

Euro wrap-up

Overview

- Bunds were little changed as German inflation rose to the highest rate since end-2023 as the energy shock intensified, but core inflation held steady.
- Despite a UK retail survey pointing to subdued sales growth at end-Q3, shorter-dated Gilts made modest losses.
- The coming few days will bring August data for euro area industrial production and UK GDP.

Emily Nicol
+44-20-7597-8331

Edward Maling
+44-20-7597-8030

Daily bond market movements

Bond	Yield	Change
BKO 3.0 12/28	3.140	+0.012
OBL 2.9 10/31	3.262	+0.001
DBR 3 08/36	3.466	-0.007
UKT 4 05/29	4.928	+0.022
UKT 4½ 03/31	5.027	+0.014
UKT 4½ 07/36	5.449	+0.009

*Change from close as at 4:45pm BST.

Source: Bloomberg

Euro area

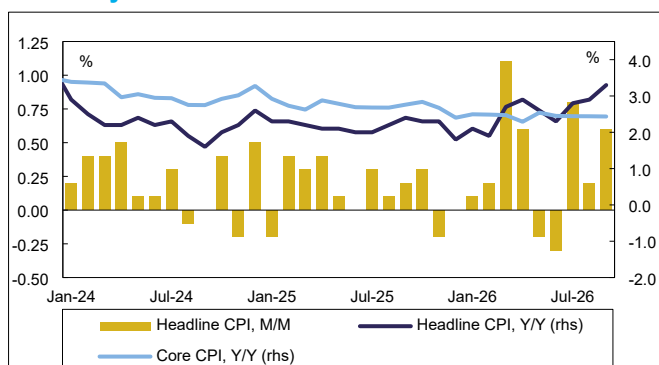
German inflation up to highest since end-2023 as energy shock intensified

Today's final September inflation readings from Germany aligned with the flash estimates, showing that the headline rates – on both the national and EU-harmonised measures – rose a stronger-than-expected 0.4ppt to 3.3%Y/Y, the highest since December 2023 and 1.3ppts above its level at the onset of the US-Iran conflict. The acceleration remained largely driven by the direct impact of the energy shock, and particularly refined petroleum goods, as motor fuel prices rose to a series high, while a double-digit jump in heating oil prices took them to their highest level since March 2022. And while household energy inflation remained subdued, electricity and gas prices rose by the most in six months. As a result, overall energy CPI inflation jumped 4.4ppts to 14.9%Y/Y, the highest rate since early 2023.

Further hints of broadening price pressures but core rate remains unchanged

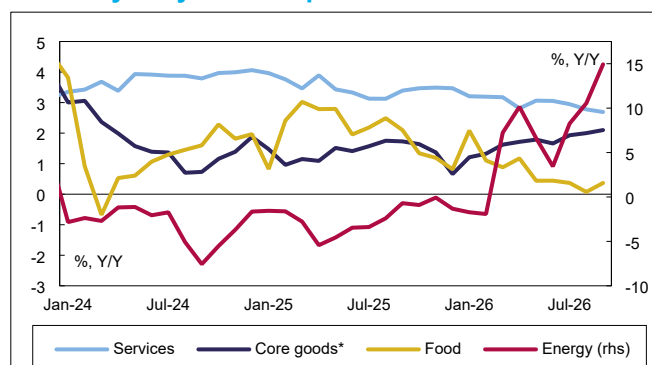
While energy was the main driver of the rise in inflation, today's detailed data hinted at broader goods price pressures. Overall, food inflation was still soft (0.4%Y/Y). But prices of vegetables responded to the summer drought and higher fertilizer prices by rising the most in any September since 2018, pushing the annual rate to a three-year high (8.6%Y/Y) having been in negative territory a year earlier. Meanwhile, reflecting the continued rise in producer import costs and strong AI-related demand, prices of memory cards and external storage were up almost 70%Y/Y and 38%Y/Y respectively. And coinciding with the launch of the new iPhone, mobile phone inflation jumped to the highest rate in the decade-long series (9.8%Y/Y). But, overall, underlying price pressures remained relatively contained in September. Weighed by an ongoing drag from household appliances, non-energy industrial goods inflation edged up just 0.1ppt to 2.1%Y/Y, albeit the highest in more than two years. More encouragingly, services inflation eased to a more than four-year low of 2.7%Y/Y. While the decline partly reflected volatile airfares, inflation of education and insurance continued to trend lower, while accommodation costs and net rents were broadly steady. As such, policymakers should take some comfort that core CPI inflation remained at 2.4%Y/Y for a third successive month, just 0.1ppt above April's five-year low.

