

Euro wrap-up

Overview

- Bunds made losses while a survey suggested that French business conditions remain broadly stable despite political uncertainty and strikes.
- Gilts also made losses as UK public borrowing significantly exceeded expectations, retail sales growth remained steady, but consumer confidence deteriorated.
- The coming week brings various survey results for September including the flash PMIs and euro area consumer confidence index, and German ifo business conditions indices.

Chris Scicluna

+44 20 7597 8326

Emily Nicol

+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	2.016	+0.013
OBL 2.2 10/30	2.322	+0.021
DBR 2.6 08/35	2.743	+0.022
UKT 3¾ 03/27	3.966	+0.015
UKT 4¾ 03/30	4.122	+0.023
UKT 4½ 03/35	4.710	+0.035

*Change from close as at 4:00pm BST.

Source: Bloomberg

Euro area

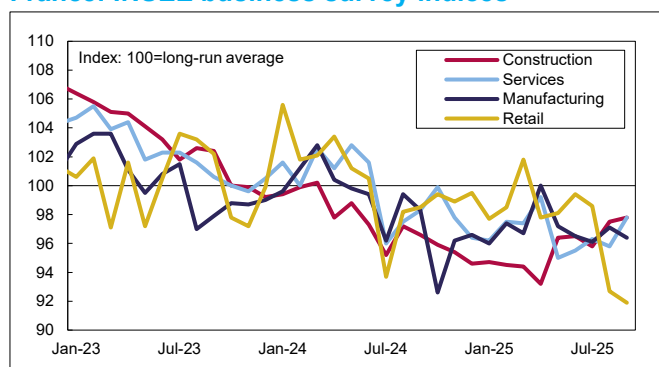
French business conditions remain stable, but downbeat retailers flag downside risks

Despite heightened political uncertainties after the collapse of the Bayrou government and strikes against proposed budget-tightening measures, today's French INSEE survey suggested that business conditions remained broadly stable at the end of Q3. In particular, the headline sentiment index held steady at 96 for a fifth successive month in September, albeit still some 4% below the long-run average. But the survey detail flagged mixed fortunes among the subsectors. A marked deterioration in the manufacturing output trend was reported this month, which was judged to be weakest since last October, while production expectations were the most downbeat since April amid a further decline in orders. But the weakness was driven principally by other (i.e. non-autos) transport equipment. In contrast, output reportedly increased in a range of other sectors, including machinery and equipment, computer, electronic and optical products and autos. And overall, the headline manufacturing sentiment index shifted only slightly lower (96). There was also a welcome improvement in confidence in services, with the composite index (98) up to a ten-month high, with recent activity judged to be the strongest in 16 months reflecting a strong rebound in information services. And with conditions in the construction sector also assessed to have remained broadly stable, we continue to expect another quarter of solid French GDP growth in Q3 of around 0.3%Q/Q, bang in line with the Bank of France's (BoF) most recent projection. This notwithstanding, risks to the near-term outlook appear skewed to the downside. Certainly, retailers were more downbeat this month, with the respective sentiment index the lowest since spring 2022 and some 8% below the long-run average. And while today's BoF index of retail sales rose for the first month in four in August (0.1%M/M), sales volumes were still trending some 0.8% below the Q2 average.

The week ahead in the euro area

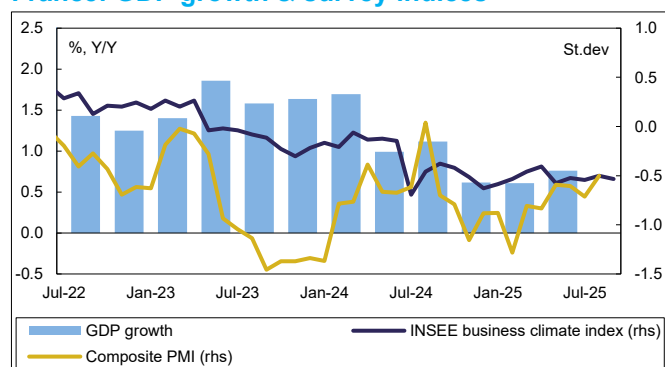
The coming week's euro area dataflow will be centred around September sentiment surveys, which will provide an update on economic growth momentum at the end of Q3. The highlight will be the flash PMIs on Tuesday, which are expected to show the euro area composite output index moving broadly sideways at the 12-month high recorded in August (51.0). This would leave the quarterly index a little more than ½pt above the Q2 level and consistent with a slight acceleration in GDP growth from 0.1%Q/Q last quarter. While the improvement last month was led by the strongest implied manufacturing growth in three years (52.5), the services activity PMI (50.5) signalled a softer pace of expansion, a trend that could be reversed this month. The national PMIs are likely to signal ongoing moderate recovery in Germany, stabilisation in France and continued outperformance elsewhere in the euro area. The German ifo business survey (Wednesday) will provide a cross check on the PMIs, including additional detail on conditions in the retail and construction subsectors. Firms might be expected to report limited improvement in the current economic environment. But, as suggested by the past week's ZEW investor survey, they should remain more upbeat about the outlook for the coming six months. Meanwhile, the Commission's flash consumer

