

Euro wrap-up

Overview

- Bunds made slight losses despite a decline in German consumer confidence to a seven-month low while an ECB survey reported that credit standards on euro area business loans tightened in Q3.
- While yields flirted with year-to-date lows at most maturities after a UK retail survey suggested that food inflation moderated again in October, Gilts were little changed on the day approaching the close.
- The ECB will leave rates unchanged on Thursday, alongside the first estimates of euro area GDP in Q3 and German inflation in October.

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Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	1.972	+0.004
OBL 2.2 10/30	2.235	+0.011
DBR 2.6 08/35	2.625	+0.012
UKT 3¾ 03/27	3.767	-0.003
UKT 4¾ 03/30	3.876	-0.004
UKT 4½ 03/35	4.405	+0.005

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

Source: Bloomberg

Euro area

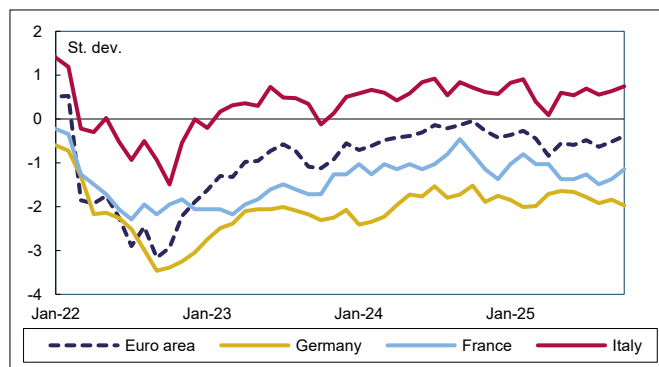
German preference to save persists as consumer confidence slips to seven-month low

While the flash Commission estimate of [euro area consumer confidence](#) rose to an eight-month high in October, the improvement appears to have been driven by improvements in France, Italy (see below) and the Netherlands. In contrast, today's GfK survey suggested that German households were increasingly downbeat at the start of Q4, with the headline sentiment index – presented as a forecast for November – unexpectedly declining for a fourth month out of five to a seven-month low (-24.1). The deterioration principally reflected perceptions of a weaker outlook for household incomes, while price expectations rose to a seven-month high. Nevertheless, consumers were somewhat less pessimistic about the economic outlook. And after retail spending weakened over the summer, purchase intentions improved to a three-month high, albeit remaining firmly below the averages for the past year and longer run. Today's survey also suggested that German households' preference to save persists in the face of ongoing economic uncertainty. Indeed, the German household savings rate in Q2 (19.2%) was by far the highest in the region, some 3.8ppts above the euro area average. Of course, consumer restraint that quarter was likely heightened by concerns about the impact of Trump's tariffs. And if and when those fears are allayed, household savings ratios should moderate somewhat to provide some welcome support to consumption.

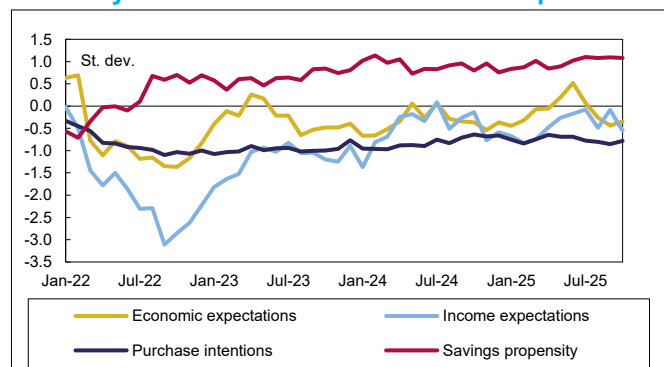
More favourable Italian consumer & business conditions point to firmer GDP growth in Q4

In contrast to the GfK indices, today's ISTAT survey suggested that Italian consumers this month were the most upbeat since February (97.6), with the headline index rising to a little more than 5% above the long-run average. Like in France, the pickup in Italian household sentiment in October reflected improved consumer perceptions of the outlook for the economy and personal incomes, while fears of unemployment fell. And with savings intentions having also moderated, Italian households were reportedly the most willing to spend on big-ticket items since February (and February 2022 before that). This seemingly gave a boost to retailers' confidence, which rose to a three-month high well above the long-run average. Indeed, retail sales expectations for the coming three months were the firmest for more than four years. While the headline services sentiment index slipped back in October, firms in the sector expected demand to pick up over the coming three months too. And manufacturers judged conditions to be the most favourable since March 2024, reflecting an improved recent production trend and a firmer near-term outlook as orders stabilised. Overall, the ISTAT business sentiment index rose to an eight-month high (94.3) in October, some 0.7pt above the Q3 average and 2% above the long-run average, signalling a pickup in economic growth momentum this quarter.

