Euro wrap-up

Overview

Emily Nicol
+44 20 7597 8331

Edward Maling
+44 20 7597 8030

- Bunds made modest losses as German consumer confidence rose to a six-month high, euro area bank lending remained resilient and the ECB account of its July policy meeting reinforced expectations of a September rate hike.
- Gilts were little changed on a quiet day for UK economic news.
- Friday will bring flash August inflation estimates from France and Spain, the European Commission's economic sentiment survey and an update on the German labour market.

Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/28	2.858	+0.022
OBL 2.9 10/31	2.981	+0.021
DBR 3 08/36	3.251	+0.019
UKT 4⅜ 03/28	4.353	+0.004
UKT 4⅛ 03/31	4.574	+0.006
UKT 4¾ 10/35	5.029	-0.001

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

Euro area

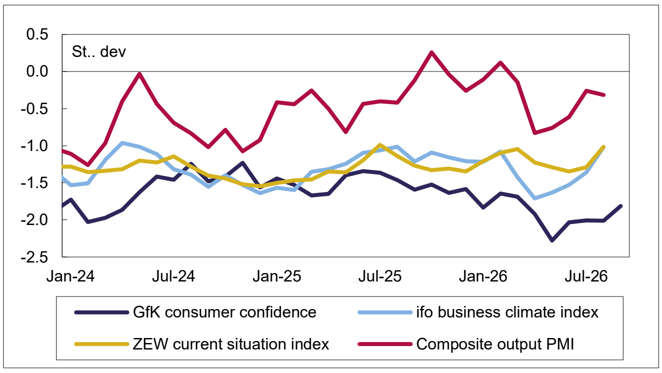
German consumers the most upbeat in six months as income expectations jump

Following recent improvements in German business indicators, including the August ifo survey and flash PMIs, today's stronger-than-expected GfK consumer confidence survey provided further evidence that the economy remains on track for a fourth consecutive quarter of growth in Q3. The headline confidence index – presented as a forecast for September – rose 2.8pts to -26.6, the highest in six months, leaving the Q3 average almost 2pts above that in Q2. While the headline index is still well below the long-run average and weaker than a year ago, the survey detail pointed to continued improvement in consumer assessments of the economic outlook. Despite a modest deterioration in the inflation outlook, income expectations jumped sharply to the highest level since February. Moreover, although purchase intentions were little changed in August and the respective index was broadly in line with the subdued average of the past year, it nevertheless remained almost 4pts above the Q2 average, suggestive of another quarter of positive consumption growth. Despite some recent high-profile downbeat messaging from firms such as VW and Commerzbank about job cuts to come, consumers may have drawn some reassurance from other evidence that labour market conditions are stabilising. The ifo employment barometer rose in August to its highest level since May 2025 as fewer firms reported plans to cut jobs. And while the number of people in work has lagged the recovery in GDP, the ifo institute reported that hiring intentions have strengthened significantly in manufacturing firms benefitting from increased AI-related demand, as well as in professional, scientific and technical services.

Bank lending remained resilient despite tighter financial conditions

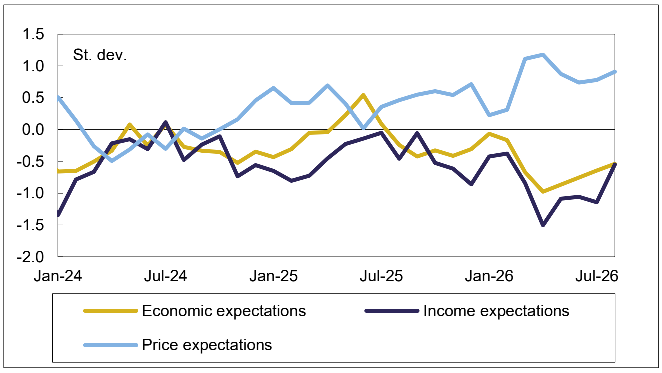
Despite the ECB's rate hike in June and contrary to the possible weakness signalled by the ECB's Bank Lending Survey (BLS), today's monetary data suggested that bank lending activity remained resilient at the start of Q3. Household borrowing remained relatively firm in July, with consumer credit issuance (€3.5bn) slightly above the average of the previous 12 months. And while rates on new mortgages rose to their highest level since late 2024, net mortgage lending also edged up (€12.8bn), albeit remaining towards the lower end of the range of the past year. In contrast, net lending to non-financial corporations (NFCs) moderated in July for a second successive month as borrowing costs rose to their highest level in more than a year. Nevertheless, the net monthly flow (€22.4bn) remained well above the average level of the previous 12 months, pushing annual growth in the stock of NFC loans up to a more than three-year high of 4.4%Y/Y. This strength partly reflected a jump in lending with maturities of less than five years, consistent with survey evidence pointing to greater demand for working capital and inventory financing. But while lending with maturities of five years or longer, which is typically associated with fixed investments, slowed in July (€8.7bn), annual growth in the stock of such loans remained unchanged at 4.0%Y/Y, the strongest pace since early 2023. At the country level, business loan growth remained soft in Germany (0.7%Y/Y) but accelerated in France (5.0%Y/Y), Italy (4.7%Y/Y) and Spain (5.2%Y/Y).