France: INSEE business survey indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: GDP growth & survey indices



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

confidence indicator (Monday) is similarly expected to be little changed from August (-15.5). Indeed, while German consumers might express greater optimism about the near-term outlook due in part to government measures to reduce electricity prices from the start of next year, French households might remain more downbeat amid persisting political uncertainty and strikes. Detailed surveys from both member states (Thursday) will be followed by the equivalent consumer and business survey indices from Italy (Friday). Finally, euro area monetary figures (Thursday) are likely to report a further pickup in bank lending to households and businesses over the summer as borrowing costs continued to moderate.

UK

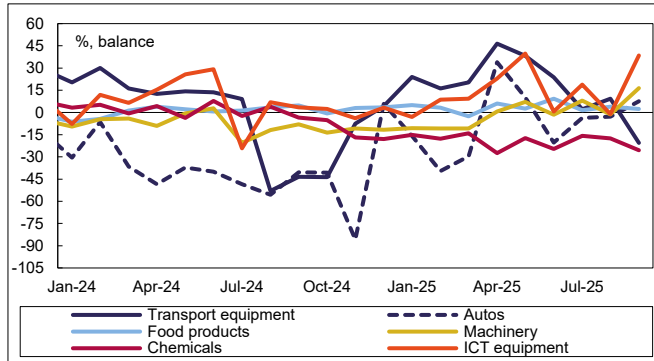
Retail sales growth remains steady in August but consumer confidence softens in September

Retail sales growth remained steady in August, with volumes up 0.5%M/M to match the (downwardly revised) rate of the prior month and beat the June rate by 10bps. That left the average level of sales in the first two months of Q3 some 0.6% above the Q2 average, flagging the likelihood of a third successive quarter of growth in the retail sector. Nevertheless, given the weakness at the end of 2024, sales volumes in August were still up just 0.7%Y/Y, and the level was a touch below their March peak, which was flattered by the timing of Easter this year. Sales were weighed by the auto fuel category, excluding which they rose 0.8%M/M and 1.2%Y/Y. Indeed, with the exception of petrol stations, most categories of sales saw growth in August. Clothing and footwear led the way with sales up by more than 1.0%M/M for the third successive month, benefiting from the warm summer. Food stores also fared better, with sales more than reversing their dip in July despite continued price pressure in the category. But although the new season's clothing should be a beneficiary of a turn for the worse in the weather, footfall and total sales growth seems likely to be weaker in September. Indeed, having risen to a nine-month high in August, the GfK's headline consumer confidence reversed that gain this month to slip back below the 2024 average, albeit remaining in the top half of the range for the current year to date. Households were more downbeat about their personal finances and the economic outlook. And while last month's BoE rate cut meant that they felt less inclined to save, they also signalled less willingness to make major purchases. So, overall, having slowed 0.3ppt to just 0.1%Q/Q in Q2, we expect only a modest pickup in household consumption growth in Q3 and relatively subdued but positive spending growth to be sustained in Q4 too.

