Euro wrap-up

Overview

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- Bunds made gains at the shorter end of the curve as German consumer confidence fell to a four-month low while euro area bank lending growth was broadly steady.
- Despite some more hawkish commentary from BoE Governor Bailey and a further improvement in UK consumer confidence, Gilts made gains across the curve as wholesale natural gas prices fell.
- The coming week brings flash estimates of euro area inflation in September, updates on euro area economic sentiment and unemployment, and a survey of UK wage- and price-setting expectations.

Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/28	3.269	-0.046
OBL 2.9 10/31	3.408	-0.027
DBR 3 08/36	3.598	+0.002
UKT 4 05/29	4.835	-0.071
UKT 4⅛ 03/31	4.913	-0.061
UKT 4⅞ 07/36	5.364	-0.016

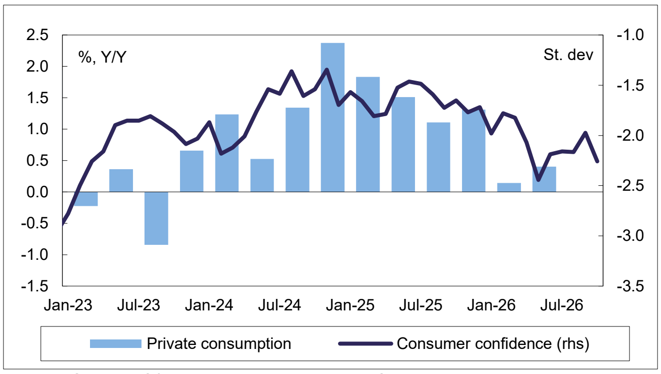
*Change from close as at 5:00pm BST.
Source: Bloomberg

Euro area

German consumers don't expect to share in benefits from cyclical upswing

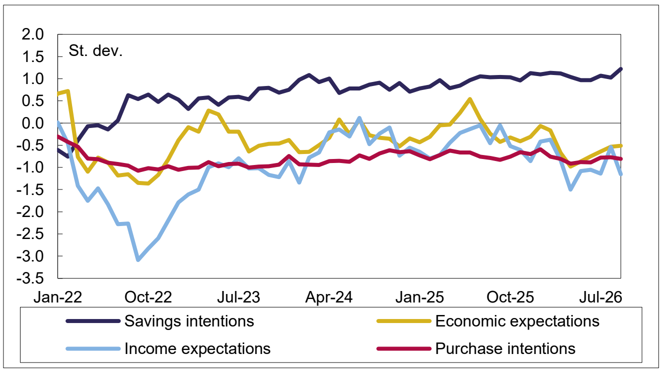
Earlier this week, the Commission's flash estimate of consumer confidence in September fell to a four-month low. Today's GfK survey suggested that greater pessimism in Germany contributed to that deterioration, as its headline consumer confidence indicator, presented as a forecast for October, fell significantly further than expected to a five-month low (-30.6), more than two standard deviations below the long-run average. That finding jars somewhat with this week's upbeat flash PMIs and ifo survey which suggest that economic recovery momentum continues to improve so that German GDP growth this year should be the strongest since 2022. But the GfK survey implied that households are aware of that broader cyclical improvement, as consumers' assessment of the economic outlook was the best since February, before the start of the conflict in Iran. Moreover, despite the sharp recent rise in wholesale energy prices, consumers' price expectations eased, likely thanks to the government's proposal to reintroduce the fuel duty cut for three months from the start of October and act further to cap auto fuel prices. However, with pay growth having moderated, consumers evidently don't expect to benefit significantly from the upswing in activity, as income expectations worsened to a six-month low. And with political noise surrounding successes of far-right and far-left parties in this month's regional elections also likely weighing on sentiment, major purchase intentions worsened and desire to save increased. While consumer confidence has weakened from a low level, household spending should maintain an uptrend. One driver is strong growth in purchases of electric vehicles, incentivised by high prices of petrol, thanks to which total new car registrations were up 4.8%YTD/Y in August. Nevertheless, while German GDP growth should exceed 1%Y/Y this year for the first time since 2022, private consumption is likely to rise by less than ½%Y/Y for the first time since 2023.