Euro area: Headline consumer confidence indices



Germany: GfK consumer confidence components



Banks in Germany tightened credit standards in Q3 on business loans & mortgages

After [yesterday's monetary data](#) suggested that loan growth remained relatively well maintained in September, albeit at a rather subdued pace and with variation between the member states, today's ECB Bank Lending Survey (BLS) reported an unexpected, albeit modest, net tightening of credit standards on new loans to businesses last quarter. The tightening was centred on Germany, where growth in lending to non-financial corporations (NFCs) in September was the softest of all large member states at just 0.3%Y/Y, firmly in negative territory in inflation-adjusted terms, the joint-weakest in 14 months and more than 2½ppts below the equivalent rates for the euro area, France and Spain. Elevated economic uncertainty was cited as the key culprit. Banks in Germany – whose loans to households grew in September at 1.9%Y/Y, some ¾ppt below the euro area average – also stood out alone in reporting a slight tightening on standards on mortgages in Q3. And together with banks in Italy, they also tightened their standards on consumer credit. Looking ahead, euro area banks expect to leave credit standards unchanged on business loans this quarter. But they expect to tighten them on consumer loans and, albeit only slightly, on mortgages.

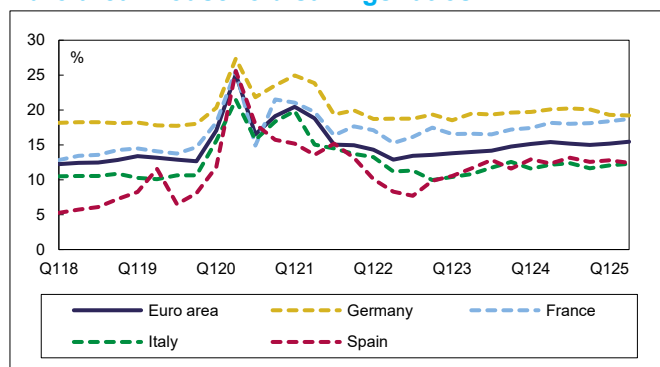
Housing loan demand grew further but lower rates providing little impetus to business capex

Meanwhile, banks reported that demand for business loans increased only slightly last quarter, supported principally by increased need for debt refinancing or restructuring. Discouragingly from a macro perspective, banks cited no new momentum from capex, inventories and working capital. Lower rates provided only minimal support, suggesting that ECB policy is not particularly accommodative. And perhaps unsurprisingly, global uncertainty and trade tensions acted as a dampener on loan demand. In this case, however, weakness was centred principally on banks in France while those in Germany, Italy and Spain reported a modest increase in demand for business loans. Buoyed by the firmer housing market outlook as well as lower interest rates, demand for housing loans reportedly increased again across the member states. But subdued household sentiment weighed on demand for consumer credit, which was judged to have changed little over the past quarter. Banks expect housing loan demand to rise again in Q4, albeit at a more moderate pace than over recent quarters. And a small increase is expected for consumer credit.

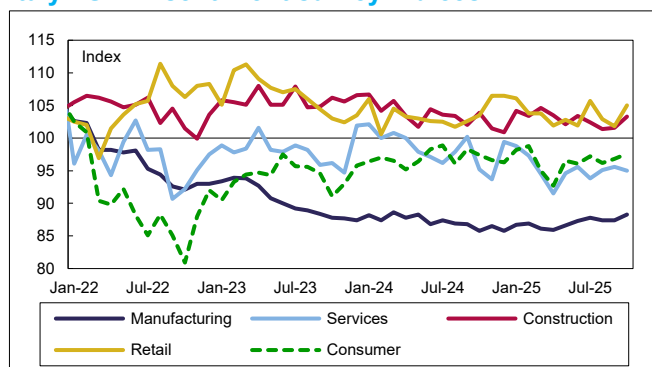
The two days ahead in the euro area

To briefly recap our [look ahead](#) to Thursday's monetary policy announcement, the ECB seems bound to leave its key interest rates unchanged for a third consecutive meeting. President Lagarde will also repeat that the risks to the inflation outlook remain two-sided and maintain the ECB's forward guidance that future policy decisions will be data dependent. With inflation in Q3 aligning with September's macroeconomic projection and activity indicators showing continued moderate resilience, she will also be able to argue that the economy is developing broadly in line with the ECB's expectations. And while we

