

Euro wrap-up

Overview

- Bunds made modest losses as German inflation rose more than expected in August.
- Gilts also closed slightly lower amid further speculation about potential tax-raising measures in the autumn Budget.
- The coming week will bring flash August estimates of euro area inflation, July retail sales figures from the euro area and UK and German factory orders data.

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Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	1.933	+0.005
OBL 2.2 10/30	2.254	+0.016
DBR 2.6 08/35	2.722	+0.031
UKT 3% 03/27	3.938	+0.010
UKT 4% 03/30	4.104	+0.011
UKT 4½ 03/35	4.724	+0.026

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

Euro area

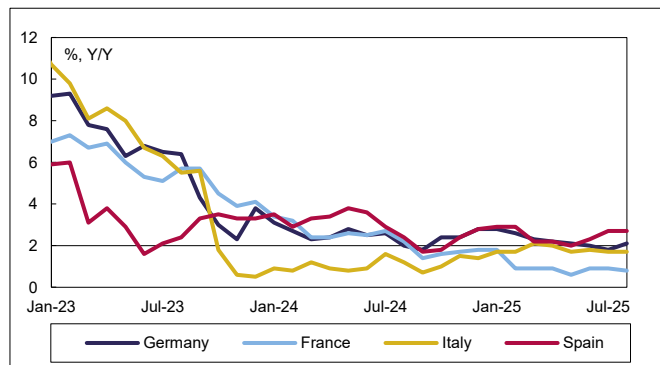
German headline inflation rises more than expected in August, but core inflation unchanged

The flash August inflation estimates from the large member states were mixed. But on balance, we maintain our view that the headline euro area HICP rate, due for publication on Tuesday, edged slightly higher this month, albeit by just 0.1ppt to 2.1%Y/Y. Today's flash German numbers were supportive of this view, with the EU-harmonised measure of inflation rising a little stronger than expectations, by 0.3ppt to 2.1%Y/Y, a three-month high. The national CPI measure also rose 0.2ppt to 2.2%Y/Y. This reflected an increase in goods price pressures, with the annual rate of decline in energy inflation the softest in six months, while food inflation ticked up to a three-month high. And despite an ongoing absence of pipeline price pressures, not least reflecting a further decline in import prices this month, our estimate of core goods CPI inflation edged up to an eight-month high. More encouraging in the national release was the sideways move in services inflation at a near-three-year low. The detail from the Lander suggested a moderation in inflation of restaurants and hotels offset a slight pickup in package holidays. As such, overall, the core CPI rate was unchanged at 2.7%Y/Y for a third consecutive month, just 0.1ppt above the near-four-year low recorded in March.

Inflation in France, Italy and Spain comes in below expectations

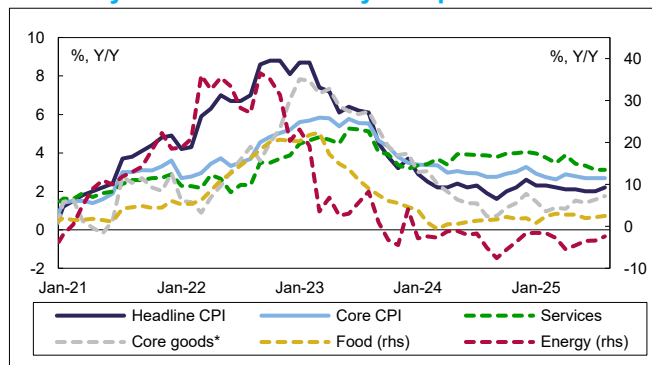
The flash August inflation estimates from the other large member states came in on the soft side of expectations. Headline HICP inflation in France edged lower, by 0.1ppt to 0.8%Y/Y, by far the softest rate of the larger member states and a reading likely to be lower in the region only in Cyprus. And contrasting expectations of a modest pickup, Italian and Spanish inflation on the EU-harmonised measure moved sideways at 1.7%Y/Y and 2.7%Y/Y respectively. As in Germany, the energy components in France and Spain provided a modest upwards impulse, in part relating to less favourable base effects in auto fuel prices. But Italian energy provided a larger drag due to more favourable regulated energy pricing compared with a year ago. Contrastingly, while food inflation continued to trend marginally higher in Italy, it seemingly stabilised in France and Spain. Meanwhile, services inflation moved sideways in Italy despite increases in recreation, communication and hospitality. And lower transport costs led a notable easing in French services inflation, by 0.4ppt to 2.1%Y/Y, the joint-softest rate since January 2021. So, given the ongoing absence of non-energy industrial goods pressures, French core inflation likely edged lower last month, while the Italian core rate moved sideways. Overall, given today's data, we now think that euro area core inflation was unchanged in August at 2.3%Y/Y. But not least due to the high rounding in July's headline rate (2.04%Y/Y), euro area inflation likely edged back slightly above the ECB's target in August, to 2.1%Y/Y, with risks seemingly skewed to the upside.