Germany: Business & consumer confidence indices



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

Germany: Consumer confidence indices

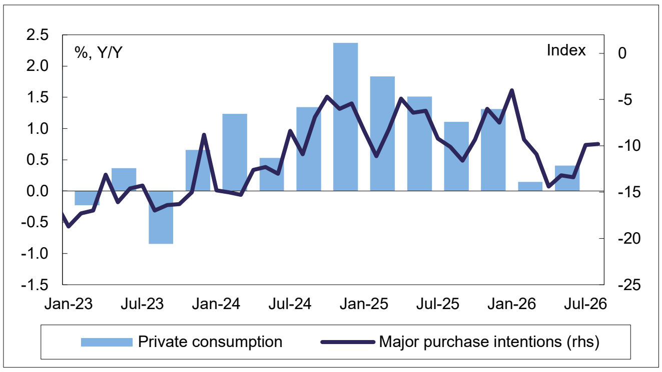


Source: GfK, Macrobond and Daiwa Capital Markets Europe Ltd.

ECB account reinforces expectations of a September hike, with further tightening still possible too

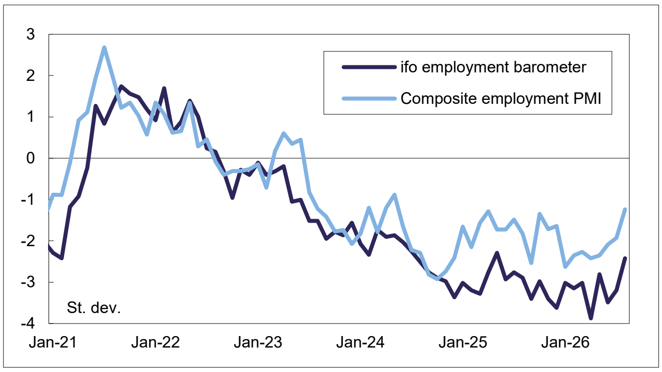
While the ECB's decision to leave rates unchanged in July was unanimous, the account of that meeting highlighted a clear hawkish undertone. Indeed, as Lagarde had suggested in her press conference, some members indicated that they would not have opposed a rate increase last month, arguing that incoming data and geopolitical developments since June had reinforced upside risks to the inflation outlook. Governing Council members also cautioned against placing too much weight on June's downside inflation surprise given the subsequent re-escalation of tensions in the Middle East. The account reiterated that a prolonged conflict would amplify the pass-through from higher energy prices and strengthen indirect inflationary effects, while hawkish members also flagged the possibility that more resilient demand could facilitate greater cost pass-through by firms. Policymakers acknowledged that further evidence was needed to determine whether stronger credit growth reflected improving investment intentions or increased financing needs associated with higher costs. But some argued that interest rates still needed to move into mildly restrictive territory. Chief Economist Lane recently observed that model estimates place the upper end of the neutral rate range at 2.50%, up from 2.25% previously. That might suggest that even after the widely anticipated 25bp hike in September, additional tightening may still be required to deliver the slightly restrictive stance that might be judged necessary to return inflation sustainably to target. And although a Reuters report earlier this week suggested limited appetite among policymakers to signal further tightening beyond next month's expected rate increase, Executive Board member Schnabel yesterday maintained a more hawkish tone, remarking that markets, which currently price roughly two further hikes over the next six months, "seem to understand our reaction function very well".

