# Euro wrap-up

## Overview

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- While Germany's goods trade surplus rose to a two-year high in July, Bunds closed slightly higher as Brent Crude oil edged away from $100/bbl.
- Shorter-dated Gilts made modest losses as BoE policymakers acknowledged the upside risks to the inflation outlook but did not signal any imminent plans to tighten policy.
- The ECB will raise interest rates on Thursday and publish updated macroeconomic projections, while data on German inflation, French, Spanish and Italian IP and a UK housing market survey are also due.

**Daily bond market movements**

| Bond | Yield | Change |
|---|---|---|
| BKO 2.7 09/28 | 2.993 | -0.007 |
| OBL 2.9 10/31 | 3.122 | -0.010 |
| DBR 3 08/36 | 3.212 | -0.014 |
| UKT 4 05/29 | 4.587 | +0.018 |
| UKT 4⅛ 03/31 | 4.683 | +0.012 |
| UKT 4⅞ 07/36 | 5.173 | -0.002 |

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

# Euro area

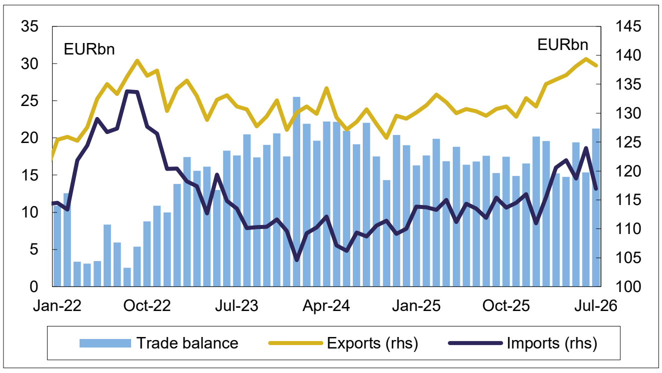
## German trade surplus rises to a two-year high despite softer exports

Echoing the softening in industrial production in July, German goods exports fell back in value terms at the start of Q3 for the first month in six. However, having pared just 0.8%M/M, the decline was relatively modest. Overall, export values remained close to their recent highs (€138.2bn), still up some 6.1%Y/Y. And survey indicators including the PMIs have continued to flag improvement in overseas demand. Moreover, Germany's nominal goods trade surplus jumped by €6bn to €21.3bn, a two-year high, although that was thanks to an exceptional decline in import values. Indeed, that drop (of 5.7%M/M) was the steepest of any month since the initial pandemic lockdowns and January 2009 before that. While the softness of German exports growth principally reflected weaker flows to its euro area neighbours – perhaps affected by disruption to river freight – the decline in imports was also broader. Imports of mineral fuels were noticeably weaker than implied by a modest decline in prices, down 13.8%M/M and to their lowest level since the start of the US-Iran war, while those of transport goods and electrical machinery also fell. The former factor, alongside a healthy rebound in exports (19.1%M/M after -14.1%M/M in June) was surely key to the widening bilateral goods trade balance with the US (€6.5bn, up €3.1bn), a level which was last matched in the midst of pre-tariff frontrunning in February 2025. And although due to a larger decline in imports, Germany's deficit with China (-€9.6bn, up €0.7bn) eased back from June's record high. Conversely, the widening French goods trade deficit in July (-€6.7bn) was chiefly led by costlier energy imports, as well as weaker aerospace orders in part relating to China. Still, somewhat inevitably, rising energy prices will come to bear on the German trade data in the coming months. To some extent, the weakness of today's imports data also could suggest that the support to activity from inventory building might be beginning to wane. And notwithstanding the encouraging survey signals, as recent strength underpinning manufacturing orders has been driven by domestic orders, we would be reluctant to conclude that exports growth will offer significant support to GDP moving forward.

