

Euro wrap-up

Overview

- Bund yields followed Brent crude prices higher, while the German economy ministry upwardly revised its growth forecast in 2026 despite another record goods trade deficit with China.
- While BoE Governor Bailey noted that second-round inflation effects are currently subdued and surveys suggested weakening house price expectations amid tighter credit conditions, Gilts also made losses.
- The coming week will bring euro area industrial production, goods trade and final inflation estimates, as well as UK GDP data.

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Daily bond market movements

Bond	Yield	Change
BKO 3.0 12/28	3.086	+0.047
OBL 2.9 10/31	3.258	+0.041
DBR 3 08/36	3.490	+0.019
UKT 4 05/29	4.909	+0.062
UKT 4½ 03/31	5.024	+0.054
UKT 4¾ 07/36	5.479	+0.037

*Change from close as at 5.00pm BST.

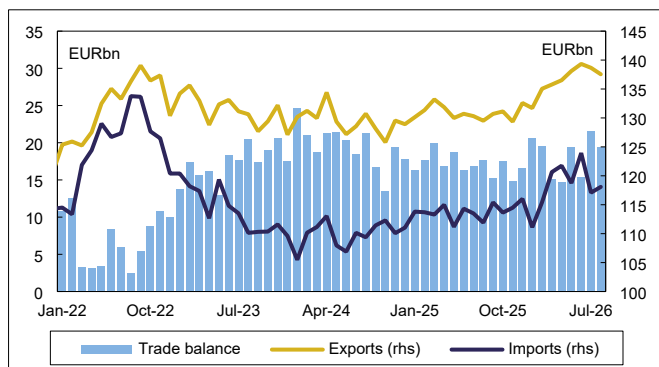
Source: Bloomberg

Euro area

German economy ministry expects stronger growth in 2026 despite weak output & exports in Q3

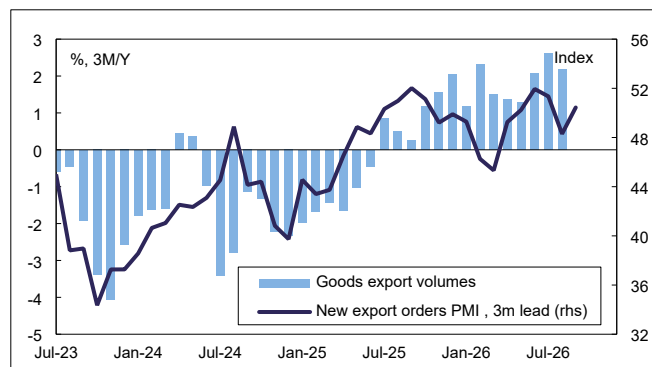
Consistent with the weakness in German manufacturing output in the first two months of Q3, today's trade figures showed goods export values falling for a second successive month in August, by 0.8%M/M, the most since November. Moreover, adjusting for price effects, goods export volumes fell an even steeper 1.4%M/M to the lowest level since January, leaving them tracking so far in Q3 some 0.8% below the Q2 level. The narrowing of the merchandise trade surplus to €19.5bn from July's 2½-year high was amplified by an increase in import values (0.9%M/M), although this reflected higher prices, not least of energy goods. Indeed, having fallen in July by the most since the initial Covid-lockdown in April 2020, goods import volumes edged down again in August to be around 4% below the Q2 average, pointing to a welcome boost from net trade to GDP growth in Q3 for a third successive quarter. So, net trade appears on track to make its biggest contribution to full-year economic growth in five years. And with government spending giving a boost to domestic demand too, the economy ministry today more than doubled its GDP growth forecast for this year, to 1.3%Y/Y, while expecting growth to ease only modestly to 1.1%Y/Y in 2027.

