# Euro wrap-up

## Overview

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- While the ifo business survey was stronger than expected and German GDP growth in Q2 was revised higher, Bunds made gains as wholesale crude oil prices fell back on events in the Middle East.
- Gilts followed the global trend higher on a quiet day for economic news from the UK.
- A UK retail survey is due on Wednesday while the ECB's account of its July policy meeting and updates on euro area bank lending and German consumer confidence follow on Thursday.

**Daily bond market movements**

| Bond | Yield | Change |
|---|---|---|
| BKO 2.7 09/28 | 2.806 | -0.060 |
| OBL 2.9 10/31 | 2.926 | -0.058 |
| DBR 3 08/36 | 3.199 | -0.051 |
| UKT 4⅜ 03/28 | 4.308 | -0.069 |
| UKT 4⅛ 03/31 | 4.525 | -0.071 |
| UKT 4¾ 10/35 | 4.987 | -0.069 |

*Change from close as at 5:00pm BST.
Source: Bloomberg

# Euro area

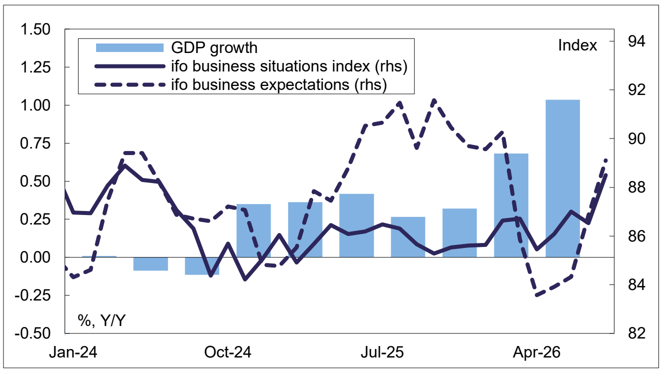
### Further evidence of strengthening German recovery as ifo survey significantly beats expectations

After three successive quarters of positive GDP growth up to Q2, the German expansion appears to have gained further traction in Q3 despite the persisting energy price shock. The ifo business climate indices, which often provide the most reliable guide to German economic activity, significantly beat expectations in August. The headline ifo index rose for the fourth month in a row and by 2.1pt, the most since end-2022, to a twelve-month high (88.8). After a slight slip back in July, current conditions were judged to have improved the most in more than four years to be the best in more than two years. And expectations for the coming six months were much more upbeat for a second successive month, with the respective index rising to a six-month high. Encouragingly, the improvement in sentiment appeared relatively broad-based. But tallying with last week's flash PMIs, the ifo survey suggests that manufacturers are providing the greatest impetus. Indeed, the current conditions index for manufacturers rose the most since 2020 to a three-year high. And while current activity in the factory sector might still be flattered by precautionary stock-building related to the Iran conflict, and the ifo institute reported ongoing dissatisfaction with respect to order books, expectations in the sector were the brightest since January. In other sectors, the outlook for retailers, constructors and services firms was considered the best since February. And contrasting the softening in the respective activity PMI in August, current conditions in services were also judged to have improved. Inevitably there are big contrasts between subsectors. The ifo institute reported that IT service providers were optimistic but that challenges persisted in transportation and logistics. The latter likely in part reflects disruption to freight transit from recent low water levels on the River Rhine. But happily, recent rains have allowed for some normalisation. And so, while the peak summer disruption to river freight likely weighed on economic activity somewhat, we currently expect German GDP growth of about ¼%Q/Q in Q3, which would push the annual rate to a four-year high around 1¼%Y/Y.