Germany: Consumption & purchase intentions



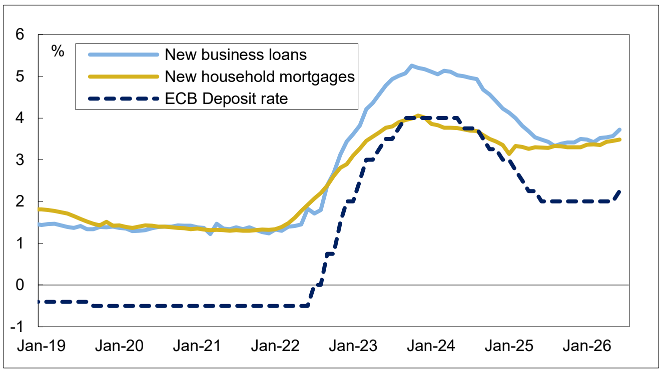
Source: GfK, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Employment expectations



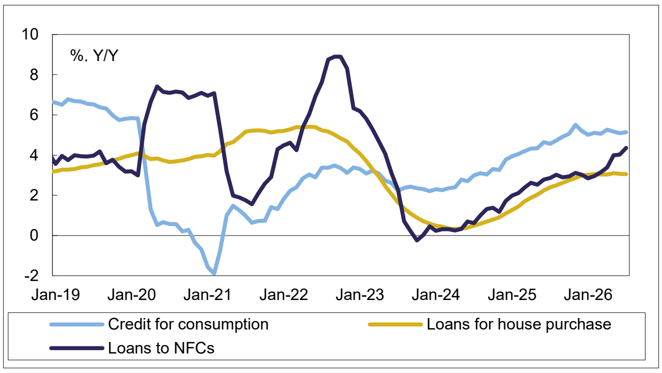
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: ECB interest rate & rates on new loans



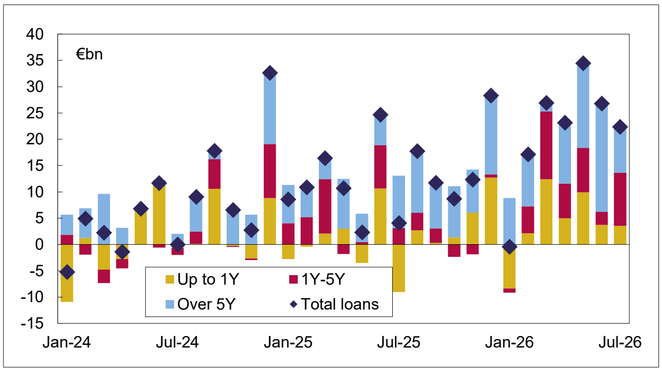
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Loan growth to households & NFCs



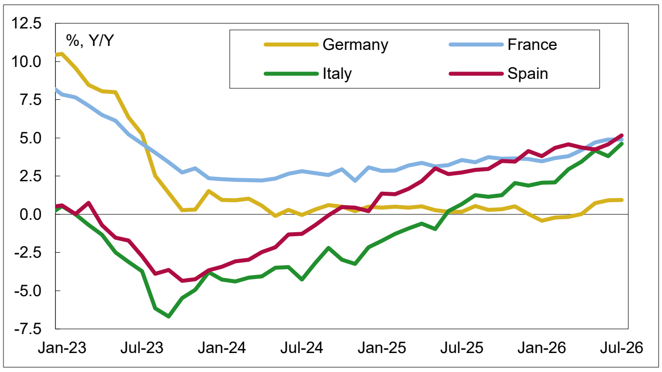
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Financial flows to NFCs by maturity



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Loan growth to NFCs by member state