Germany: Consumer spending & confidence



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

Germany: Consumer confidence survey components

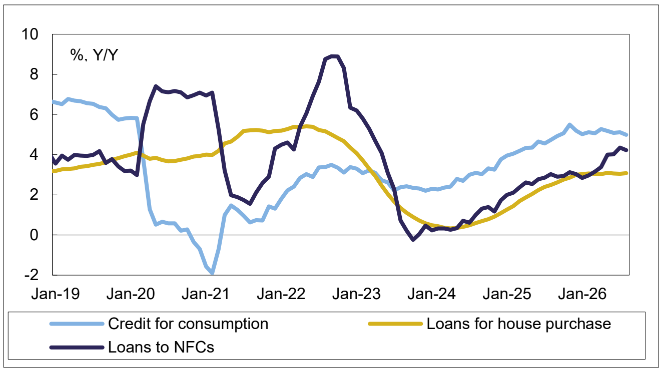


Source: GfK, Macrobond and Daiwa Capital Markets Europe Ltd.

Bank lending growth remained broadly resilient in August

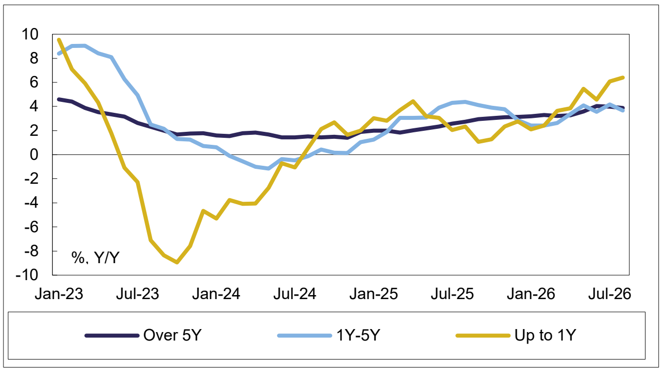
Despite the ECB's June rate hike, expectations of further increases to come, survey signals of a tightening of credit standards and a non-negligible tightening of financial conditions effected via the markets, today's monetary data suggested that bank lending remained relatively resilient over the summer. While interest rates on new mortgages had already risen to their highest level since late 2024, net lending for house purchases rose to a three-month high to leave the annual growth rate steady above the long-run average and at the top of the range of the past 3½ years (3.1%Y/Y). Net issuance of consumer credit fell only marginally below the average of the previous 12 months to leave the annual growth rate similarly above the long-run average at 5.0%Y/Y. Admittedly, with the respective borrowing costs up to their highest levels in more than a year, net lending to non-financial corporations (NFCs) slowed in August for a third successive month to the lowest level since January. But issuance of such loans had been very strong in the spring, seemingly reflecting precautionary borrowing and inventory accumulation on increased concerns of supply-chain disruption and new cost pressures at the onset of the Iran conflict. And so, while it moderated from the prior month's three-year high, the annual rate of growth to NFCs of 4.2%Y/Y was also still comfortably above the long-run average. Growth in short-dated loans (i.e. with a maturity of up to one year) remained strongest, suggestive of a cyclical increase in demand for working capital as well as ongoing stock-building. But growth in the longest-dated loans (i.e. those with maturities above five years) also remained relatively strong at 3.9%Y/Y, suggestive of ongoing growth in fixed investment. Once again, today's data suggest that the ECB's monetary policy stance over the summer was broadly neutral rather than restrictive. Coupled with evidence of firmer economic activity and rising cost and price pressures, further monetary tightening is inevitable with another hike as soon as next month still feasible if not our base case.