Germany: Goods trade balance, exports & imports*



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

Germany: Goods exports & new export orders PMI



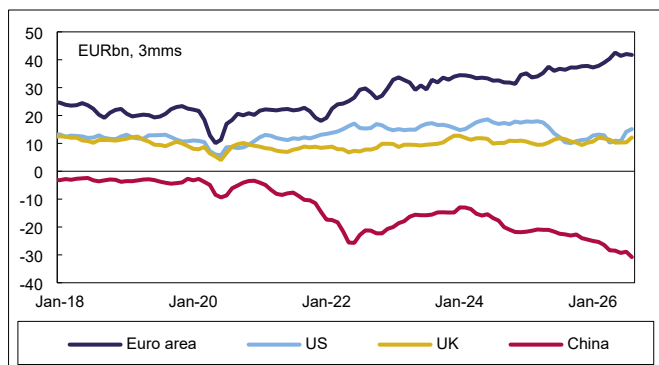
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Record German trade deficit with China as EU moves closer to protectionist action

The weakness in goods exports in August principally reflected a fall in shipments to the US (-6.3%M/M) from July's record high. That was partly due to a further decline in chemical exports, coinciding with the hit to production from higher operating costs and disruption to Rhine river freight transit. However, with imports edging lower again, Germany's bilateral goods trade surplus with the US rose in the three months to August to the highest level since May 2025. Meanwhile, despite the ongoing downtrend in exports of German autos and machinery, total shipments to China increased for the first month in three. But this still left them down more than 14%Y/Y. By contrast, strong demand for lower-cost Chinese goods pushed imports from that country to the highest level in more than four years. As a result, Germany's bilateral merchandise trade deficit with China widened to a record €13.0bn in August (€31bn as a three-month sum), more than double its level of two years earlier. France's bilateral deficit with China also reached a near-two-year high in August. And the momentum behind a more protectionist EU trade policy now appears unstoppable. The German and French governments earlier this week jointly urged the European Commission to expand and enhance the range of EU policy options, including by strengthening its anti-coercion instrument to enable faster and simpler restrictions on access to the Single Market in response to what it assessed to be China's "systemic market-distorting practices and global macroeconomic imbalances". In addition, yesterday the German government blocked Cosco from acquiring an 80% stake in logistics group Zippel on security grounds. And ahead of an EU leaders' meeting next week to steer the new trade policy, today European Commissioner Šefčovič, who has

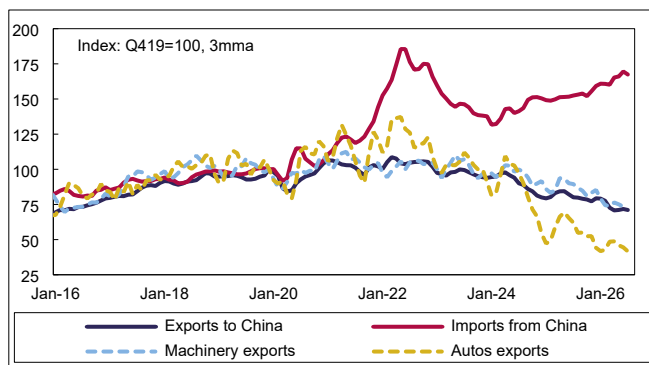
responsibility for trade policy, commenced a final round of negotiations with the Chinese authorities to seek concessions to narrow the trade deficit. We suspect that new EU tariff quotas against certain types of imports from China will soon be on the agenda. But whether they will act to diffuse or escalate a new trade war remains to be seen.

Germany: Bilateral goods trade balances



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Goods export to & imports from China



