

Euro wrap-up

Overview

- While the slowdown in euro area GDP, IP and job growth in Q2 was confirmed, Bunds followed USTs lower in the wake of stronger-than-expected US producer price data.
- Gilts also made losses as UK GDP growth in Q2 beat expectations.
- Friday will bring Irish trade figures for June while next week's dataflow will include euro area and UK inflation figures for July and the flash August PMIs.

Chris Scicluna
+44 20 7597 8326

Edward Maling
+44 20 7597 8030

Daily bond market movements

| Bond | Yield | Change |
|---------------|-------|--------|
| BKO 1.9 09/27 | 1.938 | +0.010 |
| OBL 2.2 10/30 | 2.278 | +0.026 |
| DBR 2.6 08/35 | 2.709 | +0.032 |
| UKT 3½ 03/27 | 3.900 | +0.046 |
| UKT 4¾ 03/30 | 4.049 | +0.043 |
| UKT 4½ 03/35 | 4.638 | +0.051 |

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

Euro area

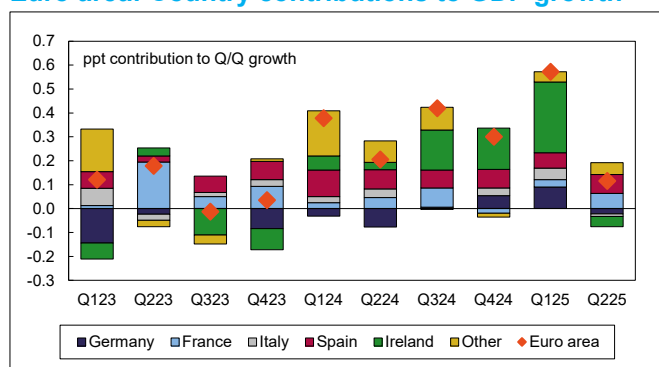
Modest GDP growth in Q2 was accompanied by slowdown in job creation

Today's second euro area GDP estimates for Q2 aligned with the initial figures, reaffirming that growth slowed by ½ppt from Q1 but remained positive at 0.1%Q/Q in Q2. The annual rate was also confirmed at the initial estimate of 1.4%Y/Y, which is arguably above-potential and was a mere 0.1ppt softer than in the first quarter. While unsurprising, we had been mindful of the downside risks to those second estimates, not least due to the weakness of IP and exports at the end of last quarter (see below), and possible future revisions to construction output data. However, to two decimal places, GDP growth was nudged marginally higher (0.12%Q/Q), which raises hopes that the services sector ended Q2 on firm footing. When the final estimates are published on 5 September, the expenditure components should offer encouragement that the conditions should be in place for a pickup in momentum this quarter. Net trade should be the principal cause of the growth slowdown as temporary payback for tariff front running in Q1. And notwithstanding a likely pullback in fixed investment, including in intellectual property, household consumption growth was likely firm thanks in part to the stable labour market and decent growth in real incomes. We note, however, that today's first estimate for euro area employment in Q2 showed that growth in the number of people in work slowed 0.1ppt to just 0.1%Q/Q, with only half as many jobs added (158.7k) as in the first quarter and the least since Q313 outside of the lockdown-affected quarters of the pandemic. The annual rate remained steady at 0.7%Y/Y, thus half the rate of GDP growth and consistent with a pickup in labour productivity. While Germany and France both shed jobs in Q2, Spain once again provided the principal source of employment growth. While demand workers in the euro area's two largest member states might be expected to remain soft over the near term, Southern Europe seems likely to ensure that euro area employment growth will remain positive throughout the second half of the year. And the euro area's unemployment rate should remain close to the series low of 6.2% reached throughout Q2.

Industrial output declined in Q2 amid payback for front-loading in Q1

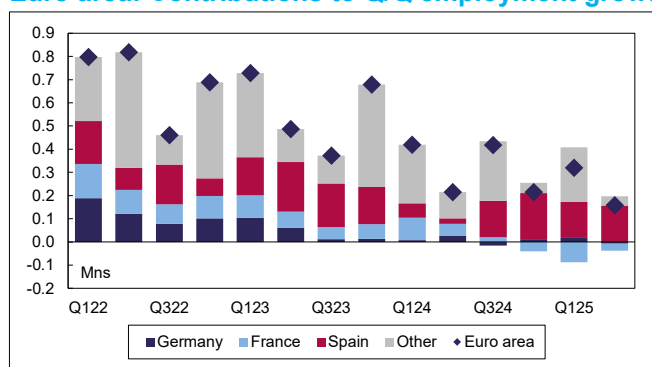
While GDP managed to grow slightly, euro area industrial production declined in Q2 for the first time since Q324 and ended the quarter on a particularly downbeat note. Consistent with our expectation, IP fell 1.3%M/M in June, the steepest drop in 13 months besides April's 'Liberation Day'-induced fall (-2.5%M/M). Reflecting the adverse revision to [German auto production](#) in May, the expansion in the euro area that month was also marked down significantly (by 0.6ppt to 1.1%M/M). As a result, production at the end of last quarter fell to a five-month low to be down 0.3%Q/Q in Q2. Among the member states, IP rose in both Italy (0.1%Q/Q) and Spain (0.8%Q/Q), and growth was only marginally negative in France (-0.1%Q/Q) after June's IP benefitted from a boost in aerospace production. But Germany (-0.8%Q/Q) and Ireland (-1.6%Q/Q) – both major beneficiaries of Q1's front-running of US tariffs – suffered payback for previous strength. Within the detail, euro area production of machinery and chemicals respectively fell some 0.9%Q/Q and 2.5%Q/Q in Q2, each hitting their lowest levels

Euro area: Country contributions to GDP growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Contributions to Q/Q employment growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

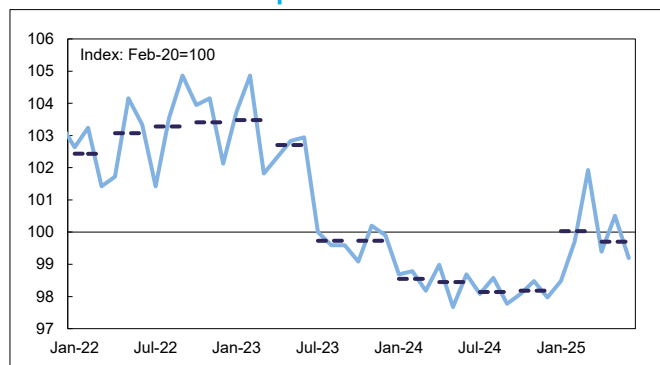
since the pandemic. Admittedly, having expanded some 8%Q/Q in Q1, pharmaceuticals output declined a mere ½%Q/Q, to remain comfortably above pre-2025 levels. And autos production was up 1.9%Q/Q, courtesy of carry-over from Q1. We expect the combined effects of tariffs, renewed euro appreciation and a broader slowdown in economic activity in the US to present a headwind to euro IP over coming quarters. But noting some positive signals from business surveys, resilience in euro area private consumption and rising German spending on infrastructure and defence, the risks to the euro area IP outlook remain two-sided.

The week ahead in the euro area

While the main event in the coming week will be the Kansas Fed's annual symposium in Jackson Hole, which kicks off on Thursday, the euro area dataflow will not be without interest. The August flash PMIs (also Thursday) will provide the