Euro area member states: Headline HICP inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: CPI inflation & key components



*Non-energy industrial goods.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

German retail sales likely to decline Q3, but welcome signs that labour market is stabilising

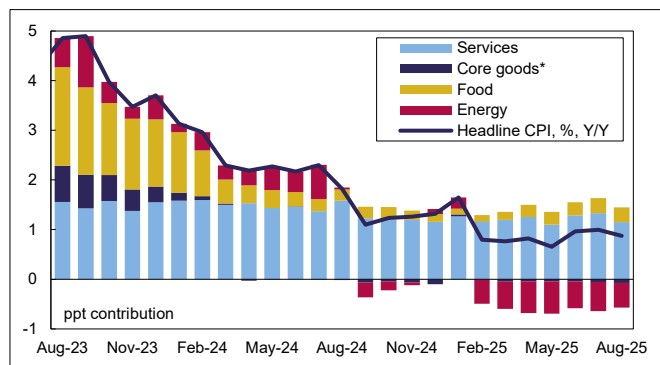
While German GDP has drifted slightly lower since reaching a post-pandemic peak in Q322, private consumption has proved a bright spot, contributing positively for six consecutive quarters as restored purchasing power supported a recovery in consumer spending. Yet despite a further pickup real wages last quarter, private consumption growth slowed sharply amid exceptional uncertainty, to just 0.1%Q/Q. And July's retail sales figures started Q3 on a particularly weak note to raise the risk that consumption lost further momentum in Q3. Indeed, having risen a sizeable 1.0%M/M in June, retail sales volumes contracted at their sharpest rate since March 2023 (-1.5%M/M), with a broad-based pull back across food (-1.9%M/M), auto fuels (-2.5%M/M) and core goods (-0.7%M/M). That left total sales volumes on par with their level in December. And at 1.1% below the Q2 average, German retail sales' six-quarter growth streak looks set to end in Q3. While notably contrasting with certain indicators of business sentiment, today's data are broadly consistent with the deterioration in consumer sentiment as well as diminished retailer confidence. Geopolitical uncertainty and the softening of the labour market over past quarters likely explains some of that. Indeed, employment in Germany fell last quarter. But, more optimistically, today's labour market data indicated welcome stabilisation. Following a marginal increase in jobless claims in July, they fell slightly in August for the first time in more than 18 months. And while just a modest 9k, that was also the largest drop since January 2023. Of course, the PMIs still suggest that labour demand among German businesses remains tepid, a signal reflected in the continued decline in job vacancies. But with the claimant count rate having potentially peaked, at 6.3% now for six months, and less uncertainty weighing on the economic outlook, we see the prospects for a recovery in consumer confidence, and with it retail sales, towards the end of the year.

