% increase 12 months earlier – which means that energy CPI inflation will come down from its peak in September – energy will provide slightly less of a drag on headline inflation in Q4 than we had expected. As such, we now expect CPI inflation to average 3.7%Y/Y in Q4, 0.1ppt firmer than our previous expectation. While only a modest upwards revision, that adds another complicating factor which may make a November cut that little bit more difficult to justify.

## The day ahead in the UK

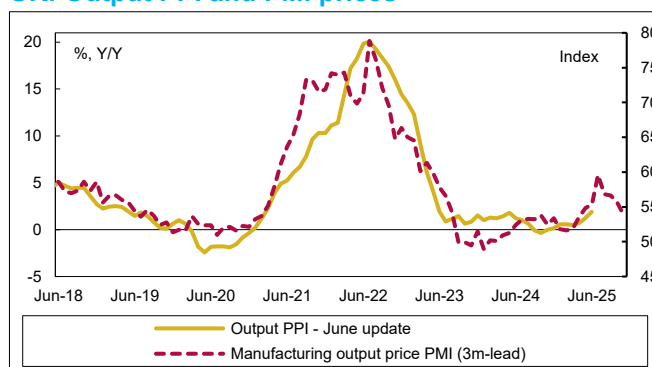
No top-tier data are scheduled for release in the UK on Thursday.

### UK: PPI inflation



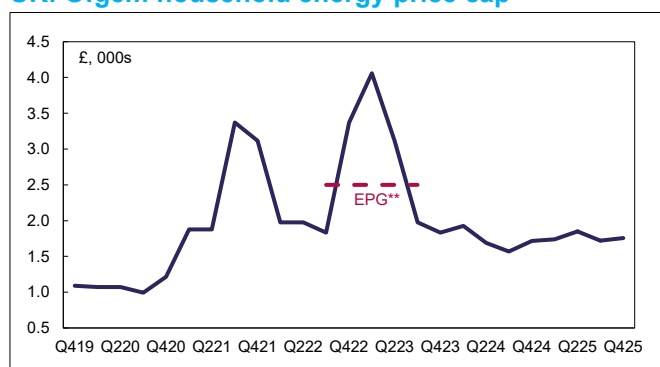
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Output PPI and PMI prices



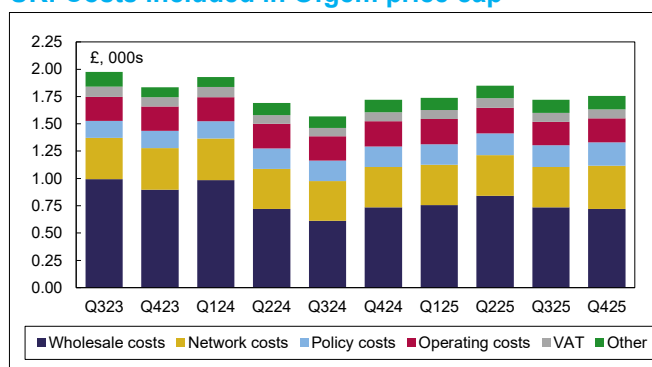
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Ofgem household energy price cap\*



\*Direct debit. Biannual data until Q322. \*\*Energy price guarantee.  
 Source: Ofgem and Daiwa Capital Markets Europe Ltd.

### UK: Costs included in Ofgem price cap\*





\*Direct debit. Source: Ofgem and Daiwa Capital Markets Europe Ltd.



# European calendar

## Today's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <u>Daiwa forecast</u>	Previous	Revised
Germany	 GfK consumer confidence indicator	Sep	<b>-23.6</b>	-21.5	-21.5	-21.7
UK	 CBI distributive trades survey – reported retail sales balance %	Aug	<b>-32</b>	-	-34	-



### Auctions

Country	Auction
Germany	 sold €2.675bn of 2.5% 2032 bonds at an average yield of 2.46%
UK	 sold £5bn of 4.375% 2028 bonds at an average yield of 3.991%


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Tuesday's results

### Economic data

Country	Release	Period	Actual	Market consensus/ <u>Daiwa forecast</u>	Previous	Revised
France	 INSEE consumer confidence indicator	Aug	<b>87</b>	89	89	88
UK	 BRC shop price index Y/Y%	Aug	<b>0.9</b>	1.0	0.7	-




### Auctions

Country	Auction
Italy	 sold €3bn of 2.1% 2027 bonds at an average yield of 2.2%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

## Monday's results

### Economic data








Country	Release	Period	Actual	Market consensus/ <u>Daiwa forecast</u>	Previous	Revised
Germany	 ifo business climate indicator	Aug	<b>89.0</b>	88.8	88.6	-
	 ifo current assessment (expectations) indicator	Aug	<b>86.4 (91.6)</b>	86.7 (90.5)	86.5 (90.7)	- (90.8)
Spain	 PPI Y/Y%	Jul	<b>0.3</b>	-	0.8	1.0

### 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
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 (-10.1)	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	97.3	97.2
		09.00	ISTAT business (manufacturing) confidence indicator	Aug	-	93.6 (87.8)

**Auctions and events**

Euro area		12.30	ECB to publish monetary policy account of July 23-24 Governing Council meeting		
Italy		10.00	Auction: to sell €2.75bn of 2.7% 2030 bonds		
		10.00	Auction: to sell €2bn of 3.6% 2035 bonds		
		10.00	Auction: to sell €1.25bn of 3.65% 2035 bonds		
		10.00	Auction: to sell €2bn of 2034 floating bonds		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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