Euro wrap-up

Overview

Emily Nicol
+44 20 7597 8331

Edward Maling
+44 20 7597 8030

- Bunds followed USTs lower as French and Spanish inflation rose and the Commission survey pointed to resilient economic growth over the summer.
- Gilts similarly made losses on a quiet day for UK economic news.
- The coming week will bring flash euro area inflation estimates for August, German factory orders data and a BoE survey of business inflation & wage expectations.

Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/28	2.901	+0.043
OBL 2.9 10/31	3.019	+0.038
DBR 3 08/36	3.275	+0.025
UKT 4⅜ 03/28	4.398	+0.045
UKT 4⅛ 03/31	4.613	+0.039
UKT 4¾ 10/35	5.061	+0.031

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

Euro area

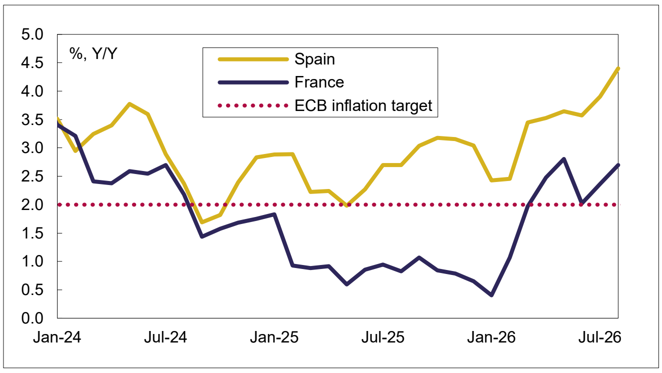
French and Spanish inflation jump in August, but underlying pressures remain largely contained

Today's flash August inflation estimates from a couple of the euro area's largest member states reinforced expectations that the euro area rate (due on Tuesday) will climb back above 3%Y/Y, likely reaching its highest level in almost three years. In France, the EU-harmonised HICP rate rose 0.4ppt to a three-month high of 2.7%Y/Y, while in Spain it jumped 0.6ppt to 4.4%Y/Y, the highest since February 2023. As in recent months, the acceleration was driven predominantly by energy rather than a broadening of underlying inflation pressures. In France, the national detail showed energy inflation jumping more than 4ppts to 16.7%Y/Y due to a rebound in petrol prices at the pump. Similarly, Spain's statistical agency noted a rise in prices of motor fuel compared with a decline a year earlier. Indeed, weekly data had reported averaged increases in petrol prices in the first three weeks of August of some 3%M/M in France and 8½%M/M in Spain. Among other components, price developments were more benign. Food inflation edged higher in both countries but remained relatively subdued overall. A softer decline in French manufactured goods inflation appears largely attributable to a change in the timing of seasonal summer discounting compared with last year. Moreover, services inflation in France eased, partly reversing the 0.3ppt rise in July that was driven in part by higher accommodation costs perhaps due to exceptional events. As a result, core inflation in France looks to have moved broadly sideways in August, while the Spanish measure (excluding unprocessed food and energy) eased 0.1ppt to 2.9%Y/Y. So, while the recent pickup in wholesale energy prices and summer drought pose upside risks to inflation over the remainder of the year and into 2027, the evidence so far suggests that indirect effects from the energy shock appear to remain relatively well contained.

Price expectations remain below spring highs, while firms continue to signal job cuts