The week ahead in the euro area

The coming week's euro area data flow will bring several releases of note to inform the ECB's updated macroeconomic projections, which will frame the debate at its next monetary policy meeting on 11 September. The most notable release will be the flash euro area inflation estimates for August (due Tuesday). The data from the largest member states suggest that the headline CPI rate likely edged up 0.1ppt to a four-month high of 2.1%Y/Y. Given a sharper drop in fuel prices a year earlier, that will reflect a smaller drag from energy inflation while food prices might also add pressure. But despite a possible rebound in certain holiday-related services components, core inflation likely moved sideways at 2.3%Y/Y, the joint-lowest since January 2022.

In terms of other top-tier releases, the euro area unemployment rate (Monday) seems likely to have remained in July at its series low of 6.2% to provide reassurance that the labour market and underlying economic activity remain relatively resilient. Given weakness in Germany and France, however, euro area retail sales (Thursday) are likely to have been soft in July after

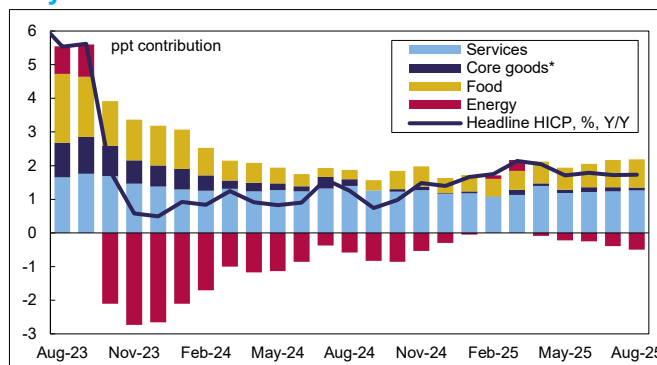
France: Contributions to CPI inflation



*Non-energy industrial goods.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

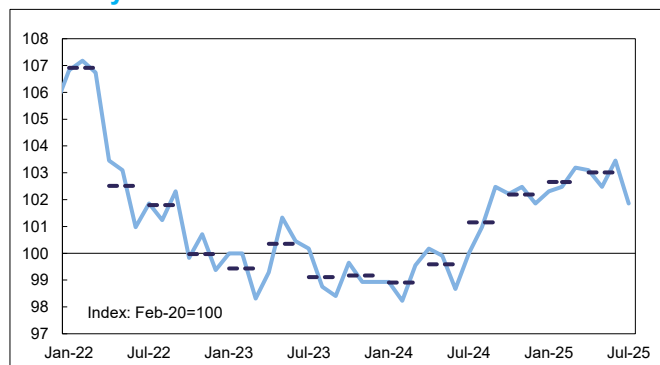
Italy: Contributions to HICP inflation



*Non-energy industrial goods.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

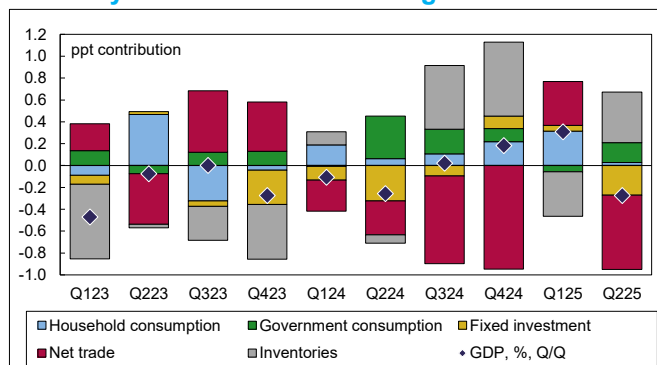
Germany: Retail sales volumes*



*Dashed lines show quarterly averages.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Contributions to GDP growth