Germany: Headline & core inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Key CPI components



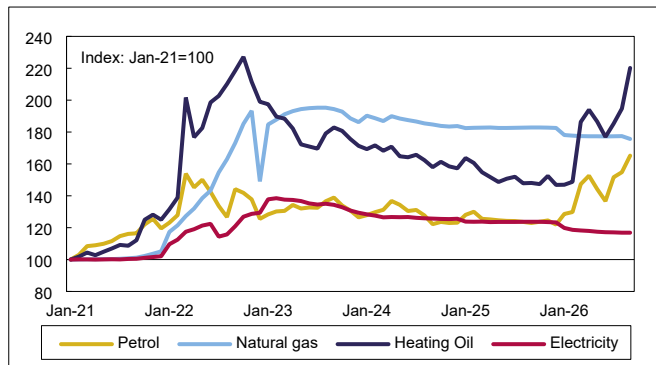
*Non-energy industrial goods. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Government measures will provide some near-term relief to energy inflation

Looking ahead, developments in energy prices should provide some relief to headline inflation over the near term. The cut in fuel excise duties from 1 October through to end-2026 has already contributed to a marked decline in fuel prices, with petrol and diesel down between 8½% and 10½% in the first two weeks of the month. The accelerated release of strategic oil

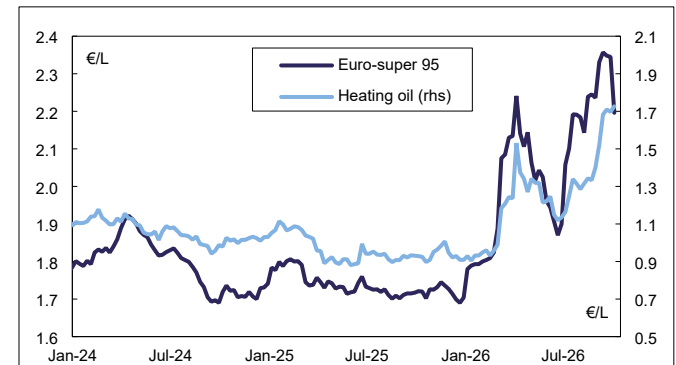
reserves should provide additional support, while the German government yesterday announced plans to extend to consumers the lower electricity tax rate currently applied to energy-intensive subsectors. Of course, the outlook depends heavily on developments in the Middle East. And any reprieve might be partially offset by further upwards impulses on food inflation, while we also expect core goods inflation to edge higher as producers pass higher operating costs along the supply chain. This notwithstanding, manufacturers' selling-price expectations remain well below the levels seen immediately after the start of the US-Iran war. More importantly, price expectations in the services sector are only slightly above their long-run average. And while key union wage negotiations over coming months will provide greater insight into potential pay pressures, recent labour market developments suggest that the risk of significant second-round inflationary effects from stronger wage growth will remain limited.

Germany: Consumer energy price levels



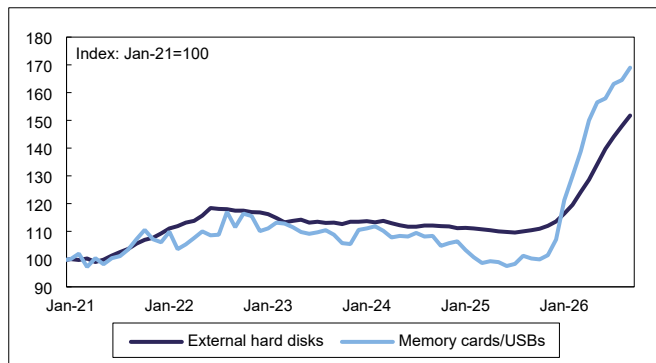
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Weekly petrol & heating oil prices



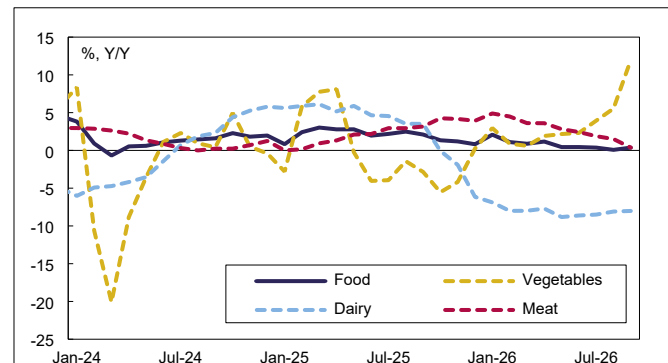
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: AI-related consumer price levels



