# Euro wrap-up

## Overview

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- With wholesale energy prices higher, Bunds made losses while the ZEW survey suggested that investor optimism with respect to the German economic outlook has risen again.
- Gilts made slightly smaller losses as the latest UK labour market data reported further moderation in private sector pay growth and declining payrolls.
- Wednesday will bring updates on euro area and UK inflation in July.

**Daily bond market movements**

| Bond | Yield | Change |
|---|---|---|
| BKO 2.7 09/28 | 2.850 | +0.053 |
| OBL 2.9 10/31 | 2.981 | +0.049 |
| DBR 3 08/36 | 3.260 | +0.040 |
| UKT 4⅜ 03/28 | 4.377 | +0.015 |
| UKT 4⅛ 03/31 | 4.610 | +0.026 |
| UKT 4¾ 10/35 | 5.083 | +0.025 |

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

# Euro area

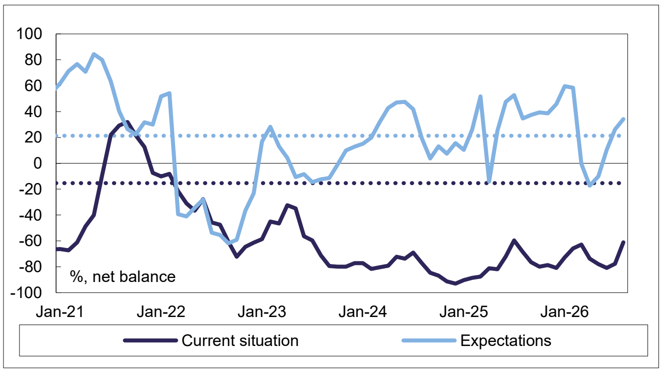
## Despite higher energy prices, investor optimism about the German economy rises again

The German economy has proved surprisingly resilient in the face of the energy price shock. GDP rose for the third consecutive quarter in Q2, by 0.2%Q/Q, taking the annual growth rate to an 11-quarter high (0.9%Y/Y). Given the hit to real incomes, retail sales were predictably anaemic (0.1%Q/Q). But construction sector output rose 2%Q/Q thanks to higher infrastructure investment. And defence spending and precautionary stock-building supported manufacturing output (0.6%Q/Q) and exports (0.9%Q/Q). July's PMIs suggested that momentum picked up at the start of Q3. So, despite the renewed uncertainty brought on by events in the Middle East, the August ZEW survey reported that investors are increasingly unperturbed by the potential risks. Admittedly, less than 2% of respondents adjudged the current economic situation in Germany to be 'Good', and most still consider it to be 'Bad'. But the balance between those two responses was the best since July 2025 (-61.1), and in more than three years besides that. Although German inflation rose back to 2.8%Y/Y in July, the net balance of respondents expecting inflation to rise further was only slightly above neutral (1.8), suggesting that investors are now less concerned about a potential further surge in commodity prices. As such, the balance of expectations for the coming six months (34.2) was the most upbeat since the start of the US-Iran war. And that optimism was also reflected in the broad-based improvement to profit expectations. In addition to the overwhelming optimism surrounding the technology sector, the outlook for banks was judged to be benefitting from firming economic activity as well as expectations of further ECB monetary tightening. And their improvement on the month was bettered only by a handful of sectors, including some energy-intensive manufacturers. Autos saw the largest jump, albeit from a low base, meaning that investor attitudes towards the sector remained the most downbeat amid its ongoing competitiveness challenges.