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the euro area

A relatively light euro area data calendar in the coming week will conclude on Friday with final September HICP figures, which are expected to confirm that headline inflation has risen to a three-year high. The flash estimate showed inflation increasing a greater-than-expected 0.6ppt to 3.8%Y/Y. Given the low rounding of the headline rate (3.76%Y/Y to two decimal places), a small downwards revision cannot be ruled out. Nevertheless, this release should confirm that energy remained the principal driver (18.8%Y/Y) reflecting a surge in auto fuel prices and higher household utility bills. Food, alcohol and tobacco inflation also rose to a three-month high (1.4%Y/Y) as prices of unprocessed foods responded to the summer drought and higher input costs. The detailed breakdown should also show that a rebound in volatile holiday-related items provided a modest boost to services inflation, which rose 0.2ppt to 3.2%Y/Y. However, despite some upside pressure from Germany, non-energy industrial goods inflation moderated to 1.1%Y/Y, helping to limit the increase in core inflation to just 0.1ppt, to 2.5%Y/Y, still below May's peak for the year. Ahead of the euro area figures, final national inflation figures will be released in Germany (Tuesday), Spain (Wednesday) and France (Thursday).

In terms of economic activity, industrial production (Thursday) and goods trade (Friday) data for August will provide further insight into growth momentum over the summer. Based on the member states' data published so far, industrial output looks to have been broadly flat in the euro area, with a modest increase in Germany largely offset by declines in France and Spain. The detail is likely to show further gains in the ICT and electrical equipment subsectors supported by strong AI-related demand, while auto manufacturing was particularly weak due in part to seasonal maintenance shutdowns. However, the euro area figure will also depend on releases from Italy and Ireland where production data can be highly volatile. Meanwhile, as suggested by today's German figures, Friday's euro area goods trade report is likely to show that the surplus narrowed in August from July's five-month high (€5.0bn) as exports likely moved broadly sideways but import values increased in part due to higher energy prices.

UK

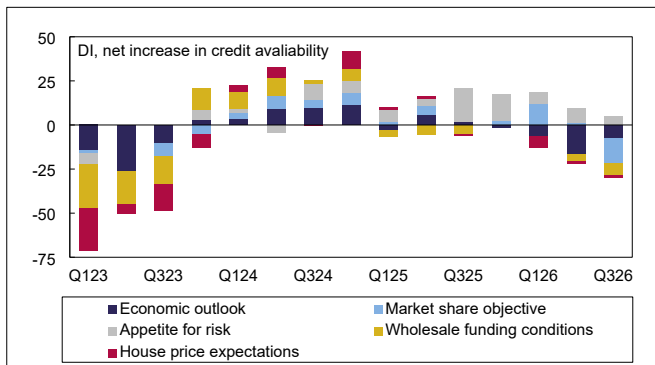
House price expectations weaken as credit conditions tighten

The UK economy has proved remarkably resilient to this year's energy shock, delivering the strongest GDP growth in the G7 during the first half of the year. Activity also entered the second half on a solid footing and, despite rising borrowing costs, credit flows to households and businesses remained relatively robust over the summer. Nevertheless, the BoE's quarterly Credit Conditions Survey suggested that financing conditions deteriorated materially in the three months to end-August. Against the backdrop of tighter wholesale funding conditions, a weaker economic outlook and softer house price expectations, mortgage availability reportedly fell by the most in three years. Meanwhile, after holding up relatively well as buyers sought to lock in borrowing costs ahead of further rate increases, today's survey suggested that mortgage demand dropped by the most since Q323. Although lenders anticipated a modest recovery in loan demand in the coming three months, mortgage rates rose further in September. Indeed, the average rate on a two-year fixed mortgage (5.13%) stood just 1bp below the peak for the year, while the equivalent five-year rate (4.98%) was the highest in three years. Taken together with fragile consumer confidence and uncertain labour market conditions, today's RICS residential survey unsurprisingly showed that housing market activity remained subdued at the end of Q3. While the number of new instructions rose the most in 14 months, new buyer enquiries fell and house prices declined the most since May. And the house price balance (-32%) was flattered by strong growth in Northern Ireland, Scotland and the North of England. Although respondents still expected prices to broadly stabilise over the coming year, those annual price expectations were the weakest since late 2023.

