

Euro wrap-up

Overview

- Bunds made losses but OATs slightly outperformed while François Bayrou submitted his resignation as French Prime Minister.
- Gilts also made modest losses as a UK retail survey pointed to ongoing sales growth in August.
- July IP data from Italy, Spain and Ireland are due on Wednesday while the ECB will leave policy unchanged and publish updated macro projections on Thursday.

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Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	1.941	+0.021
OBL 2.2 10/30	2.227	+0.021
DBR 2.6 08/35	2.663	+0.022
UKT 3¾ 03/27	3.907	+0.013
UKT 4¾ 03/30	4.033	+0.013
UKT 4½ 03/35	4.619	+0.016

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

Euro area

French political noise likely to persist into 2026 preventing meaningful consolidation

After his predictable confidence vote defeat yesterday evening, François Bayrou today submitted his resignation as French Prime Minister. He will stay in office in caretaker form until his successor is confirmed. But by the start of next week President Macron is likely to have nominated his third Prime Minister in a little more than a year, who will be the fifth to have served in the last two years. As that person will have to be able to survive an initial censure motion, we suspect the appointee will again come from the centre-right such as Defence Minister Lecornu or Justice Minister Darmanin. Current Finance Minister Lombard, who is nominally politically independent, might be an alternative. Regardless of their identity, however, we assume that the new Prime Minister will face significant opposition within the national assembly to their subsequent draft finance bill, due by 7 October. Indeed, our baseline assumption is that – in a repeat of events at the start of this year – a special law will be required to rollover the 2025 budget into 2026 before a compromise might eventually be reached.

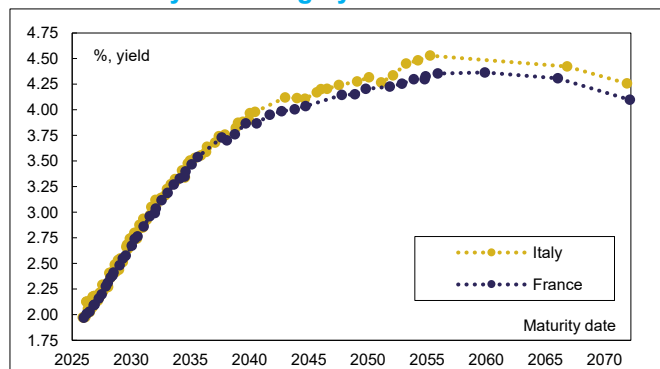
Budget deficit will remain high but underlying French strengths provide some comfort

So, meaningful French fiscal consolidation is highly likely to remain elusive. But while the political and fiscal uncertainty will somewhat weigh on economic sentiment and activity, we continue to project positive economic growth in France. So, rather than increase significantly, we expect the general government deficit to continue to move broadly sideways close to last year's level (5.8% of GDP). That means the government debt stock will continue to rise steadily, closer to Italian levels, justifying the significant recent narrowing of BTP spreads over OATs up to 10Y maturities. And ahead of the conclusion of Fitch's latest French rating review on Friday, a sovereign downgrade by one or of the major agencies would hardly come as a surprise. We take comfort, however, from various French strengths including the robust banking sector and broadly balanced external current account. So, while the 2027 Presidential could eventually be pivotal, talk of a French debt crisis over the coming quarters looks overblown.

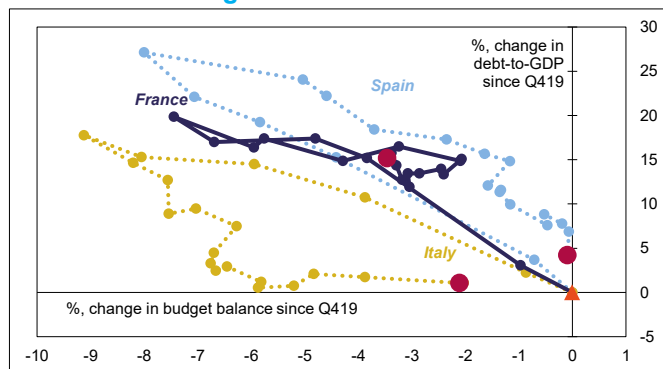
French industrial production slips back in July, but still suggestive of growth in Q3

Our hopes of continued French economic resilience to the political crisis are supported by the better-than-expected recent data. GDP growth accelerated 0.2ppt in Q2 to a respectable 0.3%Q/Q, outperformed only by Spain among the five largest member states. Admittedly, this reflected a sizeable contribution from inventories, while final domestic demand remained lacklustre and net trade subtracted from growth. But data published so far suggest, on balance, another quarter of expansion in Q3. Certainly, exports appear on track to provide support after rising in July (2.6%M/M) to the second highest level in more