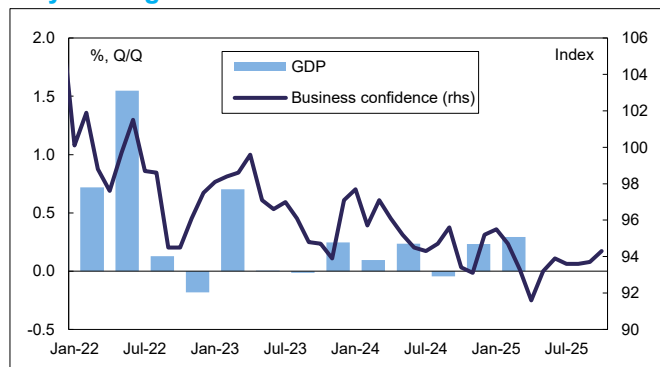
Euro area: Household savings ratios



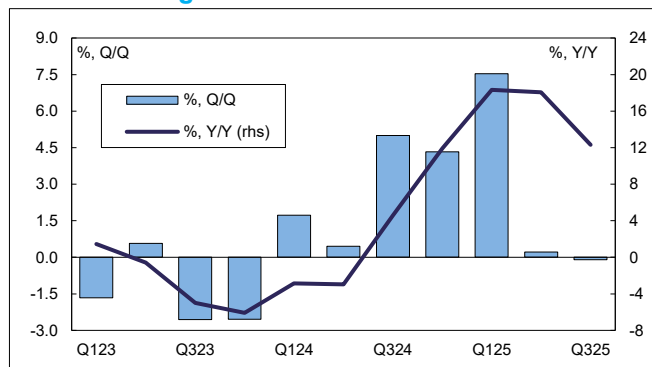
Italy: ISTAT sentiment survey indices



Italy: GDP growth & ISTAT business sentiment



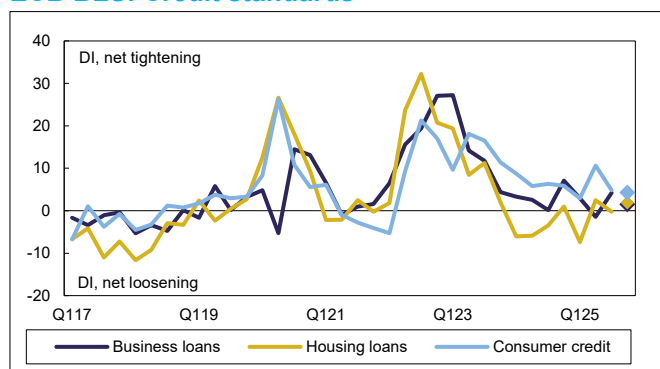
Ireland: GDP growth



expect inflation to rise temporarily above its forecast, to 2.2%Y/Y in Q4, flash inflation estimates from Germany and Spain (due Thursday) should be consistent with a slight drop in the euro area in October. Moreover, with Ireland today reporting a negligible contraction of 0.1%Q/Q, we continue to expect that euro area GDP growth in Q3 will beat the ECB's projection of zero growth. Our projection for euro area growth of 0.1%Q/Q hinges upon our expectation for continued growth in France and Spain (due tomorrow), and a modest bounce back to positive growth in Italy, compensating for weakness in Germany.

Of course, while growth in Q3 would mark an improvement on the ECB's September projection, business surveys have continued to highlight the weakened external demand environment as well as continued underwhelming deployment of Germany's infrastructure and defence spending push. In that regard, the Commission's economic sentiment indicators (also Thursday) will provide a crosscheck on October's slightly improved PMIs. And notably, some Governing Council members have alluded recently to the possibility of an 'insurance' rate cut in December to counter any persistent signs of weakness. Lagarde's refusal to rule out another cut in the future, even if conditional on a more pronounced deterioration in the economic data, should mean that her post-meeting press conference, as well as the policy statement, should be watched for signs of a more dovish shift in the ECB's assessment of the balance of risks.

