

Euro wrap-up

Overview

- Bunds made gains while an Italian survey signalled a return to modest growth in Q3 and euro area consumer inflation expectations rose further above target.
- Gilts also trended higher on a quiet end to the week for UK economic news.
- The coming week will bring flash estimates of September inflation from the euro area and member states, euro area unemployment figures and business surveys from the European Commission and BoE.

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Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	2.024	-0.010
OBL 2.2 10/30	2.328	-0.029
DBR 2.6 08/35	2.734	-0.038
UKT 3% 03/27	3.991	-0.015
UKT 4% 03/30	4.159	-0.016
UKT 4½ 03/35	4.727	-0.027

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

Source: Bloomberg

Euro area

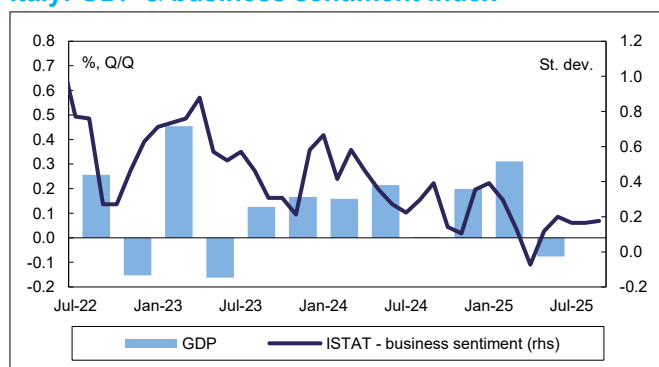
Italian surveys point to return to modest GDP growth in Q3 as consumer confidence recovers

While the Italian economy contracted slightly in the second quarter (-0.1%Q/Q) this principally related to a substantial drag from private inventories, which subtracted a whopping 0.8ppt from GDP growth. In addition, household consumption disappointingly flat-lined after confidence had dipped to an 18-month low in the wake of Trump's Liberation Day announcement. But on balance, economic data, including today's ISTAT survey results, point to a return to modest growth in Q3. For example, tallying with a recent pickup in spending on non-food goods and supported by the ongoing resilience in the labour market, consumer confidence rose back to a seven-month high in September, with purchase intentions reportedly the strongest in 16 years. Despite a pullback in retail sentiment this month, the average for the respective index in Q3 was still up more than 1pt from Q2. And sentiment in services was the joint highest since February amid greater optimism about demand over the coming three months. Given persisting trade-related uncertainty, manufacturing sentiment moved sideways at a level still below the long-run average, with firms more pessimistic about the production trend. Nevertheless, firms in the sector judged order books to be the best in 16 months thanks to a recovery in domestic demand. And constructors judged activity in the three months to September to be strongest in eight months. Overall, while we expect some payback for strength in fixed investment and net trade in Q2, we forecast GDP growth in Q3 of 0.1%Q/Q, which would nudge the annual rate back up to 0.5%Y/Y, broadly in line with the (low) potential rate.

Consumer inflation expectations for the coming 12 months rise further above target

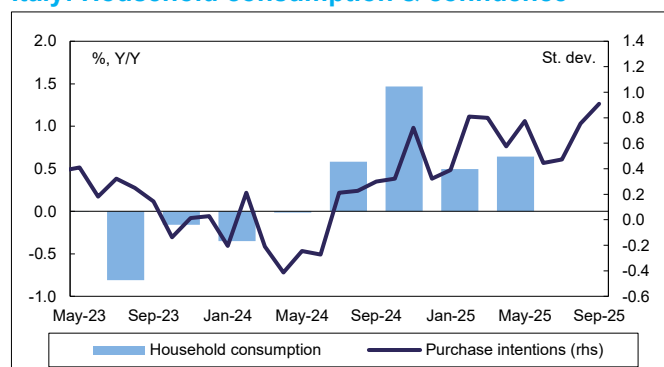
While euro area inflation has been no higher than 2.0%Y/Y since May, and the ECB expects inflation to dip below the 2% target from Q1 next year until the back end of 2027, euro area households are unconvinced. Indeed, today's ECB's consumer survey results for August reported an increase in the median inflation expectation for the next 12 months, up 0.2ppt to 2.8%Y/Y, back in line with the average for the year to-date. Of the large member states, only in France where the HICP rate has been below 1.0%Y/Y since February are consumer inflation expectations for the coming 12 months consistent with the ECB's target. In contrast, German households anticipate prices to rise 2.5%Y/Y, with Spaniards predicting inflation of 3.0%Y/Y, and Italians revising up their expectation for inflation by 0.5ppt to 4.0%Y/Y. Looking further ahead, medium-term expectations remain somewhat better anchored, with inflation in three years' time still predicted by euro area households to be 2.5%Y/Y. That, however, exceeds the fully target-consistent expectations ahead of Russia's invasion of Ukraine in early 2022. The failure of household inflation expectations to return back to 2.0%Y/Y likely in part relates to recent persistently high inflation of food, which can influence perceptions of price pressures more than other items. And it will resonate with those ECB's hawks who have emphasised continued upside risks to the inflation outlook. But earlier this year, the ECB was more perturbed by market-based measures of inflation compensation than household expectations. And perhaps