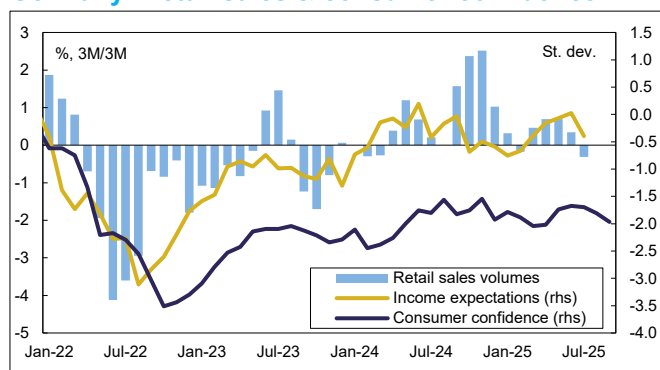


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

solid growth in Q2 (0.7%Q/Q). In contrast, despite uncertainty surrounding the impact of higher US tariffs, German factory orders (Friday) are likely to have rebounded in July following two months of declines to maintain hopes of gradual manufacturing recovery by year-end. Given the downwards revision in [Germany](#) (-0.3%Q/Q) and the possibility of a similar markdown in Ireland (data due Thursday), the final estimates of euro area Q2 GDP (also Friday) are at risk of revising away the initial growth estimate of 0.1%Q/Q to zero or worse. The expenditure contributions, to be published for the first time, will likely show that household consumption slowed from Q1, but government consumption accelerated. But fixed investment and net trade likely subtracted significantly from growth after making substantive contributions in Q1 not least due to tariff front-running. Inventory accumulation likely provided some offset.

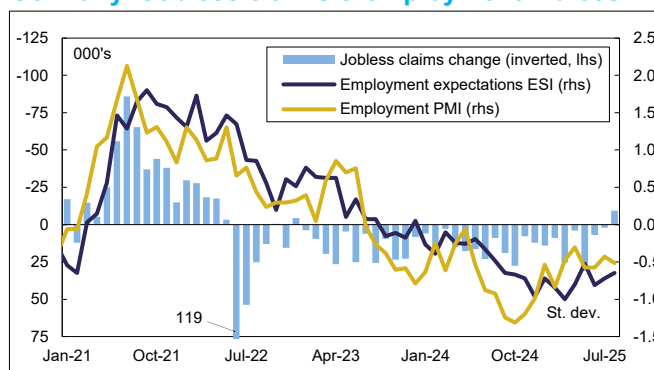
Survey-wise, the final August PMIs for manufacturing (Monday), services (Wednesday) and construction (Thursday) are likely to reaffirm the signal of a slight factory-led pickup in momentum suggested in the [flash estimates](#). Most notably, the flash euro area composite PMI edged up 0.2pt to a 15-month high (51.1) while the manufacturing output (52.3) and new orders indices (50.8) were the best since Russia's invasion of Ukraine.

Germany: Retail sales & consumer confidence



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

Germany: Jobless claims & employment indices



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

UK










The week ahead in the UK

The past few days have been uneventful for UK data, with the economic news-flow dominated by continued (unhelpful) speculation about options for possible tax hikes in the autumn government Budget, including today's IPPR thinktank proposal for a levy on bank reserves at the BoE. According to the authors, that measure might raise £7-8bn per year, a debatable amount that might anyway be expected to be passed on to bank customers in the form of higher borrowing costs and fees.

Looking ahead, the coming week will bring a few data releases of interest to the BoE's MPC, including the August DMP survey results (Thursday), July retail sales figures (Friday), and final August PMIs throughout the week. With inflation having taken a significant step back up in April and expected to peak around 4.0%Y/Y in September, the DMP survey will be studied for any upwards pressure on business inflation and wage expectations. So far this year, the pickup in CPI inflation has not translated to a material increase in business inflation expectations for the coming 12 months, while the signals on wage expectations point to ongoing moderation in pay growth, which (in the eyes of the slim majority on the MPC) justified this month's BoE rate cut. Separately, the retail sales data, whose release was previously postponed for quality assurance purposes, are expected to report a second successive month of growth in July, albeit moderating from June to 0.4%M/M. However, the BRC survey suggested downside risks to that view. And the possibility of significant revisions to estimates of prior months raises further uncertainty. Lastly, the final PMIs for August are likely to reaffirm the encouraging message of the flash estimates. Most notably, the flash composite PMI rose 1.5pts to a 12-month high (53.0) as the activity index for the all-important services sector (53.6) jumped back above its pre-pandemic average. Despite signs of broadly steady output, the headline manufacturing PMI was disappointing, dropping 1pt to a three-month low (47.3) on weaker demand. Aside from the data, the appearance of several MPC members, including Governor Bailey, before the Treasury Select Committee on Wednesday to discuss the Bank's latest Monetary Policy Report will also be closely watched for further insights into near-term policy decisions.
