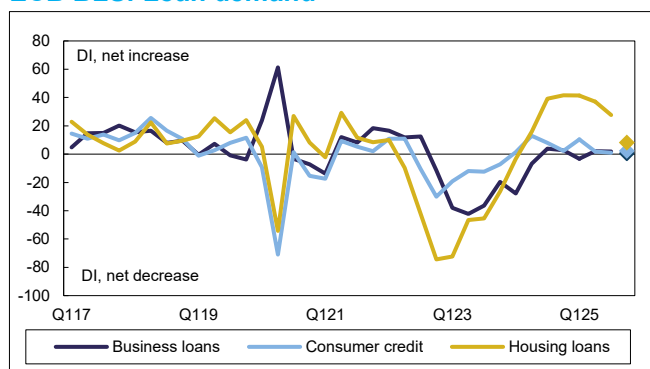
ECB BLS: Credit standards*



*Diamonds show forecast for Q425.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

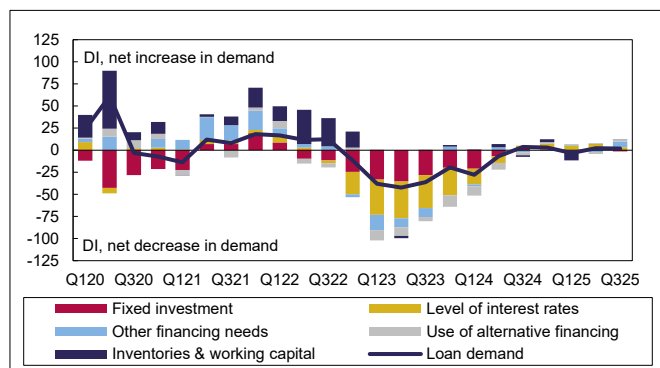
ECB BLS: Loan demand*



*Diamonds show forecast for Q425.

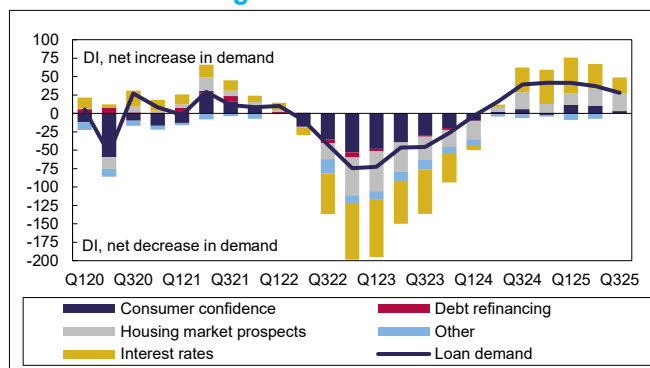
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

ECB BLS: Business loan demand drivers



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

ECB BLS: Housing loan demand drivers



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK

BRC survey presents a welcome softer signal for inflation in October

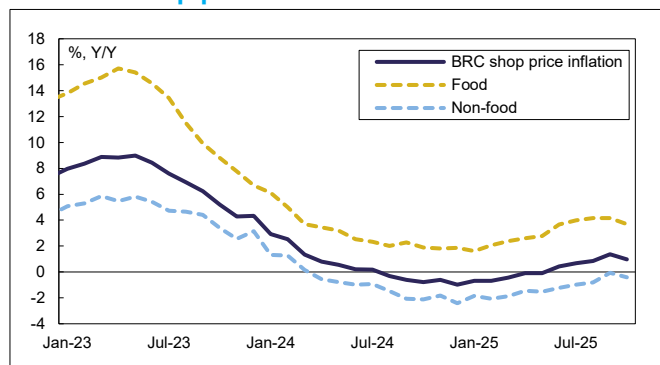
After September's CPI data provided a welcome surprise, appearing to confirm 3.8%Y/Y as the peak of the recent inflation hump, we have been expecting a step down in October thanks primarily to household energy base effects. But today's BRC shop price survey suggested that other components might soften too. Contrasting expectations of a rise, the headline BRC measure of high street inflation fell 0.4ppt to 1.0%Y/Y. The drop in non-food prices of 0.2%M/M, in line with the pre-pandemic trend, was broad-based, with ongoing discounting in clothing and electricals helping to keep the respective annual rate in deflationary territory (-0.4%Y/Y). But the most welcome surprise was across food components. As prices of 'ambient' foods experienced their steepest decline since December 2020, the BRC's food inflation gauge eased ½ppt to a four-month low of 3.7%Y/Y. Reportedly, that drop was helped by the decline in global sugar prices – down about 25% over the past six months and about 10% in October alone – which allowed some relief in prices of chocolate, which made the single largest contribution to food CPI inflation last month. The BRC survey measure of fresh food inflation picked up a touch this month to 4.3%Y/Y, but the monthly increase in such prices was still the softest in seven months. So, today's survey adds to evidence that food inflation is coming off the boil faster than the BoE expected. Next month, the Bank's updated assumptions for wholesale oil and gas prices will also be revised down to imply a weaker contribution to inflation in 2026 from energy. So,