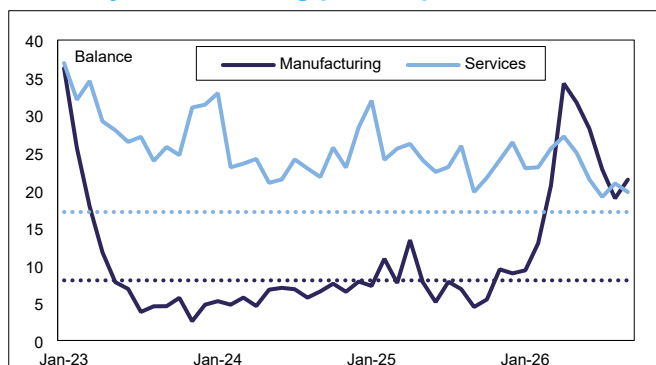
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Food CPI inflation



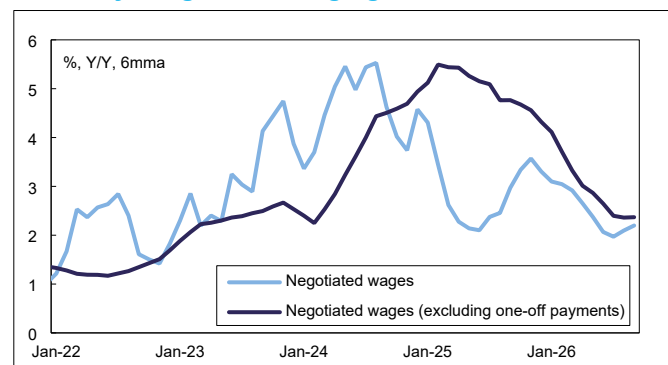
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Firms' selling-price expectations*



*Dotted lines represent long-run average. Source: ifo, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Negotiated wage growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The two days ahead in the euro area

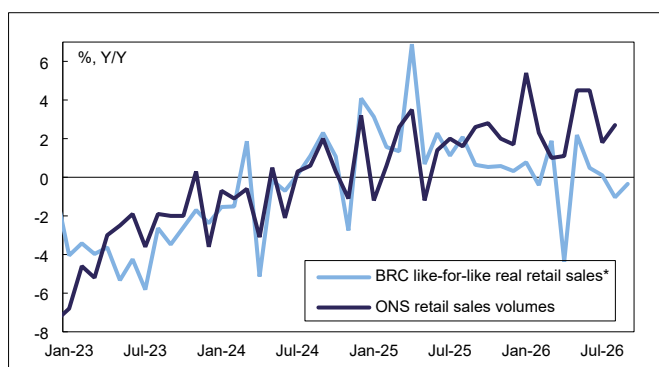
The detailed price data from France (Thursday) and Spain (Wednesday) will provide further insights into the drivers of euro area inflation last month, besides fuel costs, ahead of Friday's final release. In terms of activity, euro area IP figures (Thursday) will provide an update on industrial output midway through Q3. Despite a modest rebound in Germany (0.4%M/M) and another firm pickup in the Netherlands (2.6%M/M) – most likely reflecting the support from AI-related demand to subsectors including ICT and electrical equipment – the evidence from the member states points towards a further decrease in aggregate IP, principally owing to weakness in Italy, Ireland and Belgium. Overall, those countries could push industrial production down for a third consecutive month, and as far as 0.5%M/M. Such a decline would also take the level of production to a six-month low, leaving IP last quarter tracking below its Q2 average. Data aside, the coming two days will also provide apt timing for ECB speak, with President Lagarde (Wednesday) and several Governing Council members all scheduled to speak publicly from the sidelines of the IMF meetings in Bangkok.

UK

BRC survey continues to emphasise a weak retail sales picture, despite modest improvement

