

Euro wrap-up

Overview

- Bunds ended the day little changed while the ifo business survey was less upbeat than the flash PMIs, casting doubt on Germany's growth momentum in Q3.
- Gilts followed USTs lower to close little changed even as BoE Governor Bailey reiterated his expectation that interest rates have further to fall as the labour market loosens and consumers remain cautious.
- Thursday will bring September surveys of German and French consumers and UK retailers, as well as euro area monetary data.

Emily Nicol

+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	2.017	-
OBL 2.2 10/30	2.324	-0.002
DBR 2.6 08/35	2.747	-
UKT 3¾ 03/27	3.947	-
UKT 4¾ 03/30	4.099	-0.002
UKT 4½ 03/35	4.674	-0.004

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

Source: Bloomberg

Euro area

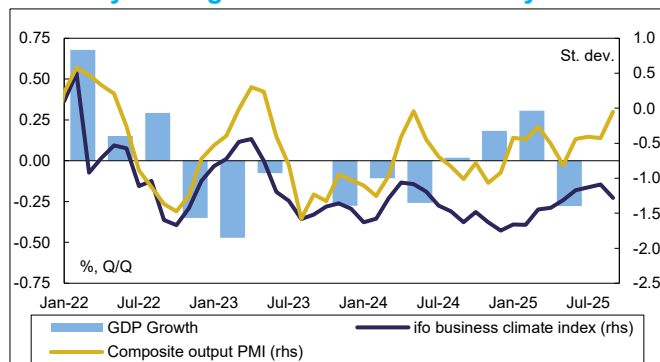
ifo survey contrasts upbeat PMIs, casting doubt Germany's growth momentum in Q3

The [flash September PMIs](#) pointed to a pickup in underlying growth momentum in Germany at the end of Q3, with the composite output index the best in more than two years. But today's ifo business survey – which has a sample more than ten times larger than the PMIs – offered a more downbeat assessment. In particular, the headline business climate index fell 1.2pts in September – the most for more than two years – to 87.7, a four-month low. Firms considered current conditions to have deteriorated at the end of the third quarter, with the respective index (85.7) down to a six-month low and more than 10% below the long-run average. So, while it had risen to an 11-month high in July, the quarterly current conditions index for Q3 merely moved sideways from Q2 when GDP contracted 0.3%Q/Q. Of course, growth that quarter was impacted by the pull-back in production and shipments after tariff front-running at the start of the year. But while we expect Germany to avoid a further contraction this quarter, today's survey reinforced our view that GDP likely grew at most by 0.1%Q/Q in Q3. And the weakening in the survey's expectations balance – down 1.7pts to a four-month low – casts some doubt on the pace of recovery over the coming six months. Admittedly, given the steady improvement over the previous four months, the expectations index in Q3 was still 1.7pts above the Q2 level, and therefore still suggestive of pickup in economic growth momentum at the turn of the year. Overall, while German GDP will likely grow by less than ½%Y/Y in 2025 as a whole, we still expect growth to accelerate to about 1%Y/Y in 2026 and 1½%Y/Y in 2027.

Increased services pessimism, but manufacturers and constructors more upbeat about outlook

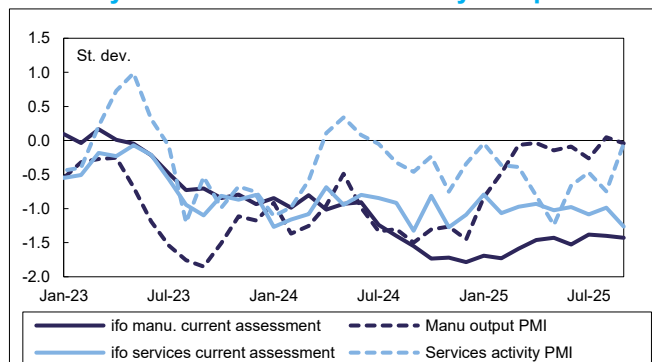
Contrasting the recovery implied by the PMIs, the deterioration in the ifo survey reflected an increase in pessimism among services. Those firms assessed the current situation to be the least favourable in 10 months, with the respective index more than one standard deviation below the average of the past two decades and the quarterly average the softest since Q124. Services also signalled the weakest outlook for the sector since February. The ifo institute reported that sentiment was hardest hit in the transport and logistics subsectors, which tallies with recent weakness in truck toll mileage and perhaps suggests ongoing payback to industrial shipments from the surge at the start of the year. Indeed, manufacturers also judged conditions to have weakened slightly heading into quarter-end as orders continued to decline. But the respective index remained comfortably above the range in the 10 months to June. We also note that the ifo's recent production trend index (due tomorrow) has been a better guide to output than the current conditions index. And while industrial firms were somewhat less upbeat about the outlook in September, the respective quarterly ifo index in Q3 was the strongest for 3½ years. Constructors were also the most optimistic about coming months for more than three years. However, consistent with a softening of consumer spending intentions, retailers remained relatively downbeat about conditions in Q3, with limited improvement expected over the near term too.