recent developments should provide greater reassurance to the median MPC member about the sustainability of the disinflation process, supporting the case for a cut in Q4. And while our baseline assumption remains that such a cut will not come until December after the government's fiscal policy plans will have been presented, today's data do not preclude the possibility of a 5-4 vote on the MPC in favour of policy easing in November.

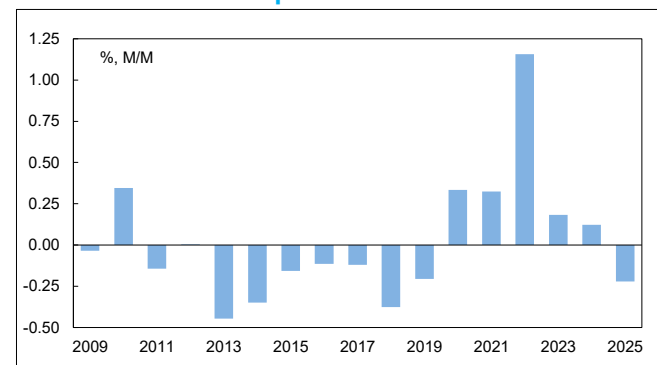
The two days ahead in the UK

September's bank lending figures, due Wednesday, will provide the sole UK data release over the coming two days. Their publication will also mark the last official data ahead of next week's monetary policy decision, although they are highly unlikely to have a bearing on the outcome. Broadly, the effects of previous monetary policy loosening should be expected to maintain a gradual recovery in bank lending, although greater caution ahead of the Autumn Budget poses downside risks to the mortgage and business lending figures.

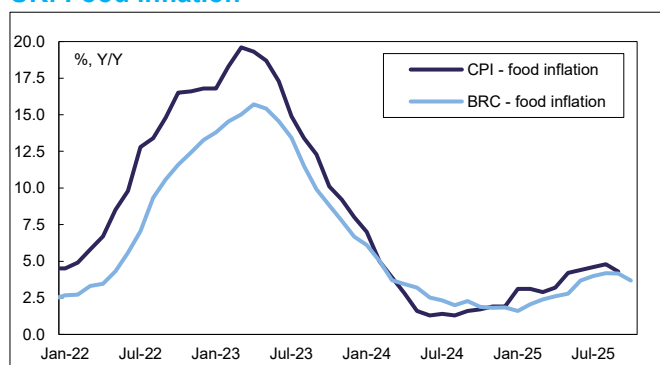
UK: BRC shop price inflation



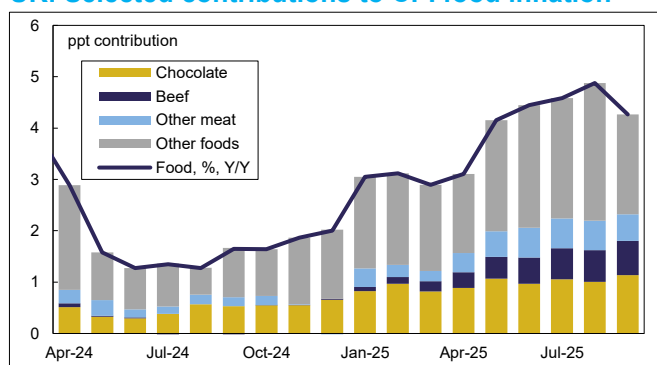
UK: BRC – non-food price inflation in October