Euro area: Bank lending growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Loans to NFCs by maturity



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the euro area

September's flash inflation estimates will mark the highlight of the coming week's euro area dataflow. Releases from the member states – including Germany, France, Italy (all on Wednesday) and Spain (Tuesday) – will help to frame expectations for the euro area print (Friday). But given the precipitous rise in auto fuel prices over the past month, a third successive energy-led acceleration in the HICP rate is widely expected. Overall, we expect euro area headline inflation to rise just above 3½%Y/Y, a three-year high. With gas prices having risen too, energy inflation itself could rise to its highest level since the start of 2023. And given the persistence and intensification of the energy shock, the risks to other categories now appear skewed to the upside too. Food inflation could edge up from its recent multi-year low (1.1%Y/Y), with signs of emerging pressure in some categories having already been registered in drought-afflicted France and Spain last month. Other so-far muted indirect inflation effects might well become visible, while AI-related demand pressures could also sustain upwards pressure on core goods inflation beyond August's 2½-year high (1.2%Y/Y). Reassuringly, however, we only expect core inflation to edge back up to 2.5%Y/Y, remaining broadly within its range since the onset of the energy price shock and with scant evidence otherwise of more substantive and broader inflation persistence.

Policymakers' judgements about the risks of second-round effects will in good part be influenced by conditions in the labour market, so August's euro area unemployment rate (Thursday) as well as timelier updates from Germany (Wednesday) and Spain (Friday) will also be closely watched. We expect the unemployment rate to remain steady at 6.4%, just 20bps above the series low. Forward-looking wage growth indicators remain stable and moderate but surveys including the PMIs point to a modest improvement in labour demand in part owing to the brighter outlook for German manufacturers. The final manufacturing PMIs (Thursday) will likely confirm that assertion, while the Commission's economic sentiment indices (Tuesday) should also affirm the improvement in economic growth momentum flagged by September's surveys. Indeed, based on the PMIs, the headline ESI is likely to surpass August's seven-month high reflecting greater optimism across both the manufacturing and services sectors, even as consumer confidence deteriorated. In terms of real activity data, the coming week will also bring updates from Germany and France (Wednesday) on last month's retail spending. The former fell sharply at the start of Q3 and so could bounce back, although with fuel consumption likely subdued we still expect retail sales volumes to be tracking well below their average level in Q2.

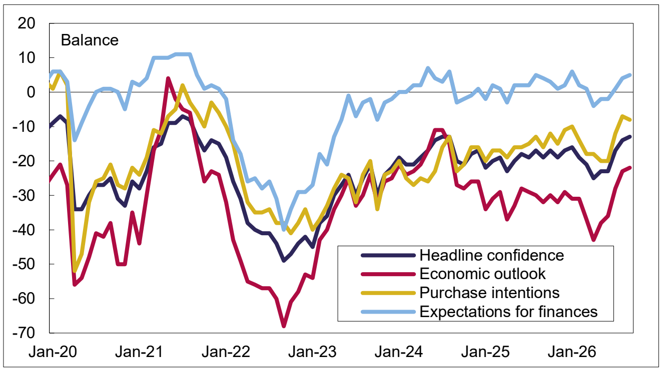
Beyond the data, the coming week should also bring further public comments from senior ECB policymakers including President Lagarde and soon-to-depart Isabel Schnabel.