Germany: GDP growth & business survey indices



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

Germany: ifo & PMI business survey components



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

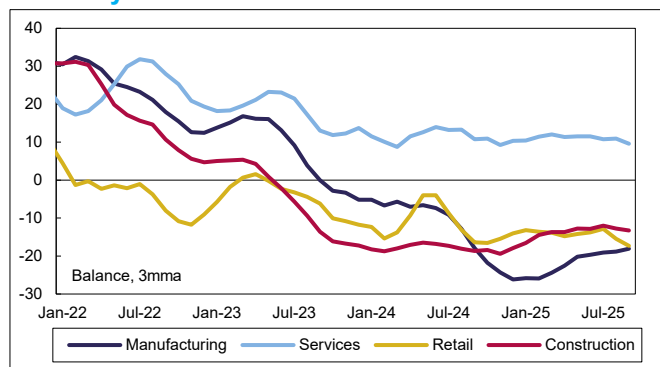
The day ahead in the euro area

The day ahead will bring a handful of notable euro area economic releases, including the latest consumer confidence surveys from Germany and France. We suspect that at least one of those member states – most likely Germany given the persistent political uncertainty and strikes in France – lent support to the improvement in the [Commission's flash euro area indicator](#). Meanwhile, euro area monetary data for August are expected to continue to report an uptrend in bank lending growth. In July, lending to households and firms rose at their strongest annual rates in more than two years as the cumulative effects of ECB easing continued to feed into more accommodative lending conditions.

The day ahead in the UK

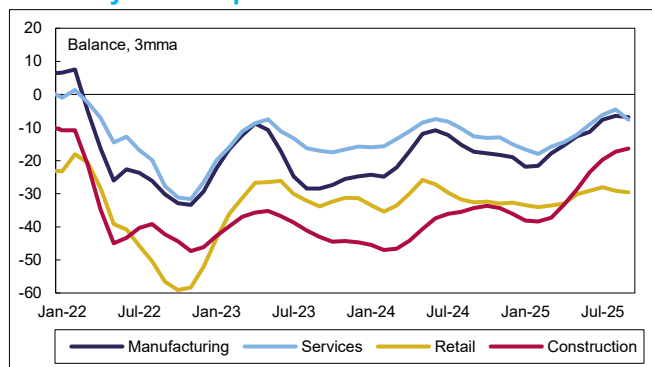
Notwithstanding any reaction to the likely hawkish comments from external MPC member Megan Greene this evening, Thursday is likely to be another quiet day for UK economic news. The CBI's distributive trades survey will provide the sole economic data release, giving a first indication of retail activity at the end of Q3 after the August survey signalled that expectations were the least downbeat since January. Nevertheless, the survey has proved to be a relatively poor indicator of retail sales volumes in recent months, contrasting with the official series which looks set to rise for a third consecutive quarter in Q3.

Germany: ifo – current conditions indices



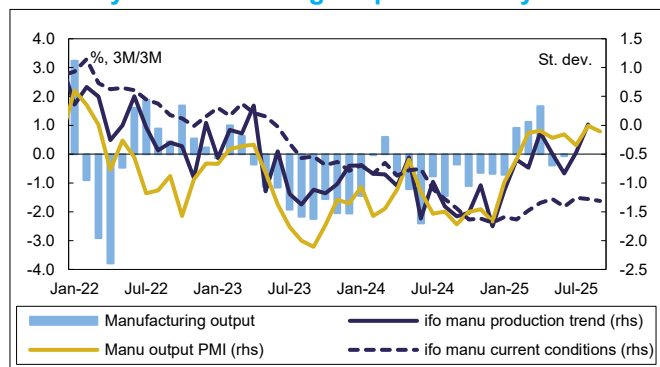
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo – expectations indices



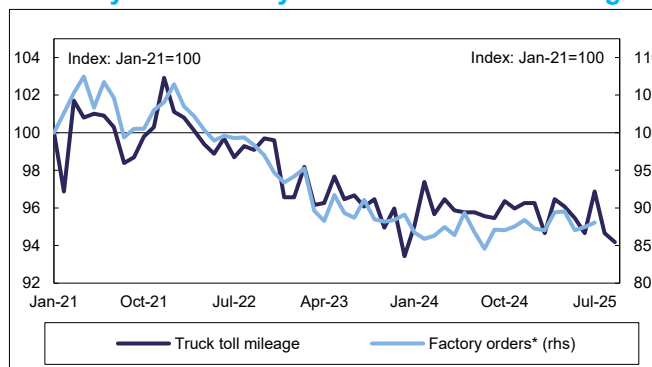
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing output & survey indices



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

Germany: New factory orders & truck toll mileage






*Excluding bulk orders.

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
Germany	 ifo business climate indicator	Sep	87.7	89.4	89.0	88.9
	 ifo current assessment (expectations) indicator	Sep	85.7 (89.7)	86.6 (92.0)	86.4 (91.6)	- (91.4)
Spain	 PPI Y/Y%	Aug	-1.5	-	0.3	0.4






Auctions

Country	Auction
Germany	 sold €3.045bn of 2.5% 2032 bonds at an average yield of 2.52%
Italy	 sold €2.5bn of 2.1% 2027 bonds at an average yield of 2.23%
	 sold €1.25bn of 1.1% 2031 inflation-linked bonds at an average yield of 1.17%
	 sold €1.25bn of 2.4% 2039 inflation-linked bonds at an average yield of 2.13%
UK	 sold £4.75bn of 4.375% 2030 bonds at an average yield of 4.095%




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%	Aug	-	5.8
	 09.00	M3 money supply Y/Y%	Aug	3.3	3.4
Germany	 07.00	GfK consumer confidence indicator	Oct	-23.3	-23.6
France	 07.45	INSEE consumer confidence indicator	Sep	87	87
UK	 12.00	CBI distributive trades survey – reported retail sales % balance	Sep	-31	-32

Auctions and events

Euro area	 09.00	ECB to publish Economic Bulletin 6/2025
UK	 10.00	Auction: to sell £1.25bn of 4.5% 2034 bonds
	 10.00	Auction: to sell £750m of 4.75% 2038 bonds

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.blumatrix.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. 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.