Italy: GDP & business sentiment index



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: Household consumption & confidence



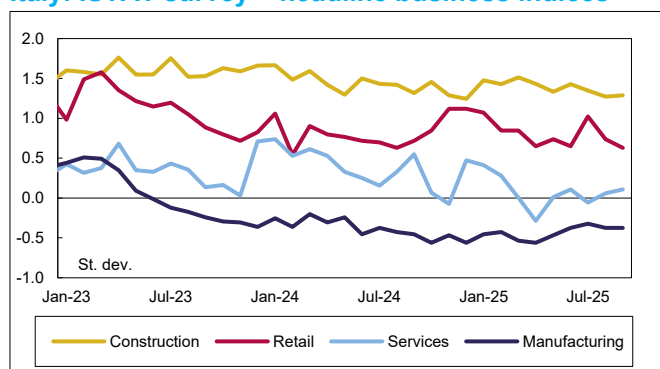
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

reassuringly, those market-based measures, such as the 5Y5Y inflation forward swap rate, having recently fallen back much closer to 2.0%Y/Y, suggesting that the ECB should continue to consider inflation expectations to be broadly well anchored.

The week ahead in the euro area

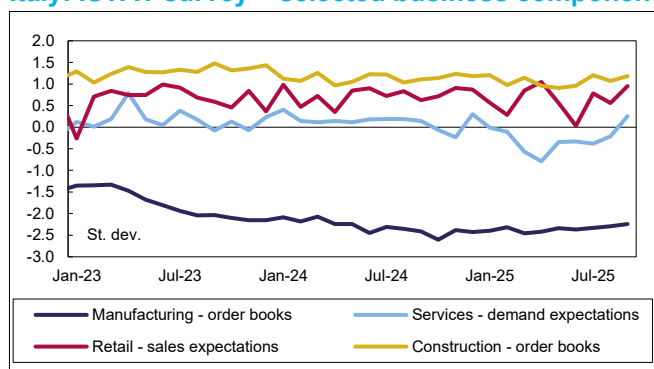
While the coming week will continue the regular monthly flow of sentiment surveys, the data highlight will be the flash September estimates of euro area inflation. Releases from the largest member states – including Germany, France, Italy (Tuesday) and Spain (Monday) – will provide early suggestions ahead of Wednesday's aggregate euro area figures. We expect headline euro area inflation to rise 0.2ppt to 2.2%Y/Y, marking a first above-target print since April. But such an increase would be consistent with the ECB's projections and attributable to an unfavourable base effect from lower fuel prices in the same month last year. Risks to core inflation, by comparison, seem skewed to the downside. Indeed, having held recently at 2.3%Y/Y, our projection sees core inflation easing to a near-four year low of 2.2%Y/Y, albeit with a bias to the upside. In addition to the broadly disinflationary effects of diversion of Chinese exports away from the US to Europe, expectations for a further softening in domestic PPI inflation in August (due Friday) points towards the continued absence of core goods inflation. And while we expect services inflation to drift temporarily higher in Q4, we expect it to remain near last

Italy: ISTAT survey – headline business indices



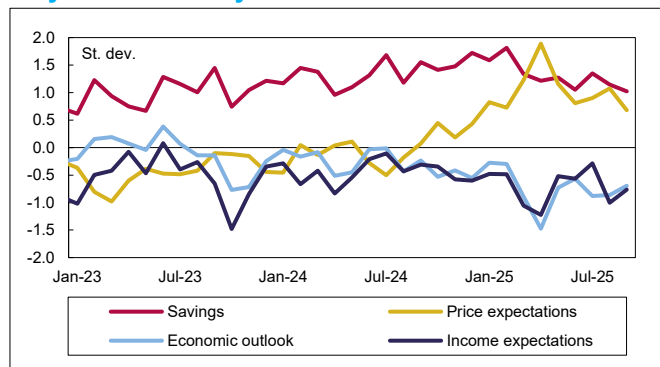
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: ISTAT survey – selected business components



