Euro wrap-up

Overview

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- Despite a further decline in German exports, Bunds made modest losses as the account of the ECB's September policy meeting emphasised that risks to the inflation outlook are two-sided.
- Gilts followed the global trend lower even as a UK housing market survey suggested a further decline in buyer demand amid Budget-related tax uncertainties.
- The coming week will bring updates on euro area IP and trade and UK GDP, jobs and wages.

Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	1.990	+0.008
OBL 2.2 10/30	2.293	+0.026
DBR 2.6 08/35	2.703	+0.026
UKT 3¾ 03/27	3.998	+0.011
UKT 4⅜ 03/30	4.170	+0.026
UKT 4½ 03/35	4.743	+0.036

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

Euro area

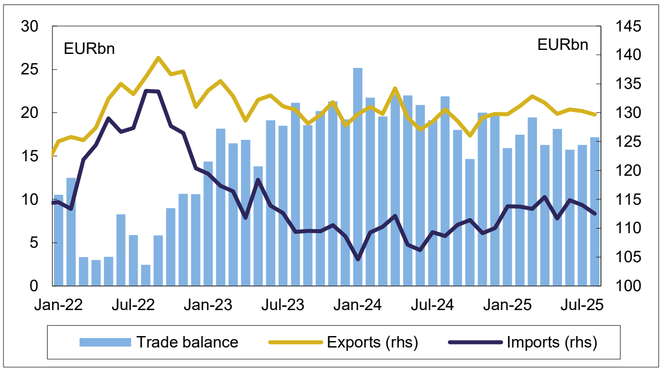
German exports drop again as shipments to the US hit lowest level in almost 4 years

Hard data from Germany's manufacturing sector continue to disappoint, with August evidently an extremely weak month for the sector. After Tuesday's new orders report and yesterday's production figures both badly missed expectations, today's goods trade data for the same month similarly fell short of the consensus. Indeed, in contrast to the expected increase, the value of German exports fell for a second successive month and fourth month out of the past five. But whereas the declines in core orders and factory output were steep, the fall in exports in August was relatively moderate at 0.5%M/M while the extent of the drop in the prior month was revised down to just 0.2%M/M. Nevertheless, that left the level at a nine-month low, down 0.7%Y/Y on an adjusted basis, and trending 0.5% below the Q2 average. By destination, exports to the US fell for a fifth successive month (-2.5%M/M) to a near four-year low. That left them trending more than 11% below the Q2 average and the level more than 23% below the peak in March when firms were front-running new tariffs. But shipments to other EU countries (-2.5%M/M) and the UK (-6.5%M/M) also fell back in August. And while those to China rose in August (+5.4%M/M), that was insufficient to reverse the dip in July. By type of good, autos were hit by production shutdowns to be down more than 19%Y/Y on an unadjusted basis, with shipments of machinery and chemicals products down more than 11%Y/Y. Shipments of non-autos transport goods provided some offset.

But goods trade surplus widens again & surveys point to a firmer export outlook

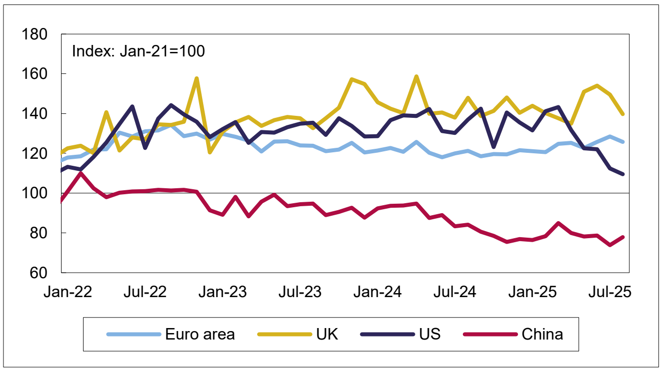
Just as exports were soft in August, imports also fell again, dropping for a second successive month in August (-1.3%M/M) to be trending 0.6% below the Q2 average. So, the German trade surplus rose to a three-month high (€17.2bn). And with imports looking just as soft as exports over the first two months of the quarter, net trade need not be a significant drag on GDP growth in Q3 after subtracting a chunky 0.7ppt in Q2. Moreover, while new orders from outside of the EU continued to weaken in August, surveys suggest that a turn for the better is in sight. Indeed, while the export orders PMI (49.9) suggested nothing better than stability in September, the ifo export expectations rose 6.5pts back into positive territory (+3.5). The principal source of the improvement was the auto sector, for which export expectations jumped sharply to the best since April 2023. The electrical equipment and furniture subsectors were also more upbeat about external demand. Machinery manufacturers were more pessimistic, however, with metals also expected to remain subject to persistent weak export orders. Nevertheless, overall, with auto production set to pick up, we do anticipate an increase in factory output and goods exports in Q4. And we expect net trade to make a positive contribution to GDP next quarter too.