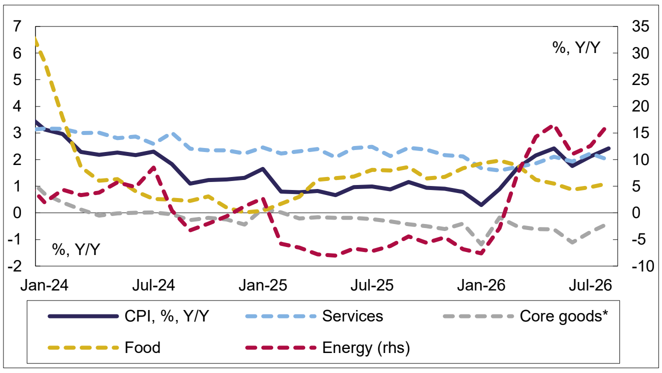
While near-term inflation expectations remain elevated relative to levels before the onset of the Iran conflict, the most recent upshift in wholesale energy prices appears to have had only a limited impact. Although the Commission survey index of consumer price expectations 12 months ahead rose in August (33.0) from July's five-month low, it remained almost 16pts below April's peak. Similarly, while services selling-price expectations rose slightly, the respective index was merely in line with the average in the four months to February ahead of the conflict. Moreover, selling-price expectations retreated further across the other major sectors. Meanwhile, despite signs of ongoing stabilisation in euro area labour conditions and resilient economic activity, firms remain cautious in their staffing plans which should help to keep a lid on second-round effects via wages. Certainly, the Commission's employment expectations indicator (EEI) continued to point to reductions in headcount in Germany and France. And this was broadly consistent with a further modest rise in Germany's seasonally adjusted claimant count in August to 3.00mn, matching its highest level since spring 2011, while job vacancies moved broadly sideways for a sixth successive month.

France & Spain: HICP inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: CPI inflation & key components

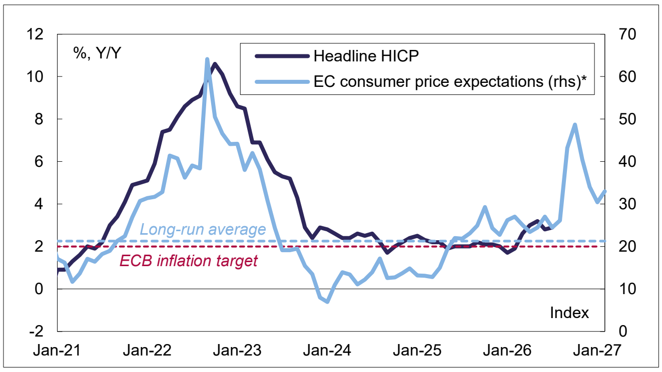


**Non-energy industrial goods. Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

Like the flash PMIs, the Commission ESIs also surprised to the upside in August

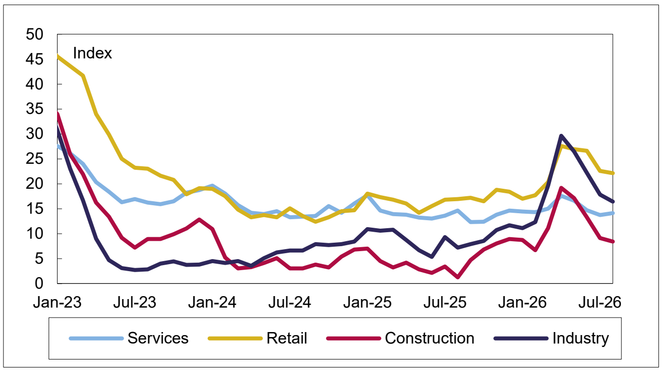
Nevertheless, as flagged by the account of July's ECB policy meeting, some influential Governing Council members have raised concerns that firmer-than-expected demand could facilitate greater cost-pass through in due course. Certainly, today's Commission survey tallied with signals from the flash PMIs that economic growth momentum continued to improve over the summer. The headline Economic Sentiment Index (ESI) rose for a fourth consecutive month in August, recovering to just a notch above its pre-war level (98.4) to leave its average level across the first two months of Q3 3¼pts better than in Q2. Improvement was broad-based across the subsectors, albeit with construction firms still relatively downbeat as material cost pressures look set to be compounded by further tightening by the ECB. But sentiment in the industrial sector was the least downbeat since April 2023. Manufacturers were more optimistic about the production outlook, perhaps recognising a need to rebuild stocks of finished goods which the ESIs placed at their lowest in almost four years. Energy-intensive industries reassuringly shared in that brighter assessment, signalling resilience to the latest increase in costs. And manufacturers of ICT and other transport goods remained among the most bullish with AI-related investments and higher defence spending continuing to support. The services ESI also rose to a seven-month high on signals of firming demand which, reassuringly given the reported contraction in the respective flash PMI, extended to Germany. Confidence was also highest amongst telecoms and ICT services but jumped across professional subsectors and, commensurate with the rise in consumer confidence, hospitality and food services. Adjacent to that, retail sector sentiment also rose to a 6-month high. Admittedly, the respective indices in Germany and Italy were little changed. So that uptick can be almost entirely attributed to events in