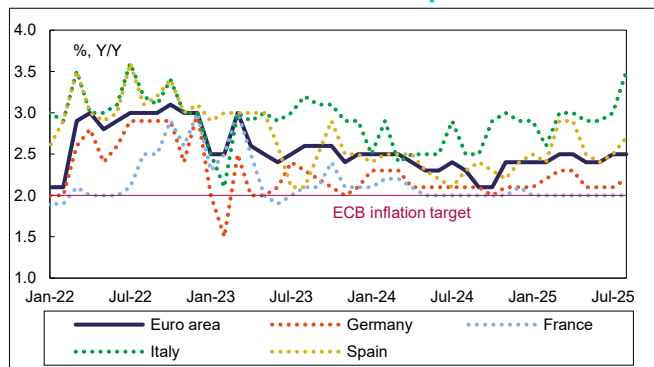
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: ISTAT survey – selected consumer indices



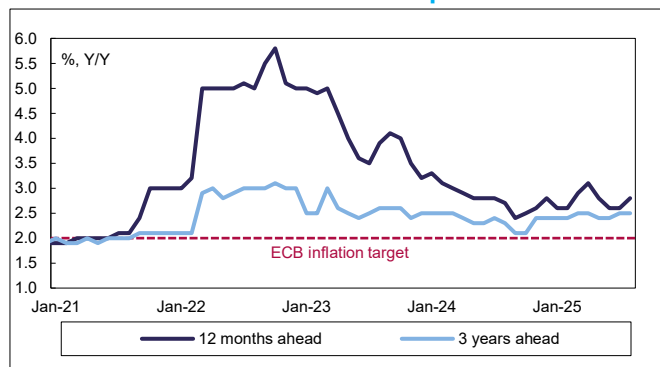
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer inflation expectations*



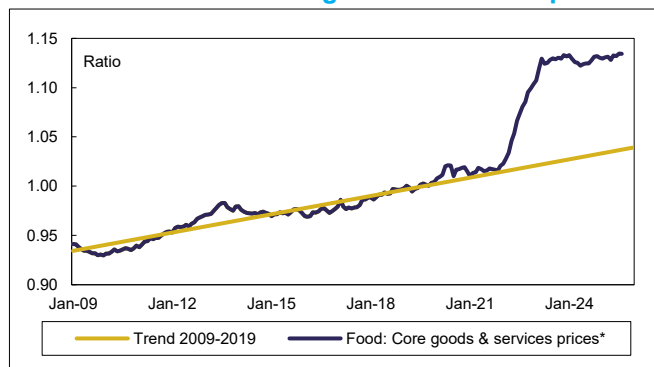
*3 years ahead. Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer inflation expectations



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

Euro area: Food vs core goods & services prices*



*Relative prices levels of food, alcohol & tobacco to core goods and services, 2019=100. Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

month's three-and-a-half year low (3.1%Y/Y) for the time being. As such, the abundance of central bank-speak over the coming week seems likely to reiterate that ECB rates remain in a 'good place'.

Ahead of the release of the inflation data, focus at the start of the week will be on the Commission's economic sentiment indicators to provide a cross-check on the marginal uptick in activity implied by September's [flash euro area PMIs](#). That pickup was led by services while momentum in the factory sector softened. The final manufacturing (Wednesday) and services (Friday) PMIs will look to affirm that picture, although we caution that the divergence between the (downbeat) German and (stable) French national business surveys from their respective flash PMIs raises the potential for revisions to the indices for those member states. While both German surveys were again consistent with weakening underlying labour demand, September's jobless claims figures (Tuesday) will follow last month's improvement, which marked the first decline since December 2022, to bolster hopes of some stabilisation. Consequently, we also expect the euro area unemployment rate (Thursday) to remain at the series low of 6.2% in August. Finally, the coming week will also bring retail sales and consumer spending figures for August from the four largest member states while French industrial production figures for the same month are also due at the end of the week (Friday).