### German growth in Q2 revised up & buoyed by strong goods exports

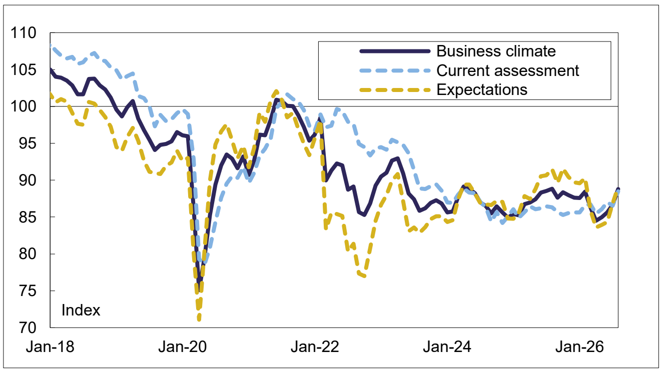
The good news from the ifo survey was accompanied by today's final national accounts data for Q2, which reported that the German economy fared better than previously thought last quarter. GDP growth was revised up 0.1ppt to 0.3%Q/Q, just 0.1ppt below the five-quarter high in Q1 (0.4%Q/Q), to nudge the annual rate up to 1.0%Y/Y. Conditional on revisions elsewhere, these data raise the possibility of an upwards revision to the estimate of euro area growth in Q2, to 0.5%Q/Q. The revision to German GDP principally reflected the strength of June's goods trade figures. Exports rose 2%Q/Q over the quarter, only modestly slower than in Q1 and by slightly more than total imports (1½%Q/Q). So, for a second consecutive quarter, net trade contributed the lion's share to quarterly growth (0.2ppt). Export strength was solely attributable to goods (2.6%Q/Q). With higher defence spending and precautionary inventory accumulation, this was reflected in an acceleration in manufacturing output growth to a nine-quarter high (0.9%Q/Q). Most services subsectors also expanded, most markedly in

**Germany: GDP growth & ifo indices**




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

**Germany: ifo business climate indices**




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

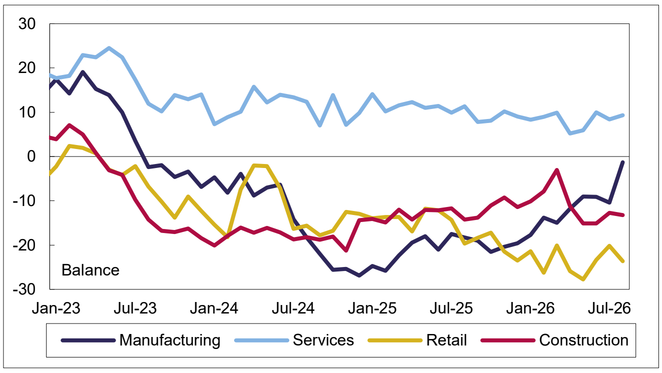
information and communications (0.6%Q/Q). But, overall, domestic drivers made only a negligible contribution to GDP growth. Private consumption growth was subdued (0.1%Q/Q) as was government spending (0.1%Q/Q), albeit with the latter still up 3.0%Y/Y following growth of 0.9%Q/Q in Q1 and firm advances in the three quarters before that. And most notably, fixed investment subtracted from growth (-0.2%Q/Q) as uncertainty, tighter financial conditions and rising material costs weighed on capex across residential construction (-1.0%Q/Q) and machinery and equipment (-1.4%Q/Q). But public investment, associated with higher defence and infrastructure spending, offered some offset (3.8%Q/Q). We expect private consumption growth to remain relatively subdued in Q3. But while residential construction will likely have remained subdued, a lesser contribution to growth from net exports should be at least partially offset by a smaller drag from fixed investment and ongoing support from government spending initiatives.

## The two days ahead in the euro area

The euro area dataflow will take a brief pause on Wednesday before a handful of releases and, most notably, the ECB's account of July's Governing Council monetary policy meeting are released on Thursday. The Governing Council elected to leave policy unchanged in July, having just hiked interest rates for the first time since 2023 at its prior meeting. President Lagarde said that decision was unanimous but noted that 'some' governors asked whether a hike should have been considered. And given that the ECB's latest projections were conditioned on as many as three hikes, it seems likely that the account will support expectations that a further hike is due in September. Still, it will keep silent about the likely frequency and timing of tightening thereafter. And with the few policymakers who have spoken in recent months coming across relatively dovish, the account's messages might be at risk of being subsequently outflanked by any ECB-speak coming out of Jackson Hole.