Euro area: Consumer prices & expectations



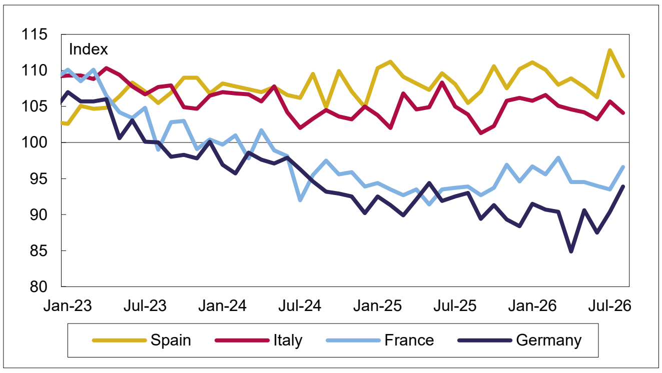
*12 months ahead, with 6-month lead. Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Firms' selling price expectations*



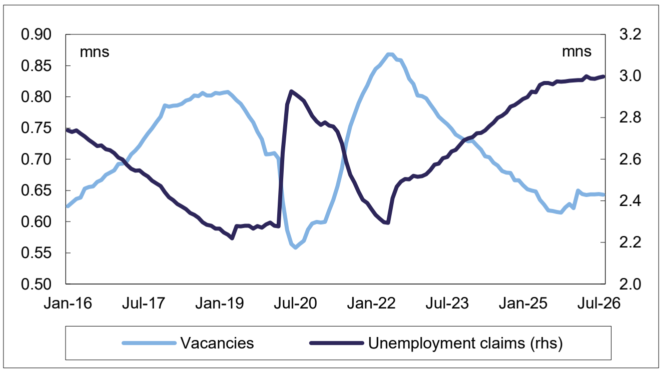
*3 months ahead. Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Employment expectations indices



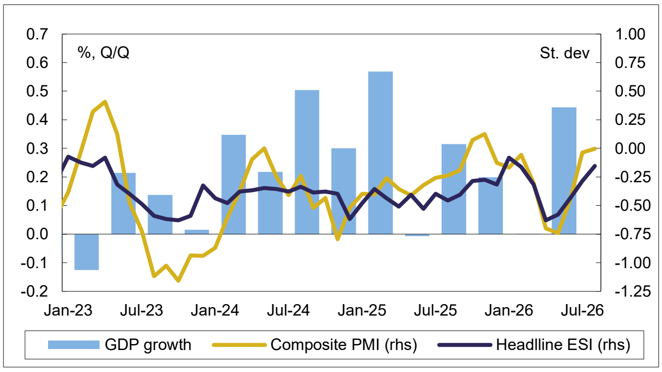
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Job vacancies & claimant count



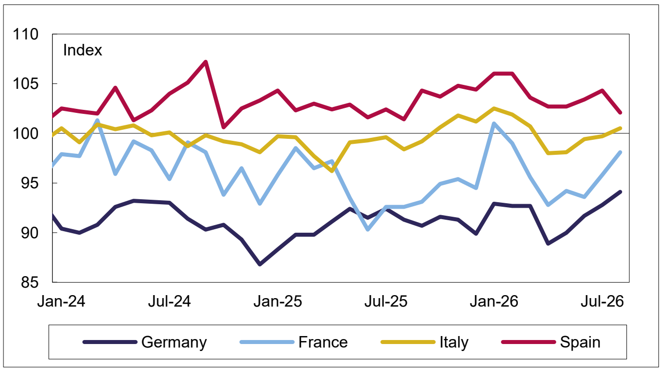
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: GDP growth & sentiment indicators