France & Italy: Sovereign yield curves



Cumulative change in fiscal indices since Q419*

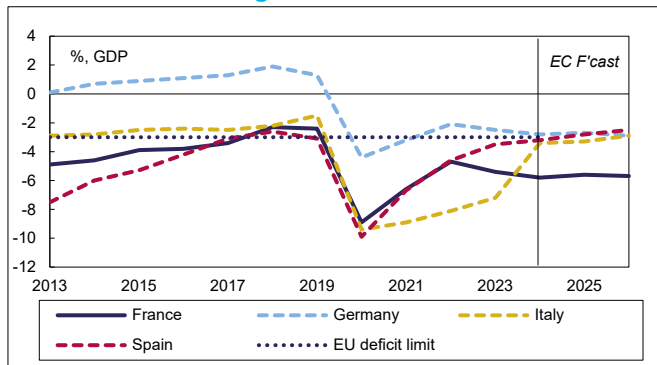


than two years amid a rebound in shipments to Asia. After the surge in June (3.7%M/M), industrial production declined in July (-1.1%M/M) for a third month out of the past four. But it was still more than 1% above the Q2 average. Energy output rose to its highest level this year, more than 6% above the Q2 average, while manufacturing production was broadly flat compared with Q2. There was substantial payback in aerospace (-18%M/M) after strength in June, and renewed weakness in autos (-1½%M/M) and machinery and equipment (-5½%M/M). But while total capital goods output was trending a touch below the Q2 level, production of intermediate goods and consumer durables rose, with the latter up to a 15-month high more than 3% above the Q2 average. On balance, surveys suggest that conditions in manufacturing and services were broadly stable over the summer. And, overall, we currently forecast French GDP growth in Q3 at ¼%Q/Q.

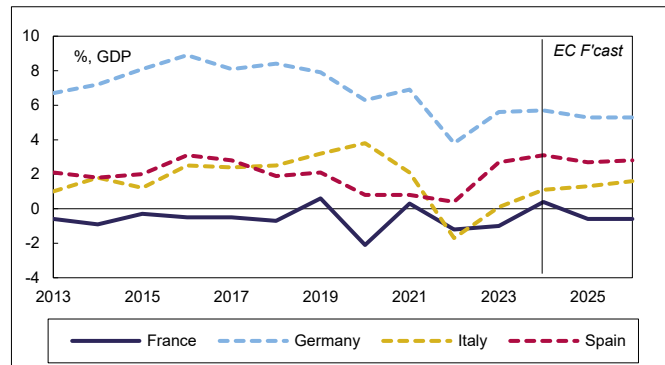
The coming two days in the euro area

After Wednesday's Italian, Spanish and Irish data round out July's IP readings from the largest manufacturing member states, all eyes will turn to Thursday's ECB decision. The Governing Council is bound to hold rates for a second successive meeting. Indeed, with the Deposit Rate at 2.00% broadly in line with ECB staff median estimates for the neutral rate, recent policymaker comments have mostly echoed Lagarde's sentiment about policy being in a 'good place'. The policymakers should also view the resilience of economic activity, a slightly firmer near-term inflation outlook and two-sided risks further ahead as reinforcing the case for steady rates. But although we think the ECB has now reached terminal rate on its easing cycle, Lagarde won't make a formal declaration to that effect as the external environment remains uncertain and downside risks remain non-negligible. So, the ECB's well-rehearsed 'data-dependent, meeting-by-meeting' forward guidance will be maintained. And the ECB's updated macroeconomic projections will justify the policy decision. Notwithstanding near-term food-related pressures on inflation, we expect the staff to continue to forecast a modest target undershoot in 2026, not least due to recent euro strength above the path assumed in June. But we also expect the projections to assert that the undershoot will be only temporary, with the gradual boost to GDP from German fiscal measures due to be increasingly felt further out in the forecast. Moreover, the ECB's projection for GDP growth this year will have to be revised higher to reflect the passing of peak uncertainty and the stronger growth performance in H125. You can read our full ECB preview in last Friday's [Euro wrap-up](#).