## The two days ahead in the euro area

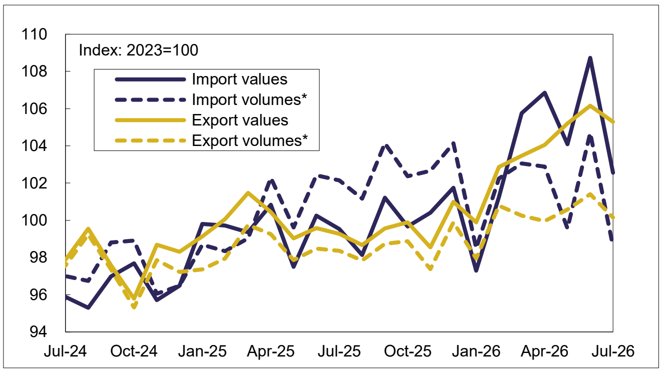
As the Governing Council descends on Berlin, all eyes in the euro area will turn to the ECB's monetary policy announcement on Thursday. After leaving policy on hold in July, the ECB is widely expected to validate market expectations for a further 25bps hike. As shown in our ECB preview on Friday, more than one influential policymaker has already praised the markets' 'understanding' of the ECB's reaction function. Owing to the latest rebound in energy prices, inflation rose to a near-three-year high of 3.3%Y/Y in August and the ECB's updated macroeconomic projections are likely to show inflation remaining close to that mark through to year-end in its baseline scenario. But natural gas futures curves have also risen assertively and with food inflation sure to emerge as a driver next year, the projections are likely to convey a more modest pace of

**Germany: Goods trade balance, exports & imports**




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

**Germany: Goods exports and imports**

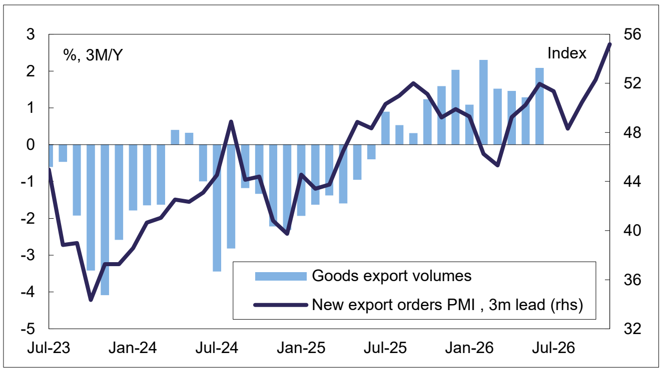



**Volumes adjusted by the import and export price index.*
*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

disinflation thereafter and a likely overshoot of the ECB's target through 2027. Economic activity has proved surprisingly resilient, which has amplified concerns among the ECB hawks about potential second-round effects. And while a 25bps hike in September would take the deposit rate to a 17-month high of 2.50%, policymakers will hardly consider rates to be restrictive. Of course, most have refused to be drawn into speculation about potential rate hikes after Thursday's meeting. Indirect effects have been relatively modest so far, evidence of second-round effects has been limited and the recent tightening of financial conditions should buy policymakers some time to evaluate those trends over the coming months. But as the ECB's projections will also be conditioned on further tightening to come, a few policymakers have questioned whether a more restrictive monetary policy stance might be required. For her part, it would be surprising if President Lagarde's tone was not slightly more hawkish given recent shifts in the balance of risks, implicitly suggesting that the Governing Council's forthcoming meetings in October and December will be 'live'. But, if at all, we expect December's forecast update to be required to provide the justification for additional moves.

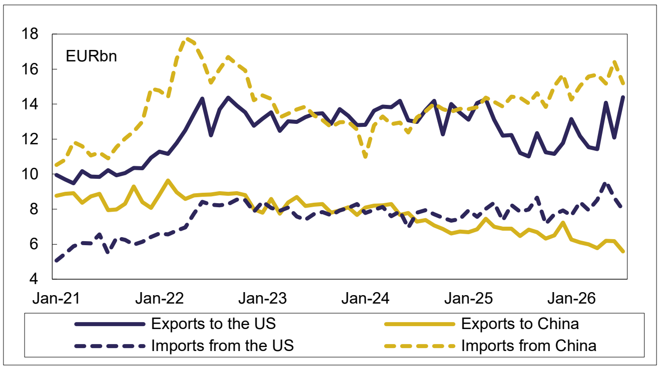
In terms of the economic data, updates on IP from France on Wednesday and Italy and Spain on Thursday will provide additional insights into the resilience of economic activity at the start of Q3. Of course, while Germany was the principal source of support to the euro manufacturing PMIs, the Commission's economic sentiment indices, as well as the more comprehensive national surveys, were slightly more upbeat regarding recent production trends in France and Italy, while German IP ultimately contracted. Also, Thursday's final German inflation estimates will provide more granular detail regarding the softer-than-expected rise in August's headline rate. Despite a jump in energy, the flash estimate of HICP inflation rose a mere 0.1ppt to 2.9%Y/Y, aided by continued softness in food and moderating services inflation. Whether or not the latter might reflect fading indirect effects from the energy price shock will be of particular interest.