Germany: Goods trade values



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Goods export values, by destination



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the euro area

All eyes on Friday will be on France, with President Macron expected to name a new Prime Minister to replace the departing Sebastien Lecornu. The nominee might be expected to lead a minority cabinet comprising members from the Socialists and Greens, but not the far-left La France Insoumise. Alternatively, the Socialists and Greens might be willing to agree not to vote against another centrist cabinet, or a nominally independent Prime Minister, in return for the suspension of the 2023 pension reform in the subsequent draft 2026 Budget, which might be presented by Lecornu as soon as Monday.

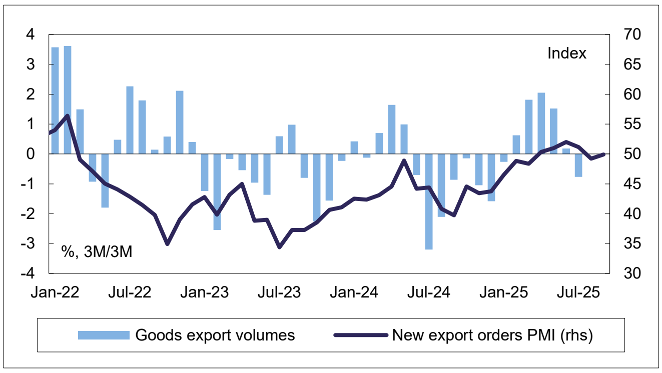
The coming week's dataflow will provide a few further insights into euro area economic growth momentum over the summer, with the August industrial production (Wednesday) and goods trade reports (Thursday) arguably most notable. Based on figures already published by certain members states – including a marked decline in Germany (-5.2%M/M) but a substantial increase in Ireland (9.6%M/M) – aggregate euro area industrial output (excluding construction) likely fell a little more than 1%M/M in August, the most since April. This would take the level to the lowest since December to be tracking some 0.4% below the Q2 average. Notwithstanding the further weakness in today's aggregate German data, extra-euro area exports from the largest two member states rose a little more than 0.8%M/M in August. The Irish trade numbers (Wednesday) will provide further insight. Meanwhile, tallying with the improvement in the past week's Sentix indices, the German ZEW survey (Tuesday) should signal improved investor sentiment at the start of Q4. In terms of prices, the end of the week will bring final euro area inflation numbers for September. The flash estimates showed headline inflation rising 0.2ppt to a five-month high of 2.2%Y/Y, due principally to an unfavourable base effect in energy prices. In contrast, core inflation moved sideways at 2.3%Y/Y despite a modest uptick in services. But given the high core rate (2.347%Y/Y), there is a risk it will be revised higher to one decimal place. The national data – from Germany (Tuesday), France and Spain (Wednesday) – are likely to confirm that seasonal pricing in certain holiday-related sectors added some temporary upside pressures. Finally, it will be a busy week for ECB-speak on the sidelines of the World Bank-IMF meetings in Washington DC, including President Lagarde on an IMF panel debating the global economy and Chief Economist Lane on an IIF panel discussing the rethinking of frameworks amid trade and policy fragmentation (both on Thursday).

UK

RICS survey flags uncertainty hit to demand, but house prices still expected to rise in due course

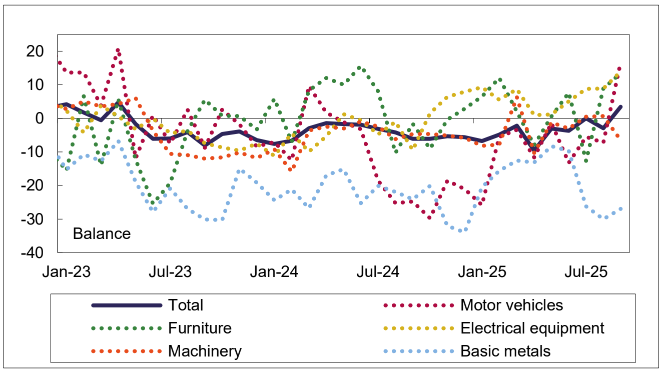
Today's RICS survey for September suggested that the residential market continues to struggle for momentum as global uncertainty and concerns about tax changes in next month's Budget weigh on demand. According to the RICS, respondents reported the largest drop in house listings since August 2023 amid a further modest decline in new purchase enquiries. And