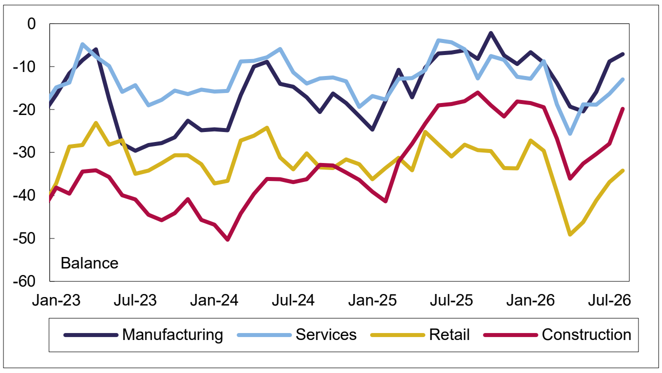
Turning to the economic data, euro area monetary figures will show whether tighter credit conditions were beginning to weigh on bank lending activity at the start of Q3. Weaker flows in consumer credit and mortgage lending in June suggest that could be the case for loans to households, growth in which has moved sideways at 3%Y/Y for seven months now. But business lending has been surprisingly strong, holding its momentum through to June with growth in outstanding loans rising to a three-year high (4%Y/Y). A temporary moderation in bets of further monetary policy tightening, owing to the lull in energy prices, could have supported additional flows in July too. However, reescalation since then implies that the GfK's consumer survey for Germany – whose headline confidence reading is presented as a forecast for September – is likely to remain subdued. Only a modest improvement may be within scope. Indeed, today's consumer survey from France showed no improvement and thus failed to explain the uptick in the Commission's flash euro area indicator last week. While that regional index rose to a six-month high (-15.5), confidence in France merely moved sideways (86) to remain well below its level in