UK

UK consumer confidence continues to defy headwinds

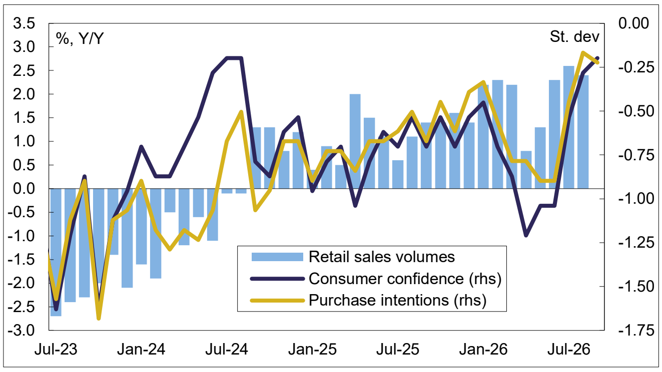
Contrasting with its German equivalent, today's GfK consumer confidence survey for the UK continued to flag a remarkable improvement in sentiment since the spring. The headline sentiment indicator edged up for a third consecutive month in September to -13, a full standard deviation above its recent low in April (-25). Despite the fading likelihood of a timely détente in the Middle East, consumers were the least downbeat about the economic outlook in more than two years. Admittedly, the improvement in headline confidence this month was only modest. And as implied by the flash PMIs, the 'Burnham bounce' is likely already losing its sheen. Ominously too perhaps, consumer confidence was last so high in August 2024, the previous time that a new Prime Minister was enjoying a honeymoon period at the start of his term. Still, so far consumer confidence hasn't been derailed by the fact that next month will bring a 'challenging' government Budget announcement that is unlikely to offer much cheer for households or businesses alike. Despite the recent moderation in pay growth and its erosion by increasing inflation, today's survey even suggested that consumer income expectations were their best since the turn of the year. And while major purchase intentions were tempered slightly, they remained close to August's 55-month high, which could be a good omen for near-term retail sales growth. Still, the 28 October Budget remains a significant risk and auto fuel prices have continued their determined rise through to the end of September, with diesel prices now approaching their 2022-highs. Household energy bills are also due to rise from October and will inevitably do so again in January, eroding household incomes. A few key MPC members have reiterated that the BoE's reluctance to take interest rates into more restrictive territory wears thinner the longer that the energy shock persists. So, we very much doubt that consumer confidence can continue to surprise to the upside for long. Indeed, we expect it to fall back significantly over coming months.

UK: Consumer confidence indicators



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

UK: Retail sales & consumer survey indicators



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

The week ahead in the UK

Governor Bailey also hawkishly cautioned today that the MPC would not be able wait for evidence of second-round effects to materialise before coming to a decision on whether to hike. But evidently, most MPC members were reassured enough by the continued absence of evidence of strengthening selling-price and wage-setting expectations in the August DMP survey to refrain from hiking earlier this month. Still, the risks to September's DMP survey (due Friday) are undoubtably skewed to the upside. Wholesale energy prices have risen more sharply since August with more pronounced effects on the prices of some downstream products, increasing the risks from firms' price-setting decisions. And while signs of stabilisation in the labour market are unlikely to reduce pre-existing slack, they may reduce the scope for wage growth expectations to soften further too. More immediately, the BRC's shop price indices (Tuesday) will give an indication as to how energy costs and AI-related activity might come to influence September's CPI release. The survey usually provides a decent guide to trends in the official CPI data, although its suggested rise in food inflation last month was not (yet) visible in August.

Updated national accounts figures (Wednesday), with new details including the current account, are expected to confirm that GDP fared better than expected in Q2. Preliminary estimates suggest that GDP growth slowed slightly to 0.4%Q/Q, with activity led by higher fixed investment while private consumption and inventories also contributed positively. However, August's monetary figures (also Tuesday) will likely suggest that tighter financial conditions are continuing to lean against activity. The dampening effects on mortgage lending are likely to remain clearest, particularly after approvals trended to a 2½-year low in July. And weak buyer demand should also be evidenced by house price data from Nationwide (Thursday), although the prospect of another non-negligible increase in mortgage rates this month might have spurred some urgency on behalf of house-buyers, providing temporary support. But businesses were also more cautious about borrowing at the start of Q3. Lending growth to NFCs slowed to a five-month low in July and likely remained subdued given recent geopolitical developments. Data aside, a speech by Deputy Governor Dave Ramsden may provide some additional colour on the Bank's plans for Quantitative Tightening (Monday). Speeches by other MPC members – including Governor Bailey and external members Mann and Taylor – may be more relevant for near-term monetary policy decisions although based on Bailey's hawkish comments today, they are unlikely to affect the market's pricing for a November hike.