Public borrowing jumps well above OBR forecast on VAT & local government shortfalls

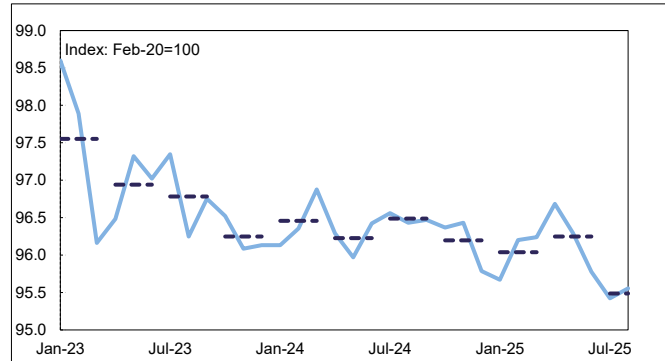
One reason for the softening of consumer confidence this month is likely to be greater uncertainty and unease about the size and nature of tax hikes to be announced in the government's Budget announcement on 26 November. Unfortunately, today's public finances data will reinforce expectations of substantive fiscal tightening to come. Public sector net borrowing

France: INSEE survey – recent production trends



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

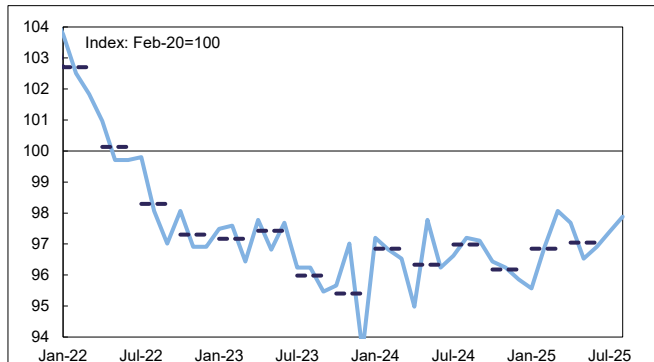
France: Retail sales volumes*



*Dashed dark blue lines represent quarterly average.

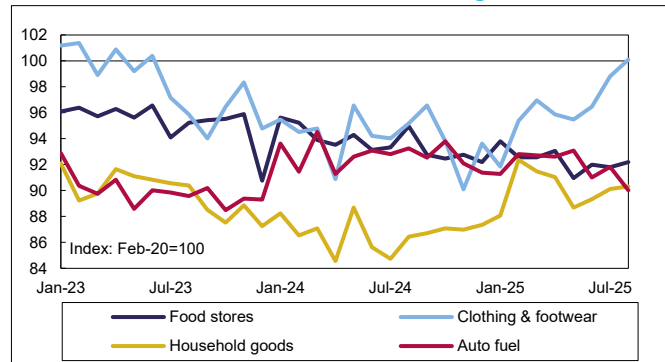
Source: BoF, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes*



*Dark blue dashed line shows quarterly average. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes – selected goods



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

(excluding public sector banks) in August was the highest for the month in five years, up £3.5bn on a year ago and more than £5bn above the median forecast on the Bloomberg survey at £18.0bn. Given some unfavourable revisions, that took cumulative borrowing in the first five months of the fiscal year to £83.8bn, £11.4bn above the OBR's forecast. Central government receipts were some £25.5bn higher in the first five months of the fiscal year compared to the same period in 2024. But they were running below the OBR's expectation in part due to a disappointing VAT take. Meanwhile, net public investment was down on a year ago. Central government current spending was up £36.8bn, largely due to the impact of higher inflation, pay growth and debt interest costs. That category was broadly in line with the OBR's expectation. In contrast, local government borrowing was also up £4.7bn from last year, significantly above the OBR's forecast.

OBR will expect borrowing data to improve but further hike in taxation still likely in November