The next Euro wrap-up will be published on Tuesday 2 September 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	2.2	2.4	1.9	1.9	2.2	1.8	1.8
Core HICP		2.6	2.4	2.3	2.5	2.3	1.8	2.5	1.9	1.6
UK										
Headline CPI		2.8	3.5	3.9	3.7	3.3	2.6	3.5	2.7	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	 ECB consumer expectations survey – 1Y (3Y) CPI Y/Y%	Jul	2.6 (2.5)	2.5 (2.4)	2.6 (2.4)	-
Germany	 Preliminary HICP (CPI) Y/Y%	Aug	2.1 (2.2)	2.0 (2.1)	1.8 (2.0)	-
	 Retail sales M/M% (Y/Y%)	Jul	-1.5 (2.3)	0.0 (2.5)	1.0 (2.4)	-
	 Unemployment claims rate % (change 000s)	Aug	6.3 (-9)	6.3 (10)	6.3 (2)	-
	 Import prices M/M% (Y/Y%)	Jul	-0.4 (-1.4)	-0.3 (-1.2)	0.0 (-1.4)	-
France	 GDP – final estimate Q/Q% (Y/Y%)	Q2	0.3 (0.8)	<u>0.3 (0.7)</u>	0.1 (0.6)	-
	 Total (private sector) payrolls Q/Q%	Q2	0.2 (0.2)	- <u>(0.0)</u>	-0.1 (-0.1)	-
	 Preliminary HICP (CPI) Y/Y%	Aug	0.8 (0.9)	0.9 (1.0)	0.9 (1.0)	-
	 PPI Y/Y%	Jul	0.4	-	0.2	0.3
	 Consumer spending M/M% (Y/Y%)	Jul	-0.3 (-0.1)	-0.3 (0.1)	0.3 (0.9)	0.4 (0.6)
Italy	 GDP – final estimate Q/Q% (Y/Y%)	Q2	-0.1 (0.4)	<u>-0.1 (0.4)</u>	0.3 (0.7)	-
	 Preliminary HICP (CPI) Y/Y%	Aug	1.7 (1.6)	1.8 (1.7)	1.7 (1.7)	-
Spain	 Preliminary HICP (CPI) Y/Y%	Aug	2.7 (2.7)	2.8 (2.8)	2.7 (2.7)	-
	 Retail sales Y/Y%	Jul	4.7	-	6.2	6.3
UK	 Lloyds business barometer (own price expectations) % balance	Aug	54 (65)	-	52 (61)	-
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
Monday 1 September 2025						
Euro area		09.00	Final manufacturing PMI	Aug	<u>50.5</u>	49.8
		10.00	Unemployment rate %	Jul	6.2	6.2
Germany		08.55	Final manufacturing PMI	Aug	<u>49.9</u>	49.1
France		08.50	Final manufacturing PMI	Aug	<u>49.9</u>	48.2
Italy		08.45	Manufacturing PMI	Aug	49.8	49.8
Spain		08.15	Manufacturing PMI	Aug	52.0	51.9
UK		07.00	Nationwide house prices M/M% (Y/Y%)	Aug	0.0 (2.7)	0.6 (2.4)
		09.30	Net consumer credit £bn (Y/Y%)	Jul	1.3 (-)	1.4 (6.7)
		09.30	Net mortgage lending £bn (mortgage approvals 000s)	Jul	3.5 (63.9)	5.3 (64.2)
		09.30	Final manufacturing PMI	Aug	<u>47.3</u>	48.0
Tuesday 2 September 2025						
Euro area		10.00	Preliminary headline (core) HICP Y/Y%	Aug	<u>2.1 (2.3)</u>	2.0 (2.3)
Italy		10.00	PPI Y/Y%	Jul	-	3.9
Spain		08.00	Unemployment (net employment) change 000s	Aug	-	-1.4 (31.1)
Wednesday 3 September 2025						
Euro area		09.00	Final composite (services) PMI	Aug	<u>51.1 (50.7)</u>	50.9 (51.0)
		10.00	PPI Y/Y%	Jul	-0.1	0.6