### Germany: Export volumes & new export orders PMI



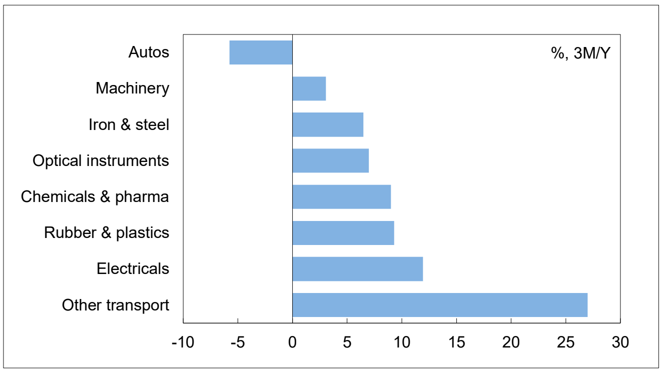

*Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.*

### Germany: Exports to & imports from US & China



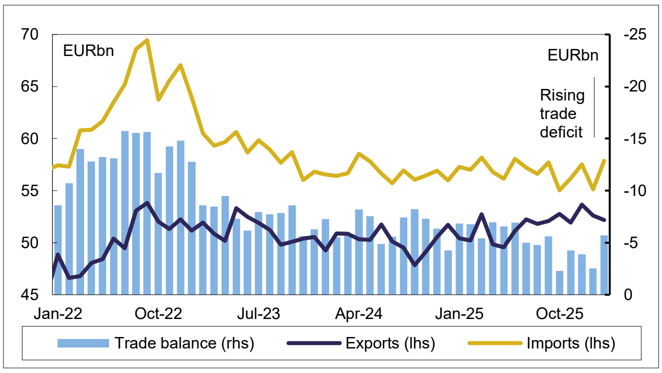

*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

### Germany: Exports* of selected goods, July 2026




**Nominal value terms.*
*Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

### France: Goods trade balance, exports & imports




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

# UK

## BRC survey shows spending momentum slowing midway through Q3

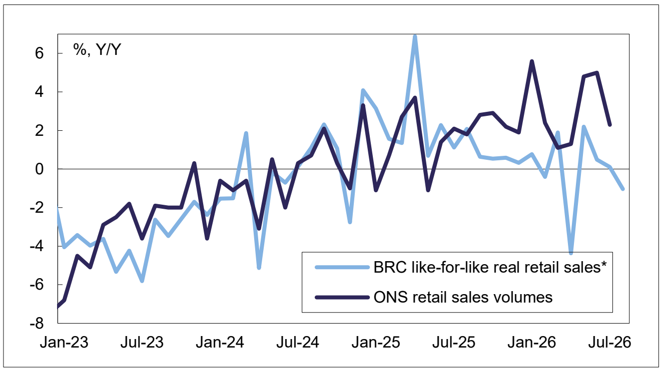
Admittedly, the BRC's retail monitor has not been the most reliable guide to the official UK retail sales series so far this year. Having expanded in Q1 at their fastest pace in almost five years, sales volumes rose again in Q2 (0.3%3M/3M) despite headwinds stemming from the oil shock. And despite a sharp pullback in July, retail sales volumes were still trending 0.4% above that level which, alongside a reported improvement in consumer confidence, most recently to a two-year high, leaves retail sales well placed for a third consecutive quarter of growth in Q3. Still, with the latest uptick in fuel prices compounding the hit to household incomes following July's increase in energy bills, the risks to August's figure are likely to be skewed to the downside. And August's BRC survey was notably bleak. Indeed, growth in like-for-like sales values decelerated to just

0.5%Y/Y, a rate which, aside from the distortions attributable to Black Friday sales and the timing of Easter holidays, was last so tepid during the uncertain build up to the October 2024 Budget. The survey suggested that the pullback was broad based, with sales reportedly slowing online as well as in store despite the relief from high temperatures later in the month. Growth in food sales also reportedly slowed despite, by the admission of the BRC's own shop price gauge, an acceleration in prices last month, while non-food sales were also subdued. So, adjusting by that price index, like-for-like sales fell into negative territory (-1%Y/Y), broadly consistent with its recent weak trend. And with weekly fuel price data pointing towards a further increase in prices at the start of September and household energy bills set to rise further in Q426, retail spending seems likely to grow only minimally over the remainder of this year.