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

Euro area: Economic sentiment by country



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

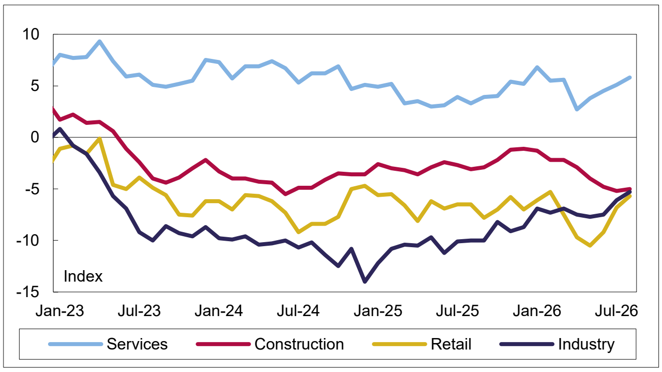
France, where retail confidence rose to its highest since January 2024. And with a third monthly increase in consumer spending there in July (0.5%M/M), retailers' assessment of their recent sales was the least downbeat in 12 months.

The week ahead in the euro area

Preliminary inflation estimates from Germany (due Monday) will offer up further clues regarding the flash euro area figures for August (Tuesday). Like today's French and Spanish estimates, a fuel-led acceleration is widely expected in Germany. So, overall, we expect to see euro area inflation rise by 0.4ppt – the most since April – to a near three-year high of 3.3%Y/Y, with energy inflation likely to pick up to its highest rate since early 2023. And in similar vein, rising wholesale oil and gas prices and related items will likely push euro area PPI inflation in July (Thursday) back above 5%Y/Y. Potentially due to the initial spillovers from the recent European heatwaves, today's flash French and Spanish data also pointed towards a first increase in food inflation since March, albeit with the annual rate in that category likely to edge up only modestly from July's five-year low. And intensification of indirect effects from those factors continues to pose an upside risk to core components. However, based on today's data, broader inflationary pressures appear to have been kept at arm's length. So, notwithstanding the likelihood of a further uptick in non-energy industrial goods, we expect core inflation to hold steady at 2.5%Y/Y.

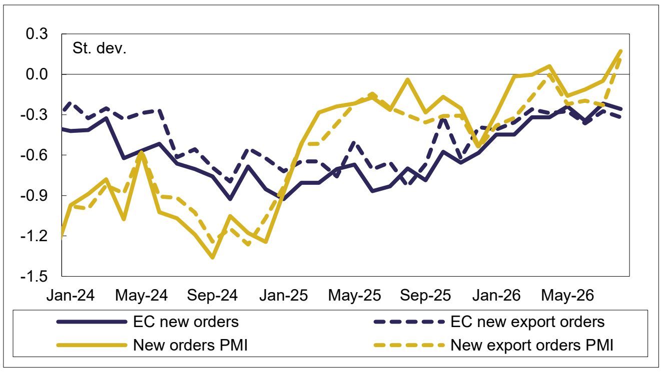
Business surveys, including today's ESIs, also offer some reassurance about the limited propagation of the latest oil price spike to a broader set of prices. For their part, the final August PMIs (Tuesday & Thursday) will look to confirm a decline in the composite output price index too (54.0, a five-month low), albeit with that softness in the flash release only evident in Germany. The contrast between today's ESIs and the flash services readings from Germany and France might also hint to forthcoming revisions for those PMIs, which would not be surprising given the August PMIs' vulnerability to seasonal swings. Nevertheless, the composite euro area PMI also suggested that activity growth was its firmest for nine months (52.1) led by strength in the periphery – potentially indicating another good summer for tourism – and the German manufacturing sector, where spending on defence, AI-related investments and stockpiling meant that both the output and new orders indices were their best since January 2022. So, while German factory orders grew firmly at the end of Q2, another solid increase in July (Friday) could be on the cards. On the other hand, the outlook for the retail sector appears relatively less favourable. Euro area retail sales probably rose in July (Friday) thanks in part to payback in Germany (Tuesday). But lower fuel volumes are likely to temper any upside, which should put retail sales on course for only modest growth at best in Q3. Meanwhile, the euro area construction PMIs (Friday) will provide an indication as to whether infrastructure investment in Germany and cooler weather elsewhere might be supporting activity. July's labour market data (Tuesday) will be expected to report yet another sidestep, with the unemployment rate likely to stick at 6.3% for the 18th month in the last 19.