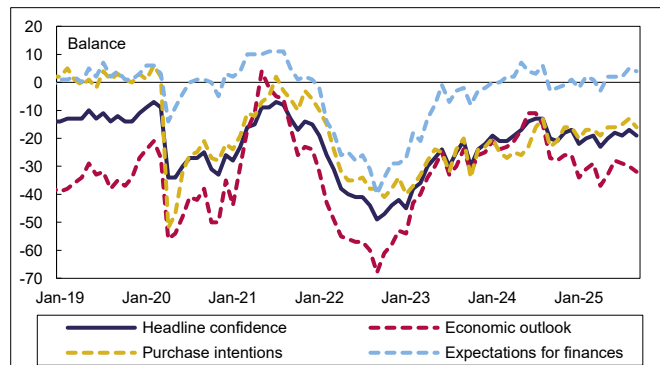
The current budget deficit, which needs to be forecast by the OBR to return to surplus by FY29/30 to meet the Chancellor's principal fiscal rule, was £62.0bn in the fiscal year to August, up £13.8bn on the same period in 2024. Public sector net financial liabilities excluding public sector banks, which should be falling in FY29/30 compared to the prior year to meet her secondary fiscal rule, was provisionally estimated at 84.5% of GDP in August, up 2.5ppts on a year earlier. In March, the OBR forecast that the current budget would reach a surplus of £9.9bn in FY29/30. But while the OBR will still expect borrowing in the second half of the fiscal year to fall back below last year's profile, and the local government borrowing data might well eventually be revised significantly lower, the overrun in the deficit reported today suggests that 'headroom' might have already been more than wiped out. Yesterday's BoE decision on QT will have a minimal additional net impact on the fiscal arithmetic. But the government's costly U-turns on spending reforms as well as the likelihood of a downwards revision to the OBR's productivity growth assumption, on top of the extra borrowing reported today, mean that overall fiscal tightening to be announced in November's Budget could need to reach close to £30bn to remain consistent with the fiscal rules. Last October's Budget announced an increase in taxation of some £40bn, which has weighed on economic growth and added to inflation this year. Given the political difficulty cutting public spending, the forthcoming tightening in November is similarly likely to be centred on higher taxation, and in part on the household sector. So, consumer spending growth seems likely to remain underwhelming into 2026. We would also certainly not be surprised to see increased taxes levied on certain business sectors, including perhaps banks.

The week ahead in the UK

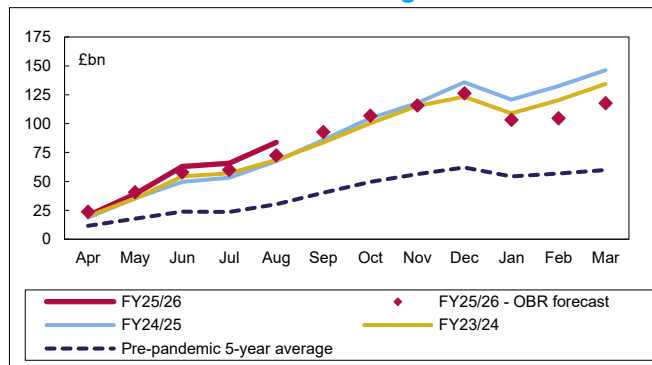
Like in the euro area, sentiment surveys will dominate the UK dataflow in the coming week. The highlight will be the flash September PMIs (Tuesday), which are expected to indicate a slightly softer pace of expansion at the end of Q3 after the composite output index leapt 2pts to a 12-month high in August (53.5). But the composite PMI is nevertheless expected to remain firmly in expansionary territory led by ongoing growth in services. Admittedly, the respective activity index is forecast to drop a little more than 1pt from August's 18-month high (54.2). And, in contrast to the euro area, the manufacturing output PMI is likely to point to ongoing contraction at the end of Q3, amid subdued demand. The CBI's industrial trends survey (also due Tuesday) is similarly expected to signal a further decline in new factory orders in September. Meanwhile, the CBI's distributive trades survey (Thursday) is forecast to report another drop in retail sales growth in the year to September. But it is worth noting that this survey has been a poor guide to sales volumes growth over recent years.

The next edition of the Euro wrap-up will be published on 23 September 2025










UK: Consumer confidence indices



UK: Public sector net borrowing*











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	0.2	0.2	0.3	0.3	1.3	1.0	1.4
UK		0.7	0.3	0.4	0.3	0.3	0.4	1.4	1.3	1.5
Inflation, %, Y/Y										
Euro area										
Headline HICP		2.3	2.0	2.1	2.1	1.7	1.7	2.1	1.7	1.9
Core HICP		2.6	2.4	2.3	2.3	2.1	1.6	2.4	1.7	1.8
UK										
Headline CPI		2.8	3.5	3.8	3.5	3.1	2.5	3.4	2.6	1.9
Core CPI		3.6	3.7	3.7	3.5	3.3	2.6	3.6	2.6	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	4.00	3.75	3.50	4.00	3.50	3.50