### Germany: ifo current conditions indices by sector



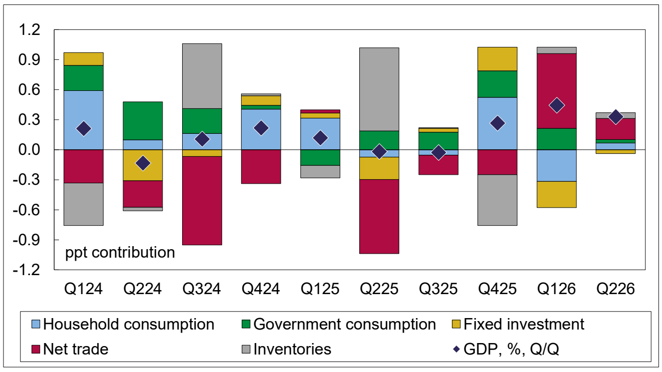

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

### Germany: ifo expectations indices by sector



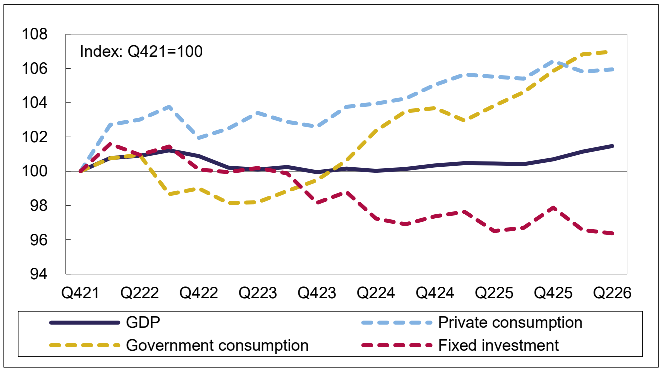

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

### Germany: Expenditure contributions to GDP growth




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

### Germany: GDP & expenditure levels



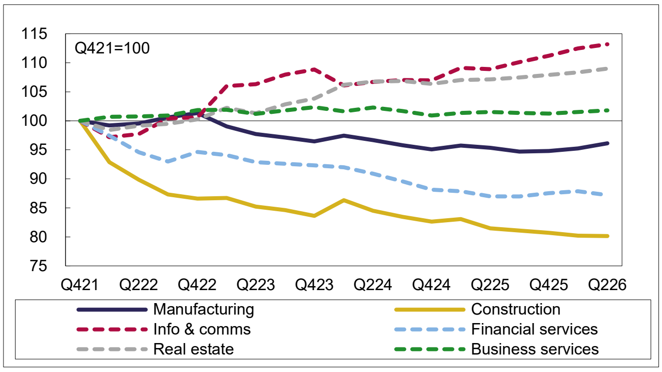

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

February (92). Fresh uncertainty and fears of unemployment also reinforce consumers' preference for precautionary saving, corresponding to a further drop in their willingness to spend.

## The two days ahead in the UK

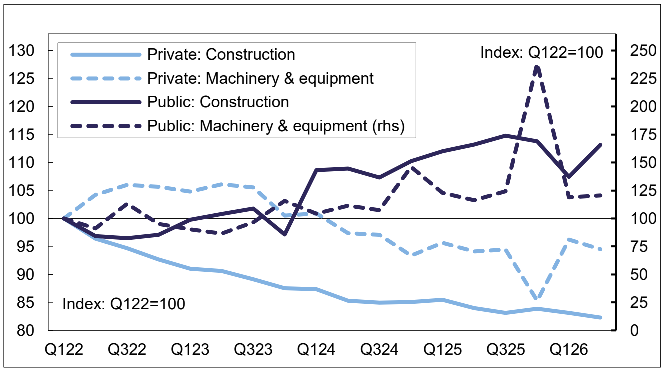
From an inflation perspective, the most significant news over the coming two days in the UK will be Wednesday's announcement by Ofgem (the UK energy regulator) of its household energy price cap for Q4. Despite the government's temporary 5ppt cut in VAT on electricity from 1 October, which will last for six months, recent shifts in wholesale gas prices suggest that the cap will be raised by a little over 2%Q/Q, taking the typical annual bill for a representative household to around £1700. Still, given that the expected increase will be similar to that of a year ago, the implications for October's inflation print should be relatively negligible. Otherwise, a second-tier survey from CBI – also on Wednesday – will provide a first indication about the strength of retail, wholesale and motor trade sales this month. However, we caution that this survey has provided a poor guide to the ONS official series. Indeed, while the official retail sales figures have been surprisingly firm in 2026, the CBI survey has been exceedingly downbeat.