## The day ahead in the euro area

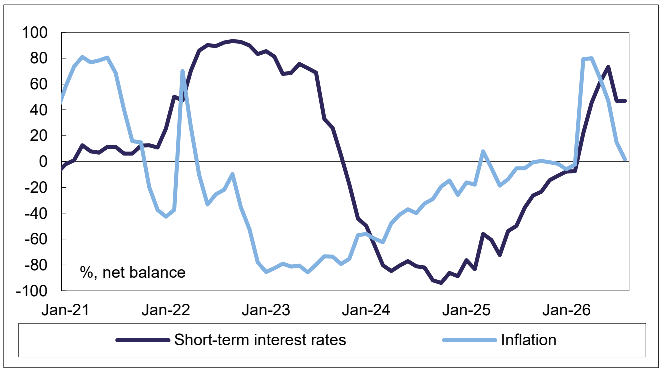
Modest revisions to the price data from certain member states – while only sufficient to round up the final HICP readings to one decimal place in Spain and the Netherlands – incorporate a slight upside risk to tomorrow's final July inflation print for the euro area. However, on balance, we still expect confirmation of the flash estimates, which had reported a slight pickup in both headline and core inflation, by 0.1ppt, to 2.9%Y/Y and 2.5%Y/Y respectively. The granular detail will confirm energy as the principal cause of that increase. Alongside localised pressures in household electricity prices, last week's data from the member states showed fuel inflation edging higher and especially so in Germany due to the expiration of temporary tax cuts. The national data also inferred that AI-related demand might have been responsible for some of the pick-up in core inflation, particularly via communications goods and services. However, transport services inflation seems unlikely to have intensified, despite resurgent energy prices. And while no doubt supported by the pass-through of an aviation tax cut in Germany last month, policymakers might take some comfort from those quieter indirect effects of events in the Middle East. Softer

**Germany: ZEW economic conditions indices***




*Dotted lines represent long-run averages.
*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

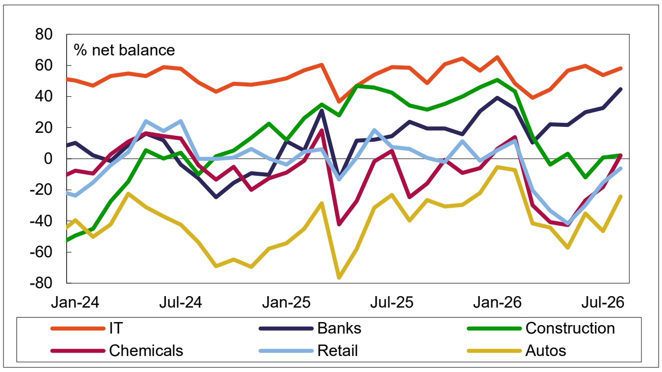
**Germany: ZEW inflation & interest rate expectations**




*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

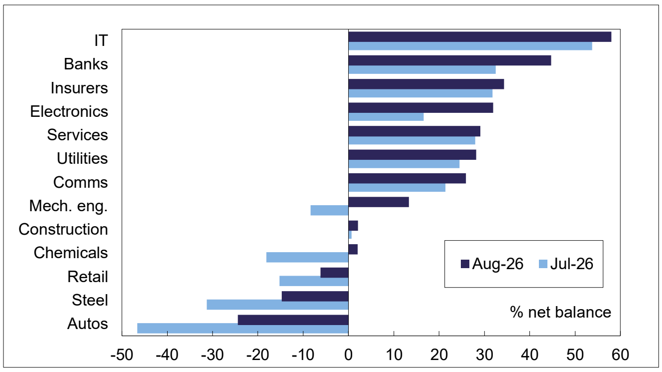
readings for clothing and, for now, food inflation will also be welcome. Evidence of second-round effects should also remain elusive in July's price data, and preliminary estimates of labour costs and job vacancies in Q2 – which are also scheduled for Wednesday – should provide further reassurance that wage pressures remain distant and labour market conditions are looser than they were during the energy shock in 2022.