## The two days ahead in the UK

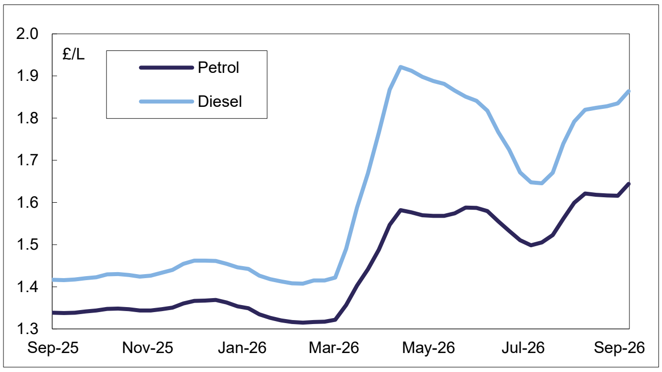
UK economic news will provide little distraction to events in the euro area over the coming two days. Ahead of Friday's monthly GDP release, a survey from RICS on Thursday will provide an update on housing market activity last month. But given the further tightening in financial conditions, recently subdued mortgage approval rates and modest-at-best signals for house prices, another downbeat assessment is likely.

### UK: Retail sales volumes & BRC like-for-like sales




*Deflated by the BRC shop price index.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

### UK: Weekly petrol & diesel prices




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

***The next Euro wrap-up will be published on Thursday 10 September 2026***

# European calendar

**Today's results**

**Economic data**

| Country | | Release | Period | Actual | Market consensus/ *Daiwa forecast* | Previous | Revised |
|---|---|---|---|---|---|---|---|
| Germany | | Trade balance €bn | Jul | **21.3** | 15.8 | 15.3 | - |
| France | | Trade balance €bn | Jul | **-6.7** | - | -5.8 | - |
| UK | | BRC retail monitor - like-for-like sales Y/Y% | Aug | **0.5** | - | 1.0 | - |

**Auctions**

| Country | | Auction |
|---|---|---|
| Germany | | sold €732mn of 2.3% 2033 green bonds at an average yield of 3.19% |
| | | sold €644mn of 2.6% 2041 green bonds at an average yield of 3.64% |

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

## Wednesday's releases

| Economic data | | | | | | |
|---|---|---|---|---|---|---|
| Country | | BST | Release | Period | Market consensus/ *Daiwa forecast* | Previous |
| France | | 07.45 | Industrial production M/M% (Y/Y%) | Jul | 0.2 (0.4) | 0.1 (-0.1) |
| **Auctions and events** | | | | | | |
| Germany | | 10.30 | Auction: to sell up to €5.5bn of 3% 2036 bonds | | | |

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

## Thursday's releases

| Economic data | | | | | | |
|---|---|---|---|---|---|---|
| Country | | BST | Release | Period | Market consensus/ *Daiwa forecast* | Previous |
| Euro area | | 13.15 | ECB Deposit (Refinancing) Rate % | Sep | *2.50 (2.65)* | 2.25 (2.40) |
| Germany | | 07.00 | Final HICP (CPI) Y/Y% | Aug | *2.9 (2.9)* | 2.8 (2.8) |
| Italy | | 09.00 | Industrial production M/M% (Y/Y%) | Jul | 0.3 (-0.6) | -1.0 (-0.6) |
| Spain | | 08.00 | Industrial production M/M% (Y/Y%) | Jul | - | -0.7 (1.1) |
| UK | | 00.01 | RICS house price balance % | Aug | -30 | -30 |
| **Auctions and events** | | | | | | |
| Euro area | | 13.15 | ECB monetary policy announcement | | | |
| | | 13.45 | ECB President Lagarde holds post-Governing Council meeting press conference | | | |
| | | 14.45 | ECB to publish updated staff macroeconomic projections | | | |
| Italy | | 10.00 | Auction: to sell up to €3.5bn of 3% 2029 bonds | | | |
| | | 10.00 | Auction: to sell up to €3.5bn of 3.35% 2033 bonds | | | |
| | | 10.00 | Auction: to sell up to €750mn of 2.15% 2072 bonds | | | |
| UK | | 10.00 | Auction: to sell £5bn of 4.625% 2030 bonds | | | |

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