Daiwa Capital Markets

Daiwa economic forecast

	2026				2027		2026	2027	2028
	Q1	Q2	Q3	Q4	Q1	Q2			
GDP	%, Q/Q						%, Y/Y		
Euro area	0.0	0.6	0.2	0.2	0.3	0.4	0.9	1.1	1.4
UK	0.6	0.4	0.5	0.2	0.5	0.3	1.4	1.4	1.4
Inflation, %, Y/Y									
Euro area									
Headline HICP	2.0	3.0	3.3	3.9	3.9	3.3	3.0	3.1	2.0
Core HICP	2.3	2.4	2.4	2.6	2.8	2.7	2.4	2.7	2.2
UK									
Headline CPI	3.1	2.8	3.1	3.6	3.9	3.4	3.1	3.2	1.7
Core CPI	3.2	2.5	2.6	2.8	3.0	3.0	2.8	2.9	2.4
Monetary policy, %									
ECB									
Deposit Rate	2.00	2.25	2.50	2.75	3.00	3.00	2.75	3.00	2.50
Refi Rate	2.15	2.40	2.65	2.90	3.15	3.15	2.90	3.15	2.65
BoE									
Bank Rate	3.75	3.75	3.75	4.00	4.00	4.00	4.00	4.00	3.50

Source: Bloomberg, ECB, BoE and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results							
Economic data							
Country	Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area	M3 money supply Y/Y%	Aug	**3.5**	3.5	3.4	-
Germany	GfK consumer confidence indicator	Oct	**-30.6**	-27.2	-26.6	-26.8
France	Final wages Q/Q%	Q2	**0.7**	*0.7*	0.7	-
Spain	GDP - final estimate Q/Q% (Y/Y%)	Q2	**0.7 (2.6)**	*0.7 (2.7)*	0.6 (2.7)	-
UK	GfK consumer confidence indicator	Sep	**-13**	-16	-14	-
Auctions						
Country	Auction					
- Nothing to report -						

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The next Euro wrap-up will be published on Tuesday 29 September 2026