**Germany: ZEW selected sectors' profit situations**




*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

**Germany: ZEW profit situation by sector**



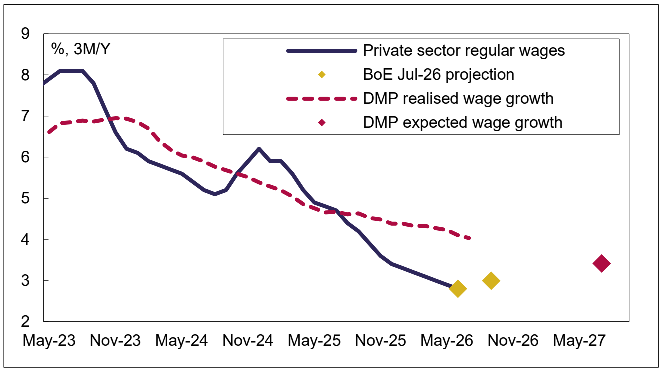

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

# UK

## Private sector pay growth slows to softest rate in almost six years

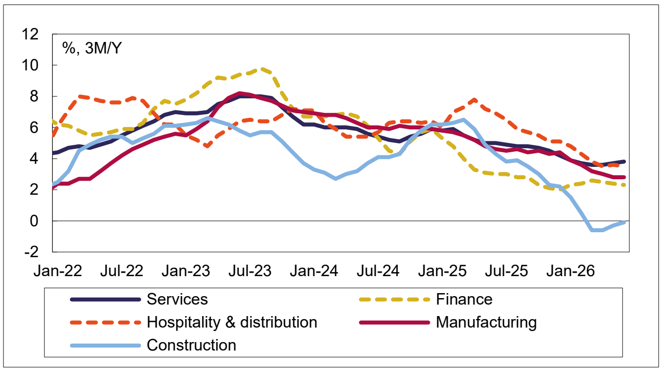
At its July policy meeting, the MPC's majority judged that loose labour market conditions should help to reduce inflation over time, justifying the decision to leave policy unchanged. That assessment is likely to have been reaffirmed by today's data, which suggest that the stronger-than-expected economic growth in Q2 (0.4%Q/Q) was accompanied by neither a material reduction in slack nor firmer pay growth. Most importantly perhaps, most private sector wage growth indicators continued to moderate. Indeed, on a three-month basis, the BoE's preferred measure of private sector regular pay growth (excluding bonuses) eased in June for the 16th successive month, slowing 0.1ppt in line with expectations to 2.8%3M/Y, the softest pace in almost six years. More importantly perhaps, it was also firmly below the long-run average and below levels which,

**UK: Private sector pay growth**



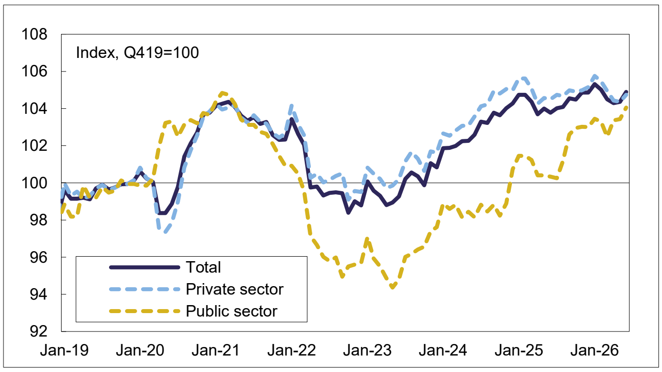

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

**UK: Private sector regular pay growth by sector**



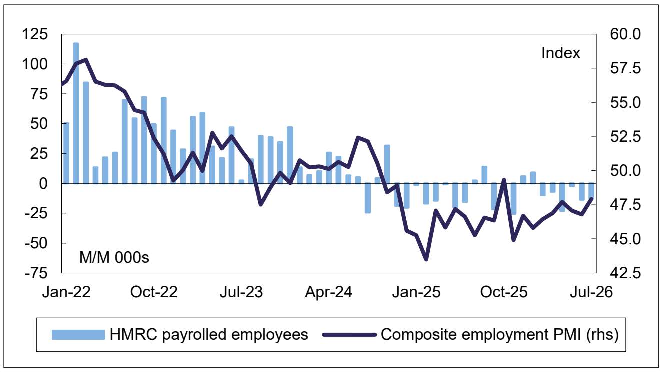

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

**UK: Real regular pay***




**Deflated by CPI, 3mma.*
*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

**UK: Payroll employees & employment PMI**




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

other things equal, might be considered consistent with achievement of the inflation target on a sustained basis. Regular pay growth in several sectors, including hospitality and other services as well as manufacturing, similarly slowed to multi-year lows. Admittedly, due in part to the timing of settlements in the National Health Service, public sector regular pay accelerated in June to 6.1%3M/Y, the strongest in six months. That also likely reflects the need for catch-up for past weakness, so we do not fully share the concerns of some of the MPC's hawks that it might act as a catalyst for stronger private sector pay growth over coming quarters. Meanwhile, total pay growth including bonus payments moderated 0.3ppt to 4.1%3M/Y, close to the bottom of the range of the past six years. And in real terms, regular pay rose 0.5%3M/Y and total pay rose 1.1%3M/Y. With households keen to save due to elevated uncertainty, those figures point to a likely subdued spending outlook unless and until inflation subsides.