Germany: Export volumes & orders PMI



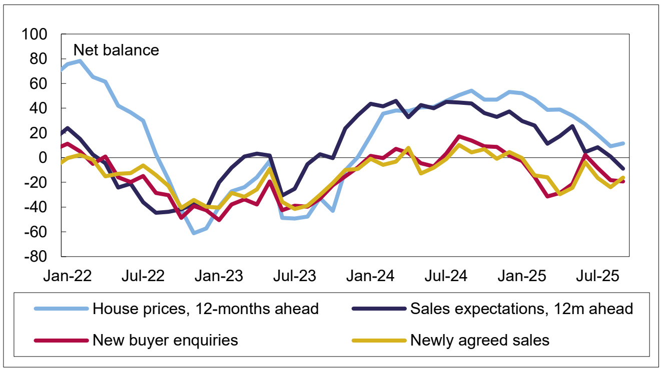
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo survey – export expectations



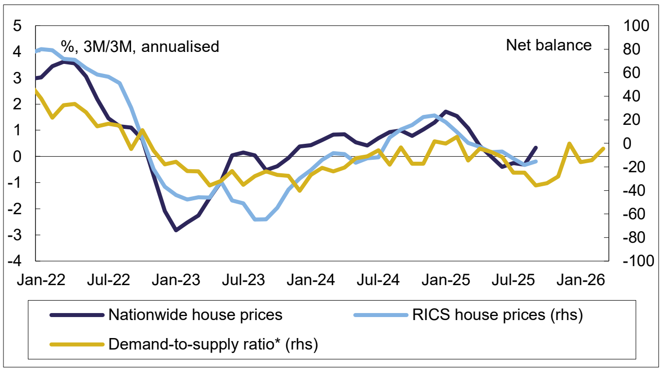
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: RICS residential survey indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: RICS & Nationwide house price growth



**New buyer enquiries minus new instructions. Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

so, expected sales over the near term were reportedly the weakest since March when the previous Stamp Duty holiday concluded. Surveyors were similarly pessimistic about the outlook for sales over the coming twelve months, recording the first negative balance since August 2023. This notwithstanding, the respective survey indicator for newly completed sales remained firmly within the recent range, suggesting that the housing market is more likely treading water than materially weakening. Certainly, the recent Nationwide house price report suggested a pickup in momentum in the three months to September. And while the RICS survey reported a more pronounced drop in house prices in the South East – perhaps linked to a decline in demand amid a rise in office-based employment in the capital – the overall UK house price balance improved slightly in September (up 3pts to -15%). Consistent with the recent Nationwide house price survey, RICS surveyors reported the strongest price growth in Northern Ireland and Scotland. And overall, not least given the ongoing imbalance between demand and supply, house prices are still expected to rise over the coming year. Separately, but perhaps reflecting the impact of the Renters' Rights Bill due to be implemented in early 2026 as well as concerns about tax changes, today's survey also suggested that rental listings dropped last month by the most since the first Covid-19 lockdown.

The week ahead in the UK

The UK data highlights in the coming week will be the latest labour market (Tuesday) and monthly GDP reports (Thursday), the last of these to be published ahead of the BoE's next policy-setting meeting on 6 November. Consistent with survey signals from the REC report on jobs and employment PMIs, as well as the steady downtrend in job vacancies, the number of payrolled employees is expected to have fallen for an eighth consecutive month in September, taking the cumulative decline to more than 115k so far this year. While total pay growth might merely move sideways at 4.7%3M/Y in the three months to September, we expect private sector regular pay growth – the measure most closely watched by the MPC – to have moderated further, possibly to 4.5%3M/Y, a touch softer than the BoE forecast in its August Monetary Policy Report. In terms of the August GDP report, economic surveys pointed to a marked pickup in growth momentum over the summer led by the services sector, for which the respective activity PMI jumped to a 16-month high (54.2). Solid retail sales that month suggest another positive month for consumer-facing services. And having declined in the previous two months, we might expect some payback in industrial production. As such, GDP growth in the three months to August is likely to edge back up to 0.3%3M/3M, in line with the pace in Q2. In terms of surveys, the BRC retail monitor (Tuesday) will provide insight into household spending at the end of Q3, while the BoE's credit conditions survey (Wednesday) will give an update on loan demand and supply in the second half of the year. Finally, there will be a steady flow of BoE-speak, with most notably Governor Bailey scheduled to have a public fireside chat in Washington DC on Tuesday.