### Germany: Production levels of selected subsectors



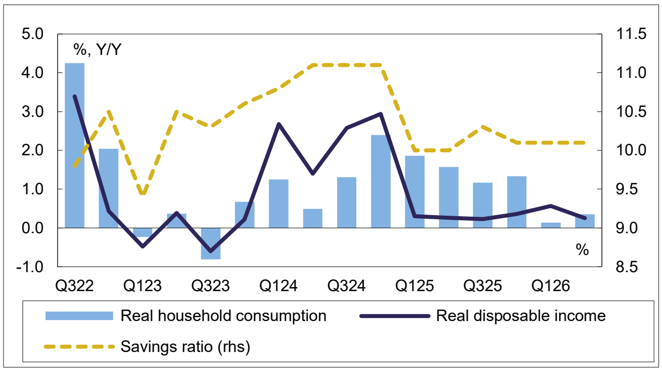

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

### Germany: Public & private fixed investment



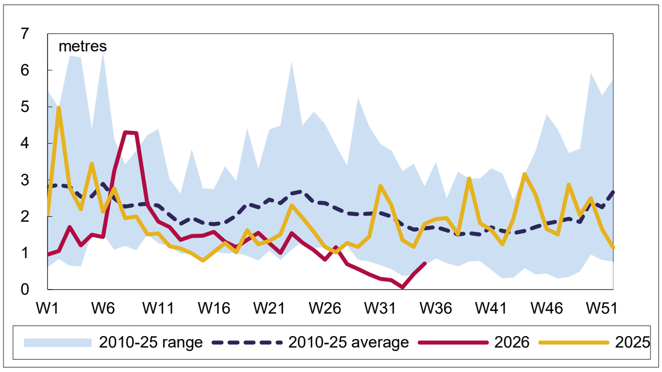

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

### Germany: Consumption, income & savings ratio




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

### Germany: Rhine River weekly water levels at Kaub




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

***The next Euro wrap-up will be published on Thursday 27 August 2026***

# European calendar

## Today's results

**Economic data**

| Country | | Release | Period | Actual | Market consensus/ *Daiwa forecast* | Previous | Revised |
|---|---|---|---|---|---|---|---|
| Germany | | ifo current assessment (expectations) indicator | Aug | **88.5 (89.1)** | 87.0 (87.5) | 86.5 (86.7) | - (86.8) |
| | | ifo business climate indicator | Aug | **88.8** | 87.2 | 86.6 | 86.7 |
| | | GDP – final estimate Q/Q% (Y/Y%) | Q2 | **0.3 (1.0)** | *0.2 (0.9)* | 0.4 (0.8) | - |
| | | GDP – private consumption Q/Q% | Q2 | **0.1** | 0.2 | 0.0 | -0.6 |
| | | GDP – government spending Q/Q% | Q2 | **0.1** | 0.9 | 1.1 | 0.9 |
| | | GDP – capital investment Q/Q% | Q2 | **-0.2** | - | -1.5 | -1.3 |
| France | | INSEE consumer confidence indicator | Aug | **86** | 87 | 86 | - |
| Spain | | PPI Y/Y% | Jul | **9.2** | - | 7.0 | - |

**Auctions**

| Country | | Auction |
|---|---|---|
| Germany | | sold €3.828bn of 2.7% 2028 bonds at an average yield of 2.85% |
| UK | | sold £4bn of 4.125% 2033 bonds at an average yield of 4.761% |

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

## Wednesday's releases

**Economic data**

| Country | | BST | Release | Period | Market consensus/ *Daiwa forecast* | Previous |
|---|---|---|---|---|---|---|
| UK | | 11.00 | CBI distributive trades survey – reported retail sales % net balance | Aug | -35 | -26 |

**Auctions and events**

| Country | | BST | Event |
|---|---|---|---|
| Germany | | 10.30 | Auction: to sell up to €1bn of 2.6% 2041 bonds |
| | | 10.30 | Auction: to sell up to €1bn of 1.25% 2048 bonds |
| UK | | 07.00 | Ofgem to announce household energy price cap for Q426 |

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

## Thursday's releases

**Economic data**

| Country | | BST | Release | Period | Market consensus/ *Daiwa forecast* | Previous |
|---|---|---|---|---|---|---|
| Euro area | | 10.00 | M3 money supply Y/Y% | Jul | 3.5 | 3.3 |
| Germany | | 07.00 | GfK consumer confidence indicator | Sep | -29.5 | -29.6 |
| France | | 07.45 | PPI Y/Y% | Jul | - | 2.6 |

**Auctions and events**

| Country | | BST | Event |
|---|---|---|---|
| Euro area | | 12.30 | ECB to publish monetary policy account of 22-23 July Governing Council meeting |
| Euro area/UK | | - | The Kansas City Fed's annual Jackson Hole Economic Policy Symposium begins, Wyoming |

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

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