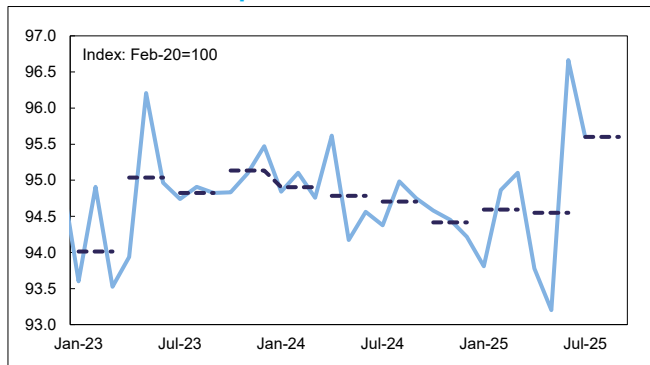
Euro area: General government balance



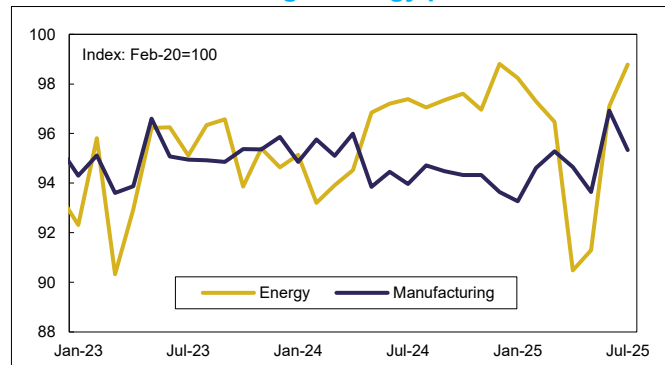
Euro area: Current account balance



France: Industrial production*



France: Manufacturing & energy production



UK

BRC survey points to solid sales growth in August as sunny weather and rate cuts boost spending

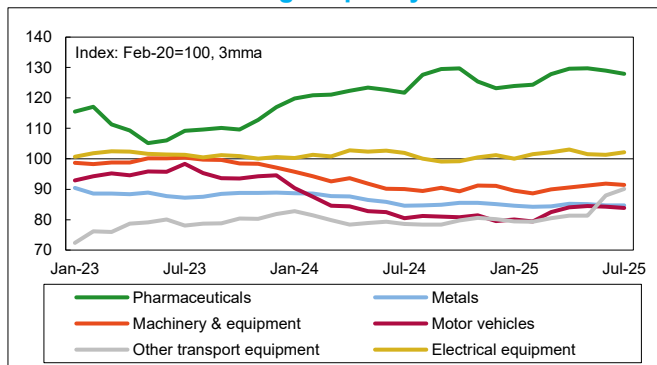
Despite recent revisions to the data for the first half of the year, UK retail sales contributed positively to GDP growth in both Q1 and Q2. The official [July figures](#) released last week suggested that sales volumes remained solid at the start of Q3. And, contrasting the downbeat assessment from the CBI's distributive trades survey, today's BRC retail monitor reported another decent month for spending on the high street in August. In particular, the BRC's measure of retail sales values growth accelerated 0.6ppt to 3.1%Y/Y, the second-firmer annual rate this year. Like-for-like sales growth jumped 1.1ppt to 2.9%Y/Y, similarly more than 1ppt above the 12-month average. Adjusting for the BRC's measure of prices, like-for-like sales volumes rose a respectable 2.1%Y/Y. Growth in spending at food stores remained firm (4.7%Y/Y), although this partly reflected the steady uptrend in food inflation to an 18-month high (4.2%Y/Y on the BRC's measure). Meanwhile, non-food sales rose in nominal terms by 1.8%Y/Y, double the pace in July, and 2.6%Y/Y in real terms. The BRC attributed firm sales growth in August to continued sunny weather and the further cut to interest rates at the start of the month. And while jobs growth continues to weaken, pay growth in moderating and there remain ongoing uncertainties with respect to the nature of tax hikes to come in the autumn budget, a gradual improvement in consumer confidence suggests that the retail sector should contribute positively to GDP growth for a third consecutive quarter in Q3.

The coming two days in the UK

With July's monthly GDP estimates not due until Friday, the coming two days should be relatively quiet for UK economic news. The sole data release on our radar will be Thursday's RICS survey, which will provide an update on surveyor views of housing market activity last month. Despite more upbeat signals from UK mortgage lending figures, July's RICS survey flagged a deterioration in conditions amid a pullback in agreed sales and weaker price expectations. Reports that significant changes to housing taxation are under consideration by the government are weighing on transactions, particularly at the upper end of the market.