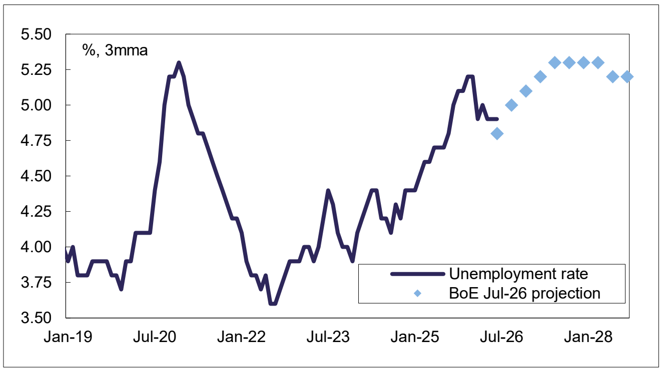
## Payroll, unemployment & vacancy data suggest soft labour demand amid persistent slack

The ongoing moderation in pay growth suggests persistent labour market slack. And while various indicators of job growth offer somewhat conflicting signals, in the round today's data suggested a continued shortfall of demand for workers relative to supply. According to the preliminary estimate, the number of payrolled employees fell for a sixth successive month in July with weakness in all major private sector subsectors bar administrative and support services. So, with the June figure revised down too, payrolls fell 93k from a year earlier (-0.3%Y/Y). The level of LFS employment also fell slightly in June, while the respective three-month growth rate slowed more than abruptly than expected to a four-month low (+83k). And with inactivity down, the unemployment rate in the three months to June was unchanged at 4.9%, 0.1ppt above the BoE's projection and 0.2ppt above the level a year earlier. Strikingly, the single-month unemployment rate jumped a steep 0.8ppt to 5.4%, the highest since late 2020. And while the number of potential redundancies fell for a second month in July, vacancies edged down to the lowest level in more than five years and in more than a decade outside of the pandemic. So, the vacancies-to-unemployment ratio – a helpful barometer of labour market tightness – remained close to the bottom of the range of the past decade, again barring the Covid-19 period. Some survey indicators, such as those of the REC report from employment agencies, have hinted at a stabilisation in labour demand over the summer. But the composite employment PMI remained firmly below 50 for the 22nd month in July. And given the likelihood that slack will persist over coming quarters, the DMP survey expectation of continued moderate pay growth over the coming 12 months – with minimal second-round effects from the energy price shock – appears appropriate.

## The day ahead in the UK

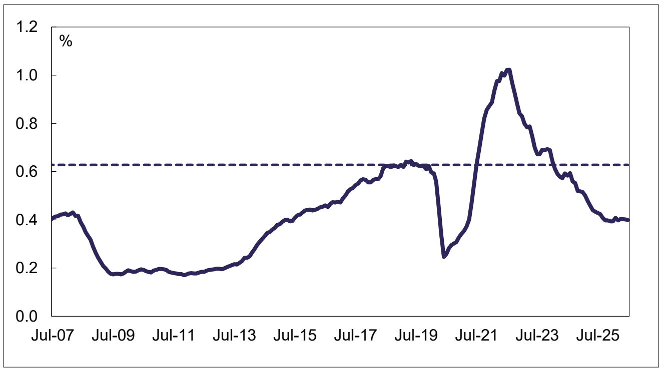
Tomorrow's inflation report for July will maintain the flow of top-tier UK economic data. Encouragingly for the BoE, headline inflation eased in June to a 15-month low of 2.6%Y/Y. But a reacceleration in July appears inevitable due to the increase of