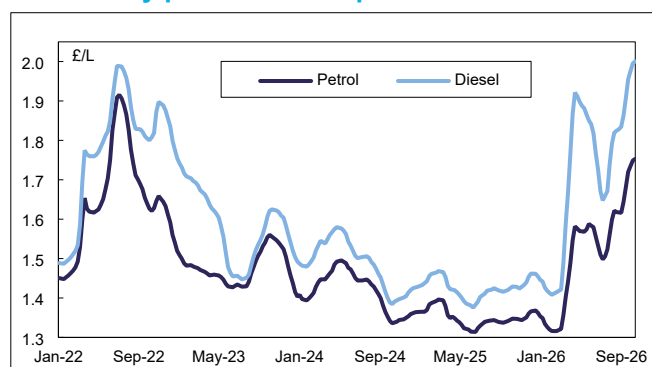
Retail sales growth has repeatedly defied its modest expectations of late, showing remarkable resilience even as fuel prices have jumped and extreme heat discouraged footfall. By contrast, the BRC's retail monitor – which for some time had been a helpful bellwether to the official series – has diverged, regularly painting a downcast picture. So, we are cautious to place a lot of weight on its signal ahead of September's retail sales release (next Friday). But, for what it's worth, the survey remained broadly consistent with its subdued trend, albeit showing a modest improvement. Following a particularly weak end to the summer, like-for-like retail sales growth rose back to 1%Y/Y at end-Q3, matching the same rate as in July. The rebound was led by non-food purchases, with bright spots reported for toys and health and beauty. Since the BRC's shop price index was also modestly softer last month, that recovery should infer a favourable backdrop for sales volumes too, even if adjusted like-for-like retail sales growth remains slightly negative on an annual basis. So, retail sales volumes seem well placed for a third consecutive quarter of expansion in Q3. This strength would contrast the BoE's expectation of subdued consumer demand. But many households have been able to smooth their consumption despite higher fuel prices. Average fuel consumption has generally shrunk, and credit card spending noticeably accelerated towards the end of summer to a more than four-year high. Still, support from consumption smoothing might seem difficult to sustain the longer that high energy prices persist. More immediately, household energy bills rose at the start of October and will do so again in January. Fuel prices also continued to climb last week, with a litre of diesel symbolically crossing the £2/L threshold for the first time. For some households with strong balance sheets, that is acting as a prompt to replace their existing motor vehicle with a new EV or hybrid car. But with inflation due to rise over the coming months, we still expect retail sales to weaken towards the end of the year.

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 two days ahead in the UK

Following a relatively uneventful Wednesday, attention in the UK should be firmly fixed on Thursday's monthly GDP release. Certainly, we expect growth to have moderated from its pace in July (0.4%M/M) which had preceded a more determined acceleration in wholesale energy prices and further tightening of financial conditions. However, owing in part to that favourable carryover, we still expect August's reading to show that recent resilience extended through to the end of the summer, consistent with quarterly growth of 0.5%Q/Q in Q3. After all, the PMIs had signalled the strongest pace of expansion since April in that month, with ICT-related activity and the summer heatwave reportedly continuing to support services activity. Retail sales volumes also surprised to the upside again in August (0.5%M/M) despite rising fuel prices. And manufacturing output may also have benefitted from a rebound in car output, albeit that benefit could be partly offset by some payback for the strong increase in ICT production in July. Construction activity probably remained subdued amid high

temperatures. Elsewhere, the coming two days will also bring comments from BoE ratesetters in Bangkok. However, to the extent that those from Chief Economist Huw Pill and Megan Greene are bound to be hawkish, and Deputy Governor Breeden's are more likely to pertain to her financial stability remit, they seem unlikely to have a meaningful impact on the markets' expectations for interest rate hikes through year-end.

The next Euro wrap-up will be published on Thursday 15 October 2026

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Final HICP (CPI) Y/Y%	Sep	3.3 (3.3)	<u>3.3 (3.3)</u>	2.9 (2.9)	-
UK	 BRC retail monitor – like-for-like sales Y/Y%	Sep	1.0	0.7	0.5	-

Auctions

Country	Auction
Germany	 sold €3.35bn of 2.9% 2031 bonds at an average yield of 3.22%
Italy	 sold €2.5bn of 3% 2029 bonds at an average yield of 3.69%
	 sold €3.0bn of 3.35% 2033 bonds at an average yield of 4.24%
	 sold €1.5bn of 3.95% 2041 bonds at an average yield of 4.84%
UK	 sold £500mn of 4% 2063 bonds at an average yield of 5.802%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Spain	 08.00	Final HICP (CPI) Y/Y%	Sep	<u>5.0 (4.9)</u>	4.6 (4.3)

Auctions and events

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

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	 10.00	Industrial production M/M% (Y/Y%)	Aug	<u>-0.5 (-0.7)</u>	-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	-0.1 (0.5)	0.4 (0.4)
	 07.00	Industrial output M/M% (Y/Y%)	Aug	-0.1 (0.7)	0.2 (0.6)
	 07.00	Construction output M/M% (Y/Y%)	Aug	0.0 (-2.1)	0.1 (-2.5)
	 07.00	Services output M/M% (3M/3M%)	Aug	-0.1 (0.7)	0.4 (0.6)
	 07.00	Trade (goods trade) balance £bn	Aug	-4.2 (-21.9)	-3.5 (-21.0)

Auctions and events

France	 09.50	Auction: to sell up to €12bn of 2.7% 2031, 0% 2031 & 3.25% 2032 & 3.5% 2033 bonds
	 10.50	Auction: to sell up to €1.25bn of 3.15% 2032, 0.55% 2039 & 1.8% 2040 index-linked bonds
Spain	 09.30	Auction: to sell 2.35% 2029, 2.6% 2031 & 3.55% 2033 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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