Daiwa Capital Markets

The coming week's data calendar

The coming week's key data releases

Country		BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
			Monday 28 September 2026			
			- Nothing scheduled -			
			Tuesday 29 September 2026			
Euro area		10.00	Commission economic sentiment indicator	Sep	98.8	98.4
		10.00	Commission services (industrial) confidence indicator	Sep	6.5 (-4.8)	5.8 (-5.3)
		10.00	Final Commission consumer confidence indicator	Sep	*-16.5*	-15.5
Italy		10.00	PPI Y/Y%	Aug	-	9.3
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Sep	4.9 (4.7)	4.6 (4.3)
		08.00	Retail sales Y/Y%	Aug	-	-0.3
UK		00.01	BRC shop price index Y/Y%	Sep	1.5	1.5
		09.30	Net consumer credit £bn (Y/Y%)	Aug	1.9 (-)	2.0 (9.2)
		09.30	Net mortgage lending £bn (approvals 000s)	Aug	4.4 (56.6)	4.3 (56.1)
			Wednesday 30 September 2026			
Germany		07.00	Retail sales M/M% (Y/Y%)	Aug	1.5 (-1.2)	-3.4 (-2.4)
		07.00	Import prices M/M% (Y/Y%)	Aug	0.5 (7.8)	0.2 (6.8)
		08.55	Unemployment claims rate % (change 000s)	Sep	6.4 (2)	6.4 (4)
		13.00	Preliminary HICP (CPI) Y/Y%	Sep	3.2 (3.1)	2.9 (2.9)
France		07.45	Preliminary HICP (CPI) Y/Y%	Sep	3.1 (2.8)	2.6 (2.4)
		07.45	PPI Y/Y%	Aug	-	3.4
		07.45	Consumer spending M/M% (Y/Y%)	Aug	-	0.5 (1.4)
Italy		09.00	Istat consumer confidence indicator	Sep	94.4	94.5
		09.00	Istat economic (manufacturing) confidence indicator	Sep	-	96.9 (89.9)
		10.00	Preliminary HICP (CPI) Y/Y%	Sep	3.7 (3.7)	3.2 (3.3)
UK		07.00	GDP - final estimate Q/Q% (Y/Y%)	Q2	*0.4 (1.2)*	0.4 (1.2)
		07.00	GDP - private consumption Q/Q%	Q2	*0.3*	0.6
		07.00	GDP - government spending Q/Q%	Q2	*-0.3*	1.3
		07.00	GDP - fixed investment Q/Q%	Q2	*1.2*	0.4
		07.00	GDP – exports (imports) Q/Q%	Q2	*0.5 (0.5)*	0.2 (1.4)
		07.00	Current account balance £bn	Q2	-25.5	-22.1
			Thursday 1 October 2026			
Euro area		09.00	Final manufacturing PMI	Sep	*52.7*	52.7
		10.00	Unemployment rate %	Aug	6.4	6.4
Germany		08.55	Final manufacturing PMI	Sep	*53.8*	54.3
France		08.50	Final manufacturing PMI	Sep	*50.3*	51.1
Italy		08.45	Manufacturing PMI	Sep	50.0	49.6
Spain		08.15	Manufacturing PMI	Sep	50.2	49.5
UK		07.00	Nationwide house prices M/M% (Y/Y%)	Sep	0.1 (1.4)	0.2 (1.6)
		09.30	Final manufacturing PMI	Sep	*52.0*	51.7
			Friday 2 October 2026			
Euro area		10.00	Preliminary headline (core) HICP Y/Y%	Sep	*3.6 (2.5)*	3.2 (2.4)
Italy		09.00	Retail sales M/M% (Y/Y%)	Aug	-	-0.4 (0.8)
Spain		08.00	Unemployment change (employment net change) 000s	Sep	-	44.4 (83.8)
UK		09.30	DMP - 3M output price (1Y CPI) expectations Y/Y%	Sep	3.7 (3.2)	3.8 (3.1)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country		BST	Event / Auction
			Monday 28 September 2026
Euro area		15.00	ECB President Lagarde testifies on monetary policy before the EU Parliament's ECON Committee in Brussels
UK		11.00	BoE Deputy Governor Ramsden to deliver a speech on QT in London
			Tuesday 29 September 2026
Euro area		11.00	Bundesbank President Nagel to participate in fireside chat titled "Opportunities for Europe in a New World Order" in Frankfurt
Italy		10.00	Auction: to sell up to €3.5bn of 3.95% 2032 bonds
		10.00	Auction: to sell up to €3bn of 4% 2036 bonds
		10.00	Auction: to sell up to €1.5bn of 2036 floating bonds
UK		10.00	Auction: to sell £4.25bn of 4.875% 2036 bonds
		16.30	MPC's Taylor to deliver a lecture on "Expectations and the risk of inflation persistence" in London
			Wednesday 30 September 2026
Euro area		16.45	ECB's Schnabel to deliver a keynote speech at a European capital markets seminar in Luxembourg
Germany		10.30	Auction: to sell up to €5.5bn of 3% 2036 bonds
			Thursday 1 October 2026
Euro area		10.30	Bundesbank President Nagel & former Banque de France Governor Villeroy to speak at an event in London
		14.30	ECB President Lagarde to deliver opening remarks and chair panel at the ESRB's 10th annual conference in Frankfurt
France		09.50	Auction: to sell up to €12bn of 3.7% 2036, 3.8% 2037, 1.25% 2038 & 2% 2048 bonds
Spain		09.30	Auction: to sell bonds 1.45% 2029, 3.4% 2036, 2.9% 2046 bonds & 1.15% 2036 inflation-linked bonds
UK		09.00	BoE Governor Bailey to give opening remarks to a BoE conference on the Future of Money conference in London
		13.00	MPC's Mann to deliver a speech in London
			Friday 2 October 2026
Euro area		12.30	ECB Vice President Vujčić to deliver a keynote speech to the ESRB's 10th annual conference in Frankfurt

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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