### UK: Unemployment rate



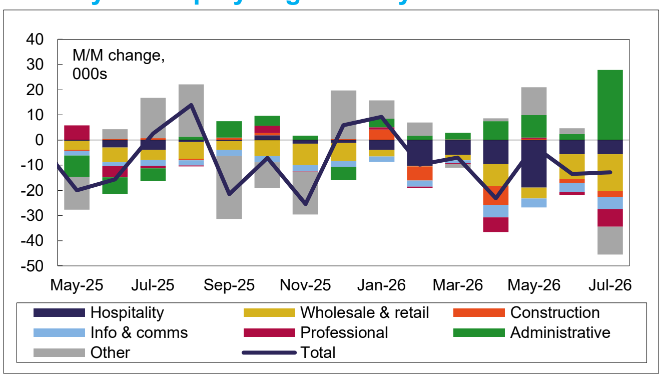

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

### UK: Vacancies to unemployment ratio*



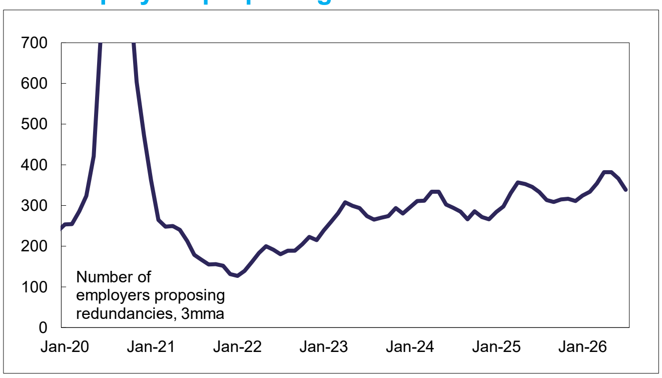

**Dashed line represents 2019 average.*
*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

### UK: Payroll employee growth by sector




*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

### UK: Employers proposing redundancies




*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

more than 13%Q/Q in Ofgem's regulated household energy price cap at the start of the month. Carryover from June's temporary lull in fuel prices and favourable base effects imply that fuel inflation will provide some offset for the rise in household electricity and gas prices. But we expect energy to jump 12.5%Y/Y, up almost 7ppts from June. And we expect that to push the headline CPI rate back up to a three-month high of 3.0%Y/Y, a touch firmer than the Bloomberg's consensus forecast (2.9%Y/Y) as well as the BoE's own projection (2.8%Y/Y). The difference between our own forecast and the BoE's can be partly attributed to developments in fuel prices later in the month, although our relatively less dovish forecasts for food and services inflation also contribute. Nevertheless, as in the euro area, we also expect food inflation in the UK to have moderated further last month. And while we see upside risks to core goods prices, services inflation should remain relatively well behaved, keeping core inflation close to 2.6%Y/Y for a third-consecutive month. Finally, July's producer price indices will verify whether input price pressures started to dissipate, as intimated by business surveys.

# European calendar

## Today's results

**Economic data**

| Country | Release | Period | **Actual** | Market consensus/ *Daiwa forecast* | Previous | Revised |
|---|---|---|---|---|---|---|
| Germany | ZEW current situation (expectations) balance | Aug | **-61.1 (34.2)** | -69.3 (30.0) | -77.6 (26.3) | - |
| UK | Average wages (excluding bonuses) 3M/Y% | Jun | **4.1 (3.5)** | 4.0 (3.4) | 4.3 (3.4) | 4.4 (-) |
| | Private sector wages ex. bonuses 3M/Y% | Jun | **2.8** | 2.8 | 2.9 | - |
| | Unemployment rate 3M% | Jun | **4.9** | 4.8 | 4.9 | - |
| | Employment 3M/3M change 000s | Jun | **84** | 130 | 148 | - |
| | Payrolled employment M/M change 000s | Jul | **-13** | 0 | -4 | -13 |
| | Claimant count rate % (change 000s) | Jul | **4.3 (-11.0)** | - | 4.4 (6.7) | (-6.4) |
| | Output per hour Y/Y% | Q2 | **-0.2** | - | 0.4 | 0.5 |

**Auctions**

| Country | Auction |
|---|---|
| UK | sold £4bn of 4.875% 2036 bonds at an average yield of 5.155% |

*Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

## Monday's results

**Economic data**

| Country | Release | Period | **Actual** | Market consensus/ *Daiwa forecast* | Previous | Revised |
|---|---|---|---|---|---|---|
| UK | Rightmove house prices M/M% (Y/Y%) | Aug | **-2.0 (-1.0)** | - | -1.0 (-0.4) | - |