Euro area: Economic sentiment by sector



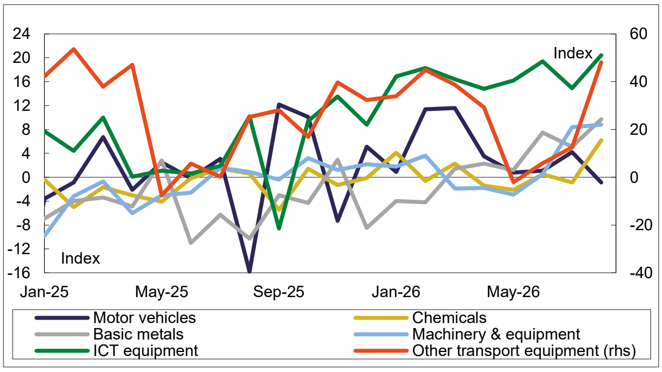
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing new orders indicators



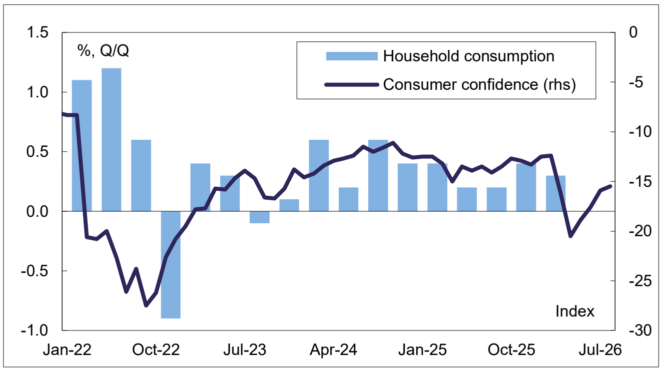
Source: EC, S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing output expectations



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

Euro area: Consumption & consumer confidence



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

UK

The week ahead in the UK

While UK markets will be closed on Monday for a public holiday, the dataflow will return in earnest from Tuesday. Of the coming week's releases, August's Decision Maker Panel survey (Friday) will provide the likeliest highlight. Indeed, given policymakers' attentiveness to the size of indirect and second-round inflation effects, the DMP's signals regarding firms' price- and wage-setting intentions will be of particular interest. And the risks to August's update are surely skewed to the upside. Lower energy prices at the start of July and hopes for deescalation in the Middle East helped to bring forward a considerable moderation in firms' inflation expectations – at least to their pre-war levels and, at a three-year horizon, to a 21-month low (2.6%Y/Y) – which accordingly weighed on price and wage expectations last month. The subsequent rebound in oil and gas prices, however, suggests that CPI expectations will be notched up again with similar implications for firms' output price expectations. They are, however, unlikely to fully reverse July's decline.

The DMP will also help policymakers to frame the latest UK PMI readings, whose final manufacturing (Tuesday) and services (Thursday) surveys are also expected in the coming week. While mixed, the flash PMIs did hint towards modestly firmer price intentions in the services sector. They also teased some stabilisation in labour demand and sustained steady growth in business activity, reportedly helped by hot weather and ICT projects. Still, while the composite output PMI crept up to a six-month high (52.5), that momentum is hardly strong by historical standards. Demand indicators were also subdued and there were suggestions from the manufacturing sector that the boost from stockpiling efforts was starting to wane. So, absent a more dramatic acceleration in the DMP, policymakers might be cautious about placing too much weight on August's survey. The UK construction PMI (Friday), while chronically pessimistic, might also be constrained by the impact of persistent heatwaves and elevated cost pressures. Financial conditions remain considerably tighter than they did before the war, which could reflect poorly on July's bank lending figures (Tuesday). Mortgage lending might be due some modest payback after a strong June, which seems likely to have benefitted from the short-lived détente between the US and Iran. And most indicators of buyer demand, including from the latest RICS survey, have remained downcast, pointing towards continued weakness in new mortgage approvals. Otherwise, the BRC's shop price index (also Tuesday) will attempt to provide a bellwether for any pressures in food and certain goods prices ahead of August's CPI release. A speech by BoE Governor Bailey at a conference in London (Friday) is also likely to be of interest.