Germany		08.55	Final composite (services) PMI	Aug	<u>50.9 (50.1)</u>	50.6 (50.6)
France		08.50	Final composite (services) PMI	Aug	<u>49.8 (49.7)</u>	48.6 (48.5)
Italy		08.45	Composite (services) PMI	Aug	51.5 (52.3)	51.5 (52.3)
Spain		08.15	Composite (services) PMI	Aug	-	54.7 (55.1)
UK		09.30	Final composite (services) PMI	Aug	<u>53.0 (53.6)</u>	51.5 (51.8)
Thursday 4 September 2025						
Euro area		08.30	Construction PMI	Aug	-	44.7
		10.00	Retail sales M/M% (Y/Y%)	Jul	-0.2 (2.4)	0.3 (3.1)
Germany		08.30	Construction PMI	Aug	-	46.3
France		08.30	Construction PMI	Aug	-	39.7
Italy		08.30	Construction PMI	Aug	-	48.3
UK		09.00	New car registrations Y/Y%	Aug	-	-5.0
		09.30	DMP 3M output price (1Y CPI) expectations Y/Y%	Aug	-	3.7 (3.2)
		09.30	Construction PMI	Aug	45.0	44.3
Friday 5 September 2025						
Euro area		10.00	GDP – third estimate Q/Q% (Y/Y%)	Q2	<u>0.1 (1.4)</u>	0.6 (1.5)
		10.00	GDP – private consumption Q/Q%	Q2	-	0.3
		10.00	GDP – government spending Q/Q%	Q2	-	-0.1
		10.00	GDP – fixed investment Q/Q%	Q2	-	2.7
		10.00	Employment – final estimate Q/Q% (Y/Y%)	Q2	<u>0.1 (0.7)</u>	0.2 (0.7)
Germany		07.00	Factory orders M/M% (Y/Y%)	Jul	0.5 (-0.6)	-1.0 (0.8)
France		07.45	Trade balance €bn	Jul	-	-7.6
Italy		09.00	Retail sales M/M% (Y/Y%)	Jul	-	0.3 (0.7)
Spain		08.00	House price index Q/Q% (Y/Y%)	Q2	-	3.5 (12.2)
UK		07.00	Retail sales – excl. auto fuel M/M% (Y/Y%)	Jul	0.4 (1.3)	0.9 (1.7)
		07.00	Retail sales – excl. auto fuel M/M% (Y/Y%)	Jul	0.3 (1.1)	0.6 (1.8)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 1 September 2025		
- Nothing scheduled -		
Tuesday 2 September 2025		
Germany 	10.30	Auction: to sell €4.5bn of 1.9% 2027 bonds
Wednesday 3 September 2025		
Euro area 	09.30	ECB President Lagarde to give welcome address to European Systemic Risk Board conference
Germany 	10.30	Auction: to sell €5bn of 2.6% 2035 bonds
UK 	14.15	BoE Governor Bailey, Deputy Governor Lombardelli & external members Taylor & Greene to appear before the Treasury Select Committee
Thursday 4 September 2025		
France 	09.50	Auction: to sell up to €11bn of 3.5% 2035, 2.6% 2042 and 3.75% 2056 bonds
Spain 	09.30	Auction: to sell 1.4% 2028, 3.1% 2031, 4.2% 2037 bonds and 1% 2030 inflation-linked bonds
UK 	10.00	Auction: to sell £800m of 0.625% 2045 inflation-linked bonds
Friday 5 September 2025		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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