**Auctions**

| Country | Auction |
|---|---|
| - Nothing to report - | |

*Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

## Tomorrow's releases

**Economic data**

| Country | BST | Release | Period | Market consensus/ *Daiwa forecast* | Previous |
|---|---|---|---|---|---|
| Euro area | 09.00 | ECB current account €bn | Jun | - | -1.5 (-1.1) |
| | 10.00 | Final headline (core) HICP Y/Y% | Jul | *2.9 (2.5)* | 2.8 (2.4) |
| | 10.00 | Preliminary labour costs Y/Y% | Q2 | - | 3.2 |
| | 10.00 | Preliminary job vacancy rate % | Q2 | - | 2.3 |
| UK | 07.00 | Headline (core) CPI Y/Y% | Jul | *3.0 (2.6)* | 2.6 (2.6) |
| | 07.00 | PPI – output (input) prices Y/Y% | Jul | 3.2 (6.5) | 3.5 (7.3) |
| | 09.30 | House price index Y/Y% | Jun | - | 2.7 |

**Auctions and events**

| Country | BST | Event |
|---|---|---|
| Euro area | 08.10 | ECB President Lagarde participates in a discussion on the global economy at the World Economic Forum in Geneva |
| Germany | 10.30 | Auction: to sell up to €6bn of 3% 2036 bonds |

*Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

# Last week's data calendar

| Key data releases | | | | | | | |
|---|---|---|---|---|---|---|---|
| Country | Release | Period | **Actual** | Market consensus/ *Daiwa forecast* | Previous | Revised |
| | | | **Monday 10 August 2026** | | | | |
| Euro area | Sentix investor confidence indicator | Aug | **0.9** | -0.5 | -3.1 | - |
| | | | **Tuesday 11 August 2026** | | | | |
| UK | BRC retail monitor – like-for-like sales Y/Y% | Jul | **1.0** | 1.5 | 1.7 | - |
| | | | **Wednesday 12 August 2026** | | | | |
| Germany | Final HICP (CPI) Y/Y% | Jul | **2.8 (2.8)** | *2.8 (2.8)* | 2.4 (2.3) | - |
| Italy | Final HICP (CPI) Y/Y% | Jul | **2.9 (2.9)** | *2.9 (2.8)* | 3.0 (3.0) | - |
| | | | **Thursday 13 August 2026** | | | | |
| Euro area | Industrial production M/M% (Y/Y%) | Jun | **0.0 (0.1)** | *-0.2 (-1.0)* | -0.2 (-1.2) | 0.3 (-0.1) |
| Spain | Final HICP (CPI) Y/Y% | Jul | **3.9 (3.6)** | *3.8 (3.5)* | 3.6 (3.2) | - |
| UK | GDP – first estimate Q/Q% (Y/Y%) | Q2 | **0.4 (1.2)** | *0.4 (1.1)* | 0.6 (0.9) | - |
| | Monthly GDP M/M% | Jun | **0.3** | -0.1 | 0.1 | 0.0 |
| | Services output M/M% (3M/3M%) | Jun | **0.4 (0.5)** | 0.0 (0.5) | 0.3 (0.7) | 0.1 (0.6) |
| | Industrial output M/M% (Y/Y%) | Jun | **-0.2 (-0.2)** | 0.1 (0.3) | -0.5 (1.0) | -0.7 (-) |
| | Construction output M/M% (Y/Y%) | Jun | **-0.1 (-2.3)** | -0.4 (2.3) | -0.8 (-1.8) | - (-2.0) |
| | Trade (goods trade) balance £bn | Jun | **-5.5 (-23.0)** | -2.7 (-20.4) | -1.0 (-18.7) | -3.5 (-21.1) |
| | RICS house price balance % | Jul | **-30** | -30 | -33 | -32 |
| | | | **Friday 14 August 2026** | | | | |
| Euro area | GDP – second estimate Q/Q% (Y/Y%) | Q2 | **0.4 (1.0)** | *0.4 (1.0)* | 0.0 (0.5) | - |
| | Employment – first estimate Q/Q% (Y/Y%) | Q2 | **0.1 (0.5)** | - | 0.1 (0.5) | - |
| | Trade balance €bn | Jun | **1.8** | - | -5.0 | -6.1 |
| Germany | Wholesale prices M/M% (Y/Y%) | Jul | **0.2 (5.3)** | - | -0.7 (4.9) | - |
| France | Final HICP (CPI) Y/Y% | Jul | **2.4 (2.1)** | *2.4 (2.1)* | 2.0 (1.8) | - |

*Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

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