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

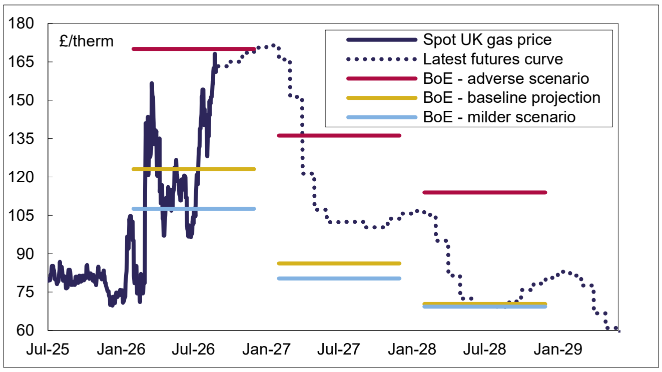
With all eyes on Jackson Hole ahead of Fed Chair Warsh's speech, Friday's euro area economic data might be less likely to have a market impact. Still, ahead of next Tuesday's euro area inflation release, preliminary estimates from France and Spain will be of particular interest. Headline inflation is expected to rise is both cases, and particularly so in Spain, driven by higher auto fuel prices. Core components are expected to be better behaved. But since rising energy costs could reimpose themselves on indirect channels such as transport services, and AI-related shortages continue feeding into ICT equipment, the risks remain skewed to the upside and places additional scrutiny on the limited detail provided by the broad indices. August's update to the Commission's ESIs will also be closely watched to verify the signals of weaker price pressures and firmer growth momentum flagged by the flash PMIs. The continued recovery in the headline economic sentiment index – likely for a fourth-consecutive month – will likely be driven by the manufacturing sector. But the Commission survey could also offer a more upbeat assessment of activity in the services sector, given the more favourable signals from the core member states across the French INSEE and German ifo surveys. The latter also affirmed the signs of stabilising labour demand from the PMIs – the first such stabilisation since May 2024 – which could come across in Friday's German labour market update. Meanwhile, Istat's business and consumer surveys will also provide an Italian focus ahead of their PMI release next week.

UK

Ofgem price cap to rise by 4% from 1 October, and likely to be hiked further in January

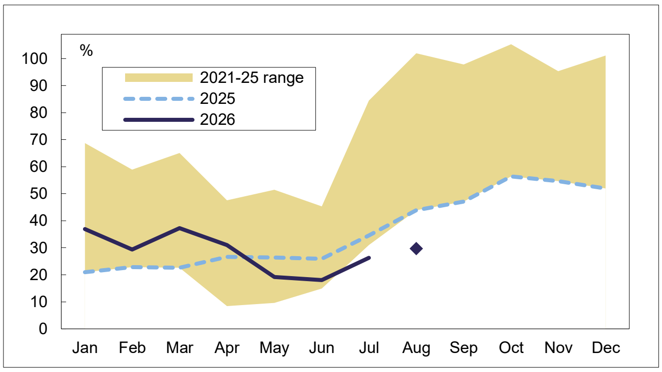
While Brent crude prices have come down from their recent peaks, steadying around $90/bbl over the past fortnight or so, natural gas prices in Europe have remained highly elevated. Concerns about Europe's historically low gas inventory levels ahead of the winter have amplified those regarding prolonged market disruption and infrastructure damage in the Middle East. As a result, the UK natural gas spot price has risen this week to a 3½-year high, roughly 50% higher than the average in June. So, having already seen the regulated energy price cap rise 13½% in July, the regulator Ofgem confirmed on Wednesday that household electricity and gas bills would rise by a further 4% from 1 October. Of course, the increase would have been larger were it not for the government's temporary cut to VAT on electricity bills, which will extend into Q127. But higher gas prices were the dominant factor, pushing the annual energy bill for a 'typical' household up to £1,723, the highest since Q124. That level remains more than 50% below where bills could have been in 2022 absent the then-government's energy price guarantee. And while most UK households remain subject to variable energy prices, they will also have an opportunity to join the roughly 35% on (lower) fixed tariffs before October. Crucially, the latest increase in the price cap

UK: Natural gas futures & BoE assumption*



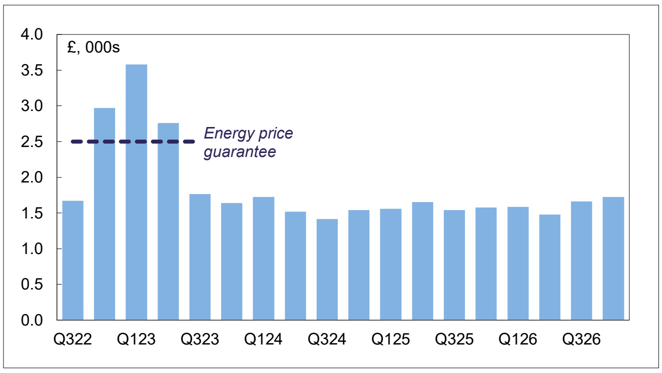
*BoE July 2026 Monetary Policy Report.
Source: Bloomberg, BoE and Daiwa Capital Markets Europe Ltd.