Credit card supply falls as default rates rise, while corporate loan demand remained subdued

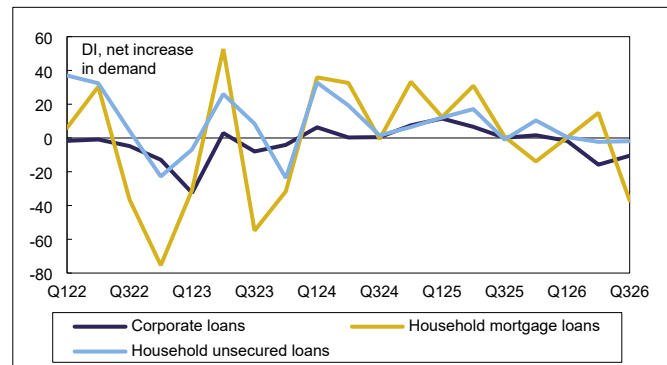
With credit card default rates rising for a sixth successive quarter in Q3, the longest such stretch since the global financial crisis, the availability of unsecured credit also deteriorated markedly, posting its sharpest decline in three years. Meanwhile, demand for consumer credit was broadly unchanged and expected to remain subdued despite ongoing pressures on household finances. Elsewhere, corporate borrowing demand remained weak, stagnating among large businesses and falling sharply among SMEs. While firms can draw from other sources of finance, a lack of loan demand for investment purposes might suggest that business capex is likely to remain subdued in the near term.

UK: Availability of secured loans to households



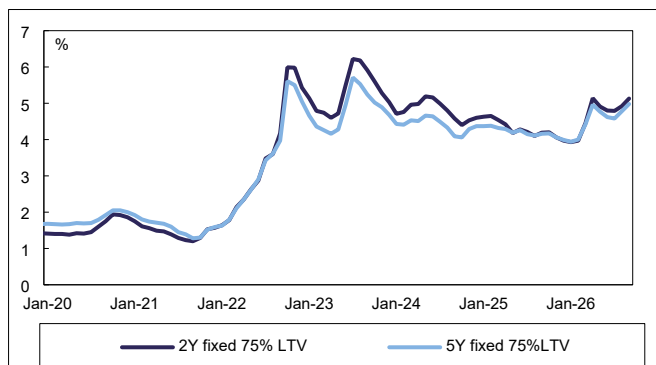
Source: BoE Credit Conditions Survey, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Demand for loans



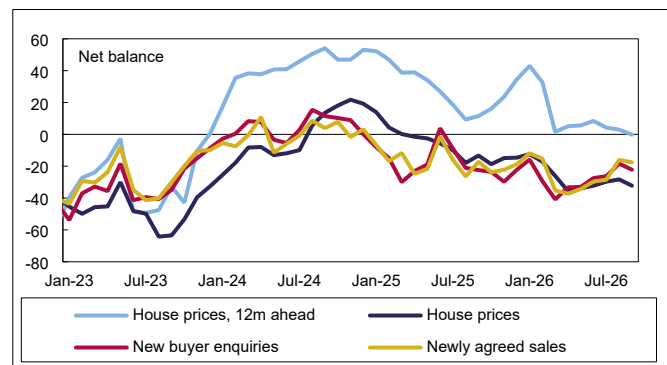
Source: BoE Credit Conditions Survey, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Average mortgage rates



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: RICS residential survey indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the UK

While at the margin the further tightening of financial conditions maintains a case for the BoE to leave Bank Rate unchanged at its next meeting in early November, the stronger-than-expected inflation outturns over the summer and persistence of the energy price shock is still likely to trigger a rate hike. The coming week's monthly GDP data are also likely to provide some cover for tightening as they should show that economic activity remained resilient in August. Certainly, the PMIs for that month signalled the strongest pace of expansion since April, with ICT-related activity and the summer heatwave helping to drive a resurgence in demand for services. Despite higher fuel prices, retail sales volumes also surprised to the upside in August (0.5% M/M), seemingly boosted by strong demand for air conditioners and sportswear after the FIFA World Cup. As such, we expect services activity to have risen for a third consecutive month. Manufacturing output may also have benefitted from a rebound in car output. But while the UK autos association (SMMT) reported the strongest annual increase since December (5.7% Y/Y), that was flattered by a favourable base effect related to the shutdown at JLR a year earlier. Moreover, any pickup in autos may have been partly offset by some payback for the strong increase in ICT production in July, while construction activity was likely affected by the extreme heat. Overall, we expect GDP growth to have slowed from July's pace (0.4% M/M), but still to be consistent with quarterly growth around $\frac{1}{2}\%$ Q/Q in Q3. In addition to the GDP data, the BRC's retail monitor (Tuesday) will provide an update on sales volumes in September.