UK

The week ahead in the UK

In the UK, the coming week brings August bank lending figures (Monday), updated national accounts (Wednesday), as well as a handful of surveys and public comments from BoE MPC members. Among those, of most consequence from a monetary policy perspective might be September's DMP survey (Thursday). With the headline CPI rate approaching an expected peak of 4%Y/Y this month, the DMP seems likely to show further modest upwards pressure on firms' inflation expectations, which will resonate with the hawks on the MPC given their concerns about inflation persistence. But for some of the more dovish rate-setters, those fears should be tempered by further gradual moderation in wage expectations, which will continue to suggest that the labour market has softened. Like MPC member Greene's interjection this week, BoE Deputy Governor Lombardelli (Tuesday) and external MPC member Catherine Mann (Tuesday and Wednesday) could signal their preference to pause rate cuts for the remainder of the year. But the median assessment of MPC members might be better represented by comments from BoE Governor Bailey (Friday), and Deputy Governors Breeden (Tuesday) and Ramsden (Monday), who have in the past appeared more sympathetic to weak signals from the labour market.









August's bank lending figures (Monday) will kick off the coming week's UK dataflow. Despite a probable tailwind from the Bank's latest round of monetary policy easing in August, and fairly resilient mortgage approval numbers in the preceding months, we note that the RICS survey suggested that speculation about forthcoming tax hikes has started to weigh on the market. Meanwhile, ahead of September's likely-hotter CPI print, the BRC's measure of shop price inflation (Tuesday) will provide an early gauge of the momentum behind prices on the high street this month. September's final manufacturing (Wednesday) and services (Friday) PMIs are also due, following a disappointing signal from the flash estimates of a loss of growth momentum at the end of Q3. While the services activity index almost fully reversed last month's increase to suggest softer, albeit still positive, expansion, the deterioration was particularly marked in manufacturing likely reflecting the consequences of the cyberattack which has shuttered auto production at JLR. Finally, the final Q2 national accounts (Tuesday) will likely reaffirm the preliminary estimate for GDP growth of 0.3%Q/Q while providing more detail on incomes, savings and the current account deficit.

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	0.3	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	
Euro area	 ECB consumer expectations survey – 1Y (3Y) CPI Y/Y%	Aug	2.8 (2.5)	2.5 (2.4)	2.6 (2.5)	-	
Italy	 ISTAT business (manufacturing) confidence indicator	Sep	93.7 (87.3)	-	93.6 (87.4)	-	
	 ISTAT consumer confidence indicator	Sep	96.8	96.5	96.2	-	
Spain	 GDP – final estimate Q/Q% (Y/Y%)	Q2	0.8 (3.1)	<u>0.7 (2.8)</u>	0.6 (2.8)	-	
Auctions							
Country	Auction						
Italy	 sold €4bn of 2.85% 2031 bonds at an average yield of 2.94%						
	 sold €1.5bn of floating 2034 bonds at an average yield of 3.16%						
	 sold €1.25bn of 4% 2035 bonds at an average yield of 3.46%						
	 sold €2bn of 3.6% 2035 bonds at an average yield of 3.62%						