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
Germany	 PPI Y/Y%	Aug	-2.2	-1.7	-1.5	-
France	 INSEE business (manufacturing) confidence indicator	Sep	96 (96)	95 (96)	96 (96)	-
	 Retail sales Y/Y%	Aug	-0.9	-	-1.9	-1.2
UK	 Final wages Q/Q%	Q2	0.5	0.5	0.7	-
	 GfK consumer confidence indicator	Sep	-19	-18	-17	-
	 Retail sales – incl. auto fuel M/M% (Y/Y%)	Aug	0.5 (0.7)	0.4 (0.6)	0.6 (1.1)	0.5 (0.8)
	 Retail sales – incl. auto fuel M/M% (Y/Y%)	Aug	0.8 (1.2)	0.7 (1.0)	0.5 (1.3)	0.4 (1.0)
	 Public sector net borrowing £bn	Aug	18.0	12.8	1.1	2.8
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.












The coming week's calendar

The coming week's key data releases

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Monday 22 September 2025					
Euro area		15.00 Preliminary Commission consumer confidence indicator	Sep	-15.0	-15.5
Tuesday 23 September 2025					
Euro area		09.00 Preliminary services (manufacturing) PMI	Sep	50.5 (50.8)	50.5 (50.7)
		09.00 Preliminary composite PMI	Sep	51.1	51.0
Germany		08.30 Preliminary services (manufacturing) PMI	Sep	49.3 ((50.0)	49.3 (49.8)
		08.30 Preliminary composite PMI	Sep	50.7	50.5
France		08.15 Preliminary services (manufacturing) PMI	Sep	49.7 (50.1)	49.8 (50.4)
		08.15 Preliminary composite PMI	Sep	49.7	49.8
UK		09.30 Preliminary services (manufacturing) PMI	Sep	53.5 (47.0)	54.2 (47.0)
		09.30 Preliminary composite PMI	Sep	53.0	53.5
		11.00 CBI industrial trends survey – total orders (selling prices) % balance	Sep	-30 (12)	-33 (9)
Wednesday 24 September 2025					
Germany		09.00 ifo business climate indicator	Sep	89.4	89.0
		09.00 ifo current assessment (expectations) indicator	Sep	86.6 (92.0)	86.4 (91.6)
Thursday 25 September 2025					
Euro area		05.00 New car registrations Y/Y%	Aug	-	5.8
		09.00 M3 money supply Y/Y%	Aug	3.3	3.4
Germany		07.00 GfK consumer confidence indicator	Oct	-23.0	-23.6
France		07.45 INSEE consumer confidence indicator	Sep	87	87
UK		12.00 CBI distributive trades survey – reported retail sales % balance	Sep	-27	-32
Friday 26 September 2025					
Euro area		09.00 ECB consumer expectations survey – 1Y (3Y) CPI Y/Y%	Aug	2.5 (2.4)	2.6 (2.5)
Italy		09.00 ISTAT business (manufacturing) confidence indicator	Sep	-	93.6 (87.4)
		09.00 ISTAT consumer confidence indicator	Sep	96.5	96.2
Spain		08.00 GDP – final estimate Q/Q% (Y/Y%)	Q2	<u>0.7 (2.8)</u>	0.6 (2.8)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 22 September 2025		
Euro/UK		14.45 ECB's Lane, BoE's Pill & Fed's Williams to participate on BIS monetary policy panel
Tuesday 23 September 2025		
Germany		10.30 Auction: to sell up to €4.5bn of 1.9% 2027 bonds
UK		10.00 Auction: to sell £1.5bn of 5.375% 2056 bonds
Wednesday 24 September 2025		
Germany		10.30 Auction: to sell up to €4bn of 2.5% 2032 bonds
Italy		10.00 Auction: to sell bonds*
		10.00 Auction: to sell inflation-linked bonds*
UK		10.00 Auction: to sell £4.75bn of 4.375% 2030 bonds
		17.30 MPC External Member Greene to give a speech on 'Supply shocks and monetary policy' at the University of Glasgow
Thursday 25 September 2025		
Euro area		09.00 ECB to publish Economic Bulletin 6/2025
UK		10.00 Auction: to sell £1.25bn of 4.5% 2034 bonds
UK		10.00 Auction: to sell £750m of 4.75% 2038 bonds
Friday 26 September 2025		
- Nothing scheduled -		

*Details still to be published. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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