The next Euro wrap-up will be published on Tuesday 1 September 2026

Daiwa economic forecast

	2026				2027		2026	2027	2028
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	%, Q/Q						%, Y/Y		
Euro area	0.0	0.4	0.2	0.2	0.3	0.4	0.8	1.1	1.4
UK	0.6	0.4	0.2	0.2	0.5	0.3	1.2	1.2	1.4
Inflation, %, Y/Y									
Euro area									
Headline HICP	2.0	3.0	3.2	3.4	3.3	2.6	2.9	2.7	2.0
Core HICP	2.3	2.4	2.5	2.7	2.8	2.8	2.5	2.7	2.2
UK									
Headline CPI	3.1	2.8	3.2	3.4	3.6	3.0	3.1	2.9	1.9
Core CPI	3.2	2.5	2.8	3.0	3.1	3.1	2.9	3.0	2.5
Monetary policy, %									
ECB									
Deposit Rate	2.00	2.25	2.50	2.50	2.50	2.50	2.50	2.25	2.25
Refi Rate	2.15	2.40	2.65	2.65	2.65	2.65	2.65	2.40	2.40
BoE									
Bank Rate	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.50	3.25

Source: Bloomberg, ECB, BoE 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 31 August 2026						
Germany		13.00	Preliminary HICP (CPI) Y/Y%	Aug	3.1 (3.0)	(2.8) 2.8
Tuesday 1 September 2026						
Euro area		09.00	Final manufacturing PMI	Aug	*52.8*	51.9
		10.00	Preliminary headline (core) HICP Y/Y%	Aug	*3.3 (2.5)*	2.9 (2.5)
		10.00	Unemployment rate %	Jul	6.3	6.3
Germany		07.00	Retail sales M/M% (Y/Y%)	Jul	0.4 (0.2)	-0.7 (0.0)
		08.55	Final manufacturing PMI	Aug	*54.1*	52.2
France		08.50	Final manufacturing PMI	Aug	*51.5*	49.8
Italy		08.45	Manufacturing PMI	Aug	51.6	51.3
		09.00	GDP - final estimate Q/Q% (Y/Y%)	Q2	*0.2 (1.0)*	0.3 (0.7)
		10.00	Preliminary HICP (CPI) Y/Y%	Aug	3.3 (3.2)	2.9 (2.9)
Spain		08.15	Manufacturing PMI	Aug	50.5	50.2
UK		00.01	BRC shop price index Y/Y%	Aug	0.9	0.9
		07.00	Nationwide house prices M/M% (Y/Y%)	Aug	0.1 (2.1)	0.1 (1.8)
		09.30	Net consumer credit £bn (Y/Y%)	Jul	-	1.8 (9.1)
		09.30	Net mortgage lending £bn (approvals 000s)	Jul	5.7 (59.5)	7.7 (58.2)
		09.30	Final manufacturing PMI	Aug	*51.5*	51.9
Wednesday 2 September 2026						
Italy		09.00	PPI Y/Y%	Jul	-	6.8
Spain		08.00	Unemployment change (employment net change) 000s	Aug	-	19.5 (79.6)
Thursday 3 September 2026						
Euro area		09.00	Final composite (services) PMI	Aug	*52.1 (51.7)*	52.0 (51.7)
		10.00	PPI Y/Y%	Jul	5.4	4.6
Germany		08.55	Final composite (services) PMI	Aug	*51.0 (48.5)*	51.3 (49.8)
France		08.50	Final composite (services) PMI	Aug	*48.8 (48.4)*	49.4 (49.6)
Italy		08.45	Composite (services) PMI	Aug	-	52.5 (52.5)
Spain		08.15	Composite (services) PMI	Aug	-	56.5 (58.3)
UK		09.30	Final composite (services) PMI	Aug	*52.5 (52.8)*	52.2 (52.1)
Friday 4 September 2026						
Euro area		08.30	Construction PMI	Aug	-	44.3
		10.00	Retail sales M/M% (Y/Y%)	Jul	0.3 (1.1)	-0.3 (0.7)
Germany		07.00	Factory orders M/M% (Y/Y%)	Jul	0.4 (10.6)	3.1 (6.5)
		08.30	Construction PMI	Aug	-	42.1
France		08.30	Construction PMI	Aug	-	41.5
Italy		08.30	Construction PMI	Aug	-	49.1
		09.00	Retail sales M/M% (Y/Y%)	Jul	-	-0.1 (3.1)
UK		09.00	New car registrations Y/Y%	Aug	-	11.7
		09.30	DMP - output price (CPI) expectations 1-year ahead 3M/Y%	Aug	-	3.9 (3.4)
		09.30	Construction PMI	Aug	46.0	44.7