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 29 September 2025						
Euro area		10.00	Commission economic sentiment indicator	Sep	95.2	95.2
		10.00	Commission services (industrial) confidence indicator	Sep	3.9 (-10.5)	3.6 (-10.3)
		10.00	Final Commission consumer confidence indicator	Sep	<u>-14.9</u>	-15.5
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Sep	3.1 (3.1)	2.7 (2.7)
		08.00	Retail sales Y/Y%	Aug	4.4	4.7
UK		09.30	Net consumer credit £bn (Y/Y%)	Aug	1.5 (-)	1.6 (7.0)
		09.30	Net mortgage lending £bn (mortgage approvals 000s)	Aug	4.8 (64.7)	4.5 (65.4)
Tuesday 30 September 2025						
Germany		07.00	Retail sales M/M% (Y/Y%)	Aug	0.5 (2.5)	-0.9 (3.0)
		07.00	Import prices M/M% (Y/Y%)	Aug	-0.2 (-1.4)	-0.4 (-1.4)
		08.55	Unemployment claims rate % (change 000s)	Sep	6.3 (10)	6.3 (-9)
		13.00	Preliminary HICP (CPI) Y/Y%	Sep	2.2 (2.3)	2.1 (2.2)
France		07.45	Preliminary HICP (CPI) Y/Y%	Sep	1.3 (1.3)	0.8 (0.9)
		07.45	Consumer spending M/M% (Y/Y%)	Aug	0.3 (-0.3)	-0.3 (-0.1)
Italy		10.00	Preliminary HICP (CPI) Y/Y%	Sep	1.7 (1.7)	1.6 (1.6)
UK		00.01	BRC shop price index Y/Y%	Sep	1.2	0.9
		00.01	Lloyds business barometer (own price expectations) % balance	Sep	-	54 (65)
		07.00	GDP – final estimate Q/Q% (Y/Y%)	Q2	<u>0.3 (1.2)</u>	0.7 (1.3)
		07.00	GDP – private consumption Q/Q%	Q2	<u>0.1</u>	0.4
		07.00	GDP – government consumption Q/Q%	Q2	<u>1.2</u>	-0.4
		07.00	GDP – gross fixed capital formation Q/Q%	Q2	<u>-1.1</u>	2.0
		07.00	Current account balance £bn	Q2	-24.9	-23.5
Wednesday 1 October 2025						
Euro area		09.00	Final manufacturing PMI	Sep	<u>49.5</u>	50.7
		10.00	Preliminary headline (core) HICP Y/Y%	Sep	<u>2.2 (2.3)</u>	2.0 (2.3)
Germany		08.55	Final manufacturing PMI	Sep	<u>48.5</u>	49.8
France		08.50	Final manufacturing PMI	Sep	<u>48.1</u>	50.4
Italy		08.45	Manufacturing PMI	Sep	50.0	50.4
Spain		08.15	Manufacturing PMI	Sep	53.9	54.3
UK		07.00	Nationwide house prices M/M% (Y/Y%)	Sep	0.2 (1.8)	-0.1 (2.1)
		09.30	Final manufacturing PMI	Sep	<u>46.2</u>	47.0
Thursday 2 October 2025						
Euro area		10.00	Unemployment rate %	Aug	<u>6.2</u>	6.2
Spain		08.00	Unemployment (net employment) change 000s	Sep	-	21.9 (29.8)
UK		12.00	DMP 3M output price (1Y CPI) expectations Y/Y%	Sep	-	3.7 (3.4)
Friday 3 October 2025						
Euro area		09.00	Final composite (services) PMI	Sep	<u>51.2 (51.4)</u>	51.0 (50.5)
		10.00	PPI Y/Y%	Aug	-0.3	0.2
Germany		08.55	Final composite (services) PMI	Sep	<u>52.4 (52.5)</u>	50.5 (49.3)
France		07.45	Industrial production M/M% (Y/Y%)	Aug	0.3 (0.6)	-1.1 (1.3)
		08.50	Final composite (services) PMI	Sep	<u>48.4 (48.9)</u>	49.8 (49.8)
Italy		08.45	Composite (services) PMI	Sep	51.6 (51.6)	51.7 (51.5)
		09.00	Retail sales M/M% (Y/Y%)	Aug	-	0.0 (1.8)
Spain		08.15	Composite (services) PMI	Sep	53.3 (53.6)	53.7 (53.2)
UK		09.30	Final composite (services) PMI	Sep	<u>51.0 (51.9)</u>	53.5 (54.2)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 29 September 2025		
Euro area		10.00 ECB Executive Board member Schnabel gives presentation on 'current aspects of monetary policy', Frankfurt
Euro/UK		13.00 ECB's Lane, BoE's Ramsden & the Fed's Hammack on a policy panel at ECB-Cleveland Fed conference on inflation, Frankfurt
Tuesday 30 September 2025		
Euro area		13.50 ECB President Lagarde to give keynote speech at Bank of Finland conference, Helsinki
UK		12.50 BoE Deputy Governor Lombardelli to join panel on 'monetary policy and uncertainty' at Bank of Finland conference, Helsinki
		14.25 External MPC member Mann to speak in keynote interview on geopolitics at a Financial Times conference, London
		16.30 BoE Deputy Governor Breeden to give speech at Cardiff Business School
Wednesday 1 October 2025		
Germany		10.30 Auction: to sell up to €5bn of 2.6% 2035 bonds
UK		10.00 Auction: to sell £1.6bn of 1.125% 2035 inflation-linked bonds
		10.55 External MPC member Mann to speak in interview at Bloomberg's Women, Money and Power conference, London
Thursday 2 October 2025		
France		09.50 Auction: to sell up to €11.5bn of 3.5% 2035, 1.25% 2036, 0.5% 2044 & 4% 2060 bonds
Spain		09.30 Auction: to sell 2.7% 2030, 3% 2033, 1% 2042 bonds and 1.15% 2036 inflation-linked bonds
UK		10.00 Auction: to sell £4.5bn of 4.75% 2035 bonds
Friday 3 October 2025		
Euro area		10.40 ECB President Lagarde speaks at symposium for outgoing-DnB Governor & ECB Governing Council member Knot, Amsterdam
Italy		11.00 ISTAT to publish revised quarterly GDP series
UK		14.20 BoE Governor Bailey to give keynote speech at symposium for outgoing-DnB Governor Knot, Amsterdam

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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