UK: Food inflation



UK: Selected contributions to CPI food inflation



The next Euro wrap-up will be published on Thursday 30 October 2025

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	 New car registrations Y/Y%	Sep	9.0	-	3.9	-
Germany	 GfK consumer confidence indicator	Nov	-24.1	-22.0	-22.3	-22.5
Italy	 ISTAT consumer confidence indicator	Oct	97.6	97.0	96.8	-
	 ISTAT business (manufacturing) confidence indicator	Oct	94.3 (88.3)	-	93.7 (87.3)	-(87.4)
UK	 BRC shop price index Y/Y%	Oct	1.0	1.6	1.4	-

Auctions

Country	Auction
Germany	 sold €3.02bn of 2.2% 2030 bonds at an average yield of 2.21%
Italy	 sold €2bn of 2.1% 2027 bonds at an average yield of 2.15%
	 sold €1.5bn of 1.8% 2036 inflation-linked bonds at an average yield of 1.72%
UK	 sold £1.5bn of 1.125% 2035 inflation-linked bonds at an average yield of 1.571%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Italy	 10.00	Hourly wages M/M% (Y/Y%)	Q3	-	0.5 (2.7)
	 11.00	PPI Y/Y%	Sep	-	0.5
Spain	 08.00	GDP – first estimate Q/Q% (Y/Y%)	Q3	0.6 (2.8)	0.8 (3.1)
	 08.00	Retail sales Y/Y%	Sep	-	4.5
UK	 09.30	Net consumer credit £bn (Y/Y%)	Sep	1.5 (-)	1.7 (7.1)
	 09.30	Net mortgage lending £bn (mortgage approvals 000s)	Sep	4.1 (64.0)	4.3 (64.7)

Auctions and events

Germany	 10.30	Auction: to sell up to €4.5bn of 2.6% 2035 bonds
UK	 10.00	Auction: to sell £3.75bn of 4.125% 2033 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases
Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	 10.00	GDP – first estimate Q/Q% (Y/Y%)	Q3	<u>0.1 (1.3)</u>	0.1 (1.5)
	 10.00	Commission economic sentiment indicator	Oct	96.0	95.5
	 10.00	Commission services (industrial) confidence indicator	Oct	3.8 (-10.0)	3.6 (-10.3)
	 10.00	Final Commission consumer confidence indicator	Oct	<u>-14.2</u>	-14.9
	 10.00	Unemployment rate %	Sep	6.3	6.3
	 13.15	ECB Deposit (Refinancing) Rate %	Oct	<u>2.00 (2.15)</u>	2.00 (2.15)
Germany	 08.55	Unemployment claims rate % (change 000s)	Oct	6.3 (8)	6.3 (14)
	 09.00	GDP – first estimate Q/Q% (Y/Y%)	Q3	<u>-0.1 (0.2)</u>	-0.3 (-0.2)
	 13.00	Preliminary HICP (CPI) Y/Y%	Oct	2.2 (2.2)	2.4 (2.4)
France	 06.30	GDP – first estimate Q/Q% (Y/Y%)	Q3	<u>0.2 (0.6)</u>	0.3 (0.8)
	 06.30	Consumer spending M/M% (Y/Y%)	Sep	-	0.1 (-0.8)
Italy	 09.00	GDP – first estimate Q/Q% (Y/Y%)	Q3	<u>0.1 (0.6)</u>	-0.1 (0.4)
Spain	 08.00	Preliminary HICP (CPI) Y/Y%	Oct	3.0 (2.9)	3.0 (3.0)

Auctions and events

Euro area	 13.15	ECB monetary policy announcement
	 13.45	ECB President Lagarde holds post-Governing Council meeting press conference
Italy	 10.00	Auction: to sell up to €3bn of 2.85% 2031 bonds
	 10.00	Auction: to sell up to €4.5bn of 3.45% 2036 bonds
	 10.00	Auction: to sell up to €1bn of 2031 floating bonds
	 10.00	Auction: to sell up to €1bn of 2032 floating bonds
UK	 10.00	Auction: to sell £1.5bn of 0.375% 2030 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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