The next Euro wrap-up will be published on Tuesday 14 October 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	0.2	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	1.5	1.3	1.5
Inflation, %, Y/Y									
Euro area									
Headline HICP	2.3	2.0	2.1	2.2	1.7	1.8	2.2	1.7	1.9
Core HICP	2.6	2.4	2.3	2.4	2.2	1.7	2.4	1.8	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

Country		Release	Period	Actual	Market consensus/ *Daiwa forecast*	Previous	Revised
Economic data							
Germany		Trade balance €bn	Aug	**17.2**	15.5	14.8	16.3
UK		RICS house price balance %	Sep	**-15**	-17	-19	-18
Auctions							
Country		Auction					
		- Nothing to report -					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Country		BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Economic data						
Italy		09.00	Industrial production M/M% (Y/Y%)	Aug	-0.4 (0.6)	0.4 (0.9)
Auctions and events						
UK		00.01	REC, KPMG & S&P Global UK Report on Jobs for September			

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/ *Daiwa forecast*	Previous
Monday 13 October 2025						
			- Nothing scheduled -			
Tuesday 14 October 2025						
Germany		07.00	Final HICP (CPI) Y/Y%	Sep	*2.4 (2.4)*	2.1 (2.2)
		10.00	ZEW current situation (expectations) balance	Oct	-	-76.4 (37.3)
UK		00.01	BRC retail monitor – like-for-like sales Y/Y%	Sep	-	2.9
		07.00	Average wages (excluding bonuses) 3M/Y%	Aug	*4.7 (4.8)*	4.7 (4.8)
		07.00	Private sector regular wages 3M/Y%	Aug	*4.5*	4.7
		07.00	Unemployment rate 3M%	Aug	*4.7*	4.7
		07.00	Employment 3M/3M change 000s	Aug	-	232
		07.00	Payrolled employees M/M change 000s	Sep	-	-8
		07.00	Claimant count rate % (change 000s)	Sep	-	4.4 (17.4)
Wednesday 15 October 2025						
Euro area		10.00	Industrial production M/M% (Y/Y%)	Aug	*-1.1 (0.4)*	0.3 (1.8)
France		07.45	Final HICP (CPI) Y/Y%	Sep	*1.1 (1.2)*	0.8 (0.9)
Spain		08.00	Final HICP (CPI) Y/Y%	Sep	*3.0 (2.9)*	2.7 (2.7)
Thursday 16 October 2025						
Euro area		10.00	Trade balance €bn	Aug	-	5.3
Italy		09.00	Final HICP (CPI) Y/Y%	Sep	*1.8 (1.6)*	1.6 (1.6)
UK		07.00	Monthly GDP M/M% (3M/3M%)	Aug	*0.2 (0.3)*	0.0 (0.2)
		07.00	Services output M/M% (3M/3M%)	Aug	-	0.1 (0.4)
		07.00	Industrial output M/M% (Y/Y%)	Aug	-	-0.9 (0.1)
		07.00	Construction output M/M% (Y/Y%)	Aug	-	0.2 (2.4)
		07.00	Trade (goods trade) balance £bn	Aug	-	-5.3 (-22.2)
Friday 17 October 2025						
Euro area		10.00	Final headline (core) HICP Y/Y%	Sep	*2.2 (2.3)*	2.0 (2.3)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country		BST	Event / Auction
			Monday 13 October 2025
UK		12.05	External MPC member Greene to give keynote speech at the SPE annual conference, London
		20.10	External MPC member Mann to appear on monetary policy panel at the NABE annual conference, Philadelphia
			Tuesday 14 October 2025
Germany		10.30	Auction: to sell up to €5.5bn of 2027 bonds*
Italy		10.00	Auction: to sell bonds*
UK		13.00	External MPC member Taylor to speak in fireside chat at King's College, Cambridge
		18.00	BoE Governor Bailey to speak in fireside chat at the IIF annual membership meeting, Washington D.C.
			Wednesday 15 October 2025
Germany		10.30	Auction: to sell up to €1bn of 0% 2050 bonds
		10.30	Auction: to sell up to €1.5bn of 2.9% 2056 bonds
UK		10.00	Auction: to sell £1.5bn of 0.125% 2031 inflation-linked bonds
			Thursday 16 October 2025
Euro area		16.45	ECB Chief Economist Lane to participate in IIF panel discussing the rethinking of frameworks amid trade & policy fragmentation
		17.00	ECB President Lagarde to participate in IMF panel discussing global economy
France		10.50	Auction: to sell inflation-linked bonds*
Spain		09.30	Auction: to sell bonds*
UK		09.30	BoE to publish quarterly Bank Liabilities and Credit Conditions surveys for Q325
		14.00	External MPC member Mann on monetary policy & trade panel at the IIF annual membership meeting, Washington D.C.
			Friday 17 October 2025
Italy		14.00	ISTAT to publish quarterly economic bulletin
UK		10.35	BoE Chief Economist Pill to speak at the ICAEW annual conference, London
		17.00	External MPC member Greene to speak in Atlantic Council webinar on 'inflation, tariffs and currency markets'

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

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