UK: Gas storage fill level*



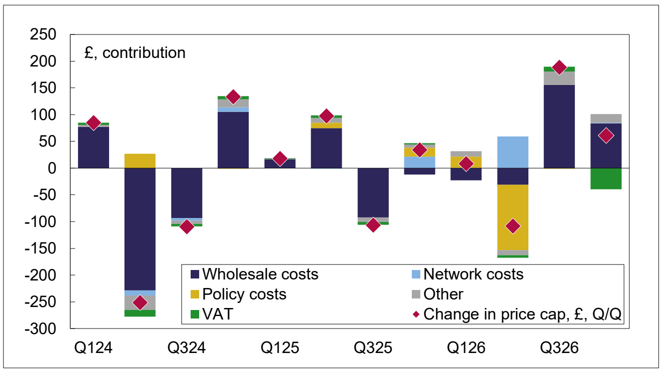
*Diamond shows fill level as of 17 August 2026.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Ofgem price cap*



*Payment by direct debit.
Source: Ofgem and Daiwa Capital Markets Europe Ltd.

UK: Contributions to change in Ofgem price cap*



*Average differences between payment by prepayment and standard credit.
Source: Ofgem and Daiwa Capital Markets Europe Ltd.

should have a negligible impact on headline inflation. But without a swift deescalation in the Middle East, futures curves currently point towards a further, and potentially larger, increase in bills at the start of 2027 which would have a more material impact. Indeed, such an increase could be worth as much 0.3ppt on headline inflation. And with that rate already forecast to rise to around 3½%Y/Y by year-end, intersecting the BoE's adverse and baseline scenarios, the prospects of a further energy-led increase towards 3¾%Y/Y or more in January along with an expected rise in food inflation over subsequent months seems bound to harden the BoE's attentiveness to the risks of second-round effects.

The day ahead in the UK

No UK economic data are scheduled for Friday. So, absent any BoE-speak from Jackson Hole, it looks set to be a quiet end to the week before the bank holiday weekend.

European calendar

Today's results

Economic data

Country	Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area	M3 money supply Y/Y%	Jul	**3.4**	3.5	3.3	-
Germany	GfK consumer confidence indicator	Sep	**-26.6**	-29.5	-29.6	-29.4
France	PPI Y/Y%	Jul	**3.4**	-	2.6	2.8

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's results

Economic data

Country	Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
UK	CBI distributive trades survey – reported retail sales % net balance	Aug	**-48**	-35	-26	-

Auctions

Country	Auction
Germany	sold €902mn of 2.6% 2041 bonds at an average yield of 3.50%
	sold €980mn of 1.25% 2048 bonds at an average yield of 3.68%
Italy	sold €3bn of 3% 2028 bonds at an average yield of 3.02%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country		BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Euro area		10.00	Commission economic sentiment indicator	Aug	97.5	96.9
		10.00	Commission services (industrial) confidence indicator	Aug	4.9 (-5.1)	4.7 (-6.1)
		10.00	Final Commission consumer confidence indicator	Aug	*-15.5*	-15.9
Germany		07.00	Import prices M/M% (Y/Y%)	Jul	0.3 (6.9)	-0.7 (6.1)
		08.55	Unemployment claims rate % (change 000s)	Aug	6.4 (5)	6.4 (6)
France		07.45	Preliminary HICP (CPI) Y/Y%	Aug	2.6 (2.4)	2.4 (2.1)
		07.45	Consumer spending M/M% (Y/Y%)	Jul	-	0.4 (0.1)
		07.45	GDP – final estimate Q/Q% (Y/Y%)	Q2	*0.2 (0.7)*	-0.1 (0.8)
		07.45	Total (private sector) payrolls Q/Q%	Q2	0.0 *(-0.1)*	0.0 (-0.1)
Italy		10.00	Istat economic (manufacturing) confidence indicator	Aug	(90.0)	95.6 (89.6)
		10.00	Istat consumer confidence indicator	Aug	94.6	94.2
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Aug	4.6 (4.2)	3.9 (3.6)
		08.00	Retail sales Y/Y%	Jul	-	0.5

Auctions and events

Country		BST	Event
Italy		10.00	Auction: to sell up to €2.5bn of 3.15% 2031 bonds
		10.00	Auction: to sell up to €1bn of 2034 floating bonds
		10.00	Auction: to sell up to €1bn of 2035 floating bonds
		10.00	Auction: to sell up to €4bn of 4% 2036 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research reports at:
https://www.uk.daiwacm.com/ficc-research/research-reports