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions		
Country	BST	Event / Auction
		Monday 31 August 2026
UK	-	Summer Bank Holiday: public holiday in England, Wales & Northern Ireland
		Tuesday 1 September 2026
Euro area	09.30	ECB Governing Council member and OeNB Governor Kocher to participate in panel on 'Financing Europe's Future' in Alpbach
Germany	10.30	Auction: to sell up to €5.5bn of 2.9% 2031 bonds
	13.30	Bundesbank's Nagel & Finance Minister Klingbeil to give press conference at the G20 Deputies meeting, North Carolina
		Wednesday 2 September 2026
		- Nothing scheduled -
		Thursday 3 September 2026
France	09.50	Auction: to sell up to €13.5bn of 1.25% 2036, 3.7% 2036, 0.5% 2040 & 4.1% 2046 bonds
Spain	09.30	Auction: to sell 2.35% 2029, 2.6% 2031, 3.3% 2036 & 2.05% 2039 bonds
UK	10.00	Auction: to sell £900mn of 1.875% 2049 inflation-linked bonds
		Friday 4 September 2026
UK	09.50	BoE Governor Bailey to give keynote speech at LSE TRIUM Anniversary Conference, London

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

Today's European calendar

Today's results

Economic data

Country	Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area	Commission economic sentiment indicator	Aug	**98.4**	97.5	96.9	97.1
	Commission services (industrial) confidence indicator	Aug	**5.8 (-5.3)**	4.9 (-5.1)	4.7 (-6.1)	5.1 (-)
	Final Commission consumer confidence indicator	Aug	**-15.5**	*-15.5*	-15.9	-
Germany	Unemployment claims rate % (change 000s)	Aug	**6.4 (4)**	6.4 (4.8)	6.4 (6)	-
	Import prices M/M% (Y/Y%)	Jul	**0.2 (6.8)**	0.3 (6.9)	-0.7 (6.1)	-
France	Preliminary HICP (CPI) Y/Y%	Aug	**2.7 (2.4)**	2.6 (2.4)	2.4 (2.1)	-
	Consumer spending M/M% (Y/Y%)	Jul	**0.5 (1.4)**	-	0.4 (0.1)	0.6 (0.6)
	GDP – final estimate Q/Q% (Y/Y%)	Q2	**0.0 (0.5)**	*0.2 (0.7)*	-0.1 (0.8)	-
	Total (private sector) payrolls Q/Q%	Q2	**-0.1 (-0.1)**	- *(-0.1)*	0.0 (-0.1)	-
Italy	Istat economic (manufacturing) confidence indicator	Aug	**96.9 (89.9)**	-	95.6 (89.6)	95.7 (89.7)
	Istat consumer confidence indicator	Aug	**94.5**	94.6	94.2	-
Spain	Preliminary HICP (CPI) Y/Y%	Aug	**4.5 (4.3)**	4.6 (4.2)	3.9 (3.6)	-
	Retail sales Y/Y%	Jul	**-0.3**	-	0.5	0.6

Auctions

Country	Auction
Italy	sold €2.5bn of 3.15% 2031 bonds at an average yield of 3.44%
	sold €1bn of 2034 floating-rate bonds at an average yield of 3.14%
	sold €1bn of 2035 floating-rate bonds at an average yield of 3.20%
	sold €4bn of 4% 2036 bonds at an average yield of 4.10%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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