The next Euro wrap-up will be published on Tuesday 13 October

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	0.3	0.3	0.4	1.0	1.3	1.4
UK		0.6	0.5	0.5	0.2	0.5	0.3	1.4	1.5	1.4
Inflation, %, Y/Y										
Euro area										
Headline HICP		2.0	3.0	3.3	4.0	4.0	3.4	3.1	3.2	1.9
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 and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results							
Economic data							
Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised	
Germany	 Trade balance €bn	Aug	19.5	19.0	21.1	21.6	
UK	 RICS house price balance %	Sep	-32	-30	-28	-	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd

Tomorrow's releases							
Economic data							
Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous		
Italy	 09.00	Industrial production M/M% (Y/Y%)	Aug	0.1 (2.1)	0.7 (0.0)		
Auctions and events							
- Nothing scheduled -							

Source: Bloomberg 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/ <i>Daiwa forecast</i>	Previous
Monday 12 October 2026					
- Nothing scheduled -					
Tuesday 13 October 2026					
Germany 	07.00	Final HICP (CPI) Y/Y%	Sep	<u>3.3 (3.3)</u>	2.9 (2.9)
UK 	00.01	BRC retail monitor - like-for-like sales Y/Y%	Sep	-	0.5
Wednesday 14 October 2026					
Spain 	08.00	Final HICP (CPI) Y/Y%	Sep	<u>5.0 (4.9)</u>	4.6 (4.3)
Thursday 15 October 2026					
Euro area 	10.00	Industrial production M/M% (Y/Y%)	Aug	-	-0.1 (0.0))
France 	07.45	Final HICP (CPI) Y/Y%	Sep	<u>3.4 (3.0)</u>	2.6 (2.4)
UK 	07.00	Monthly GDP M/M% (3M/3M%)	Aug	-	0.4 (0.4)
	07.00	Industrial output M/M% (Y/Y%)	Aug	-	0.2 (0.6)
	07.00	Construction output M/M% (Y/Y%)	Aug	-	0.1 (-2.5)
	07.00	Services output M/M% (3M/3M%)	Aug	-	0.4 (0.6)
	07.00	Trade (goods trade) balance £bn	Aug	-	-3.5 (-21.0)
Friday 16 October 2026					
Euro area 	10.00	Trade balance €bn	Aug	-	5.0
	10.00	Final headline (core) HICP Y/Y%	Sep	<u>3.8 (2.5)</u>	3.2 (2.4)
Italy 	10.00	Final HICP (CPI) Y/Y%	Sep	<u>4.1 (4.2)</u>	3.2 (3.3)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	BST	Event / Auction
Monday 12 October 2026		
- Nothing scheduled -		
Tuesday 13 October 2026		
Germany 	10.30	Auction: to sell up to €5.0bn of 2.9% 2031 bonds
Italy 	10.00	Auction: to sell bonds*
UK 	10.00	Auction: to sell bonds*
Wednesday 14 October 2026		
Germany 	10.30	Auction: to sell up to €1.0bn of 3.4% 2047 bonds
	10.30	Auction: to sell up to €1.5bn of 2.9% 2056 bonds
UK 	10.00	Auction: to sell £5.0bn of 4.625% 2030 bonds
Thursday 15 October 2026		
France 	10.50	Auction: to sell index-linked bonds*
Spain 	09.30	Auction: to sell bonds*
Friday 16 October 2026		
- Nothing scheduled -		

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

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