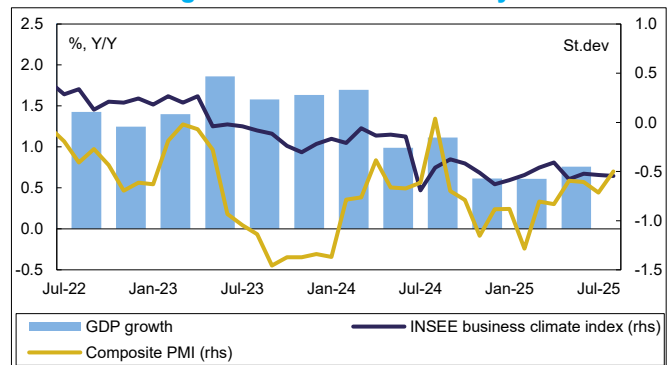
The next Euro wrap-up will be published on Thursday 11 September 2025

France: Manufacturing output by selected subsector



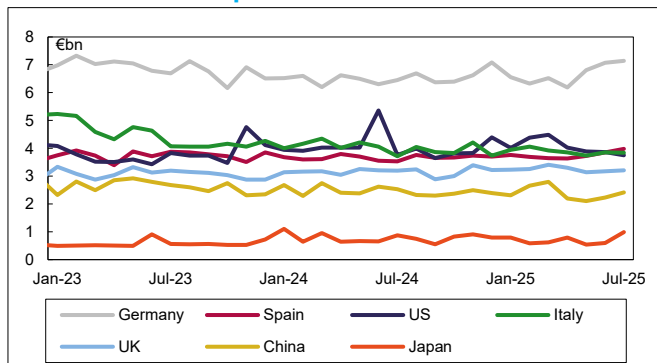
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: GDP growth & business survey indices



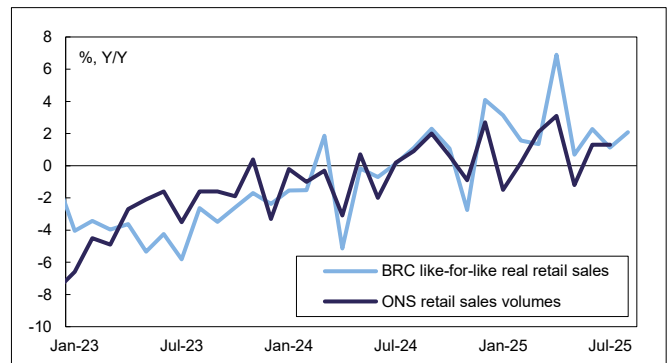
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Goods export values



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes



Source: Macrobond 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
France	 Industrial production M/M% (Y/Y%)	Jul	-1.1 (1.3)	-1.4 (0.7)	3.8 (2.0)	3.7 (2.2)
UK	 BRC retail monitor – like-for-like sales Y/Y%	Aug	2.9	2.0	1.8	-

Auctions

Country	Auction
Germany	 sold €491m of 0% 2031 green bonds at an average yield of 2.25%
	 sold €851m of 2.5% 2035 green bonds at an average yield of 2.61%
UK	 sold £1.75bn of 4.75% 2043 bonds at an average yield of 5.291%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Italy	 09.00	Industrial production M/M% (Y/Y%)	Jul	0.1 (-0.1)	0.2 (-0.9)
Spain	 08.00	Industrial production M/M% (Y/Y%)	Jul	-0.2 (2.6)	1.0 (2.3)

Auctions and events

Germany	 10.30	Auction: to sell €1bn of 4.75% 2040 bonds
	 10.30	Auction: to sell €1.5bn of 2.6% 2041 bonds
UK	 10.00	Auction: to sell £4bn of 4% 2031 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	 08.30	ECB Deposit (Refinancing) Rate %	Sep	2.00 (2.15)	2.00 (2.15)
UK	 00.01	RICS house price balance %	Aug	-10	-13

Auctions and events

Euro area	 13.15	ECB monetary policy announcement
	 13.45	ECB President Lagarde to hold post-Governing Council meeting press conference, Frankfurt
	 14.45	ECB to publish updated macroeconomic projections
Italy	 10.00	Auction: to sell up to €3.25bn of 2.35% 2029 bonds
	 10.00	Auction: to sell up to €1.5bn of 4% 2030 bonds
UK	 10.00	Auction: to sell £1.25bn of 0.5% 2029 bonds
	 10.00	Auction: to sell £1bn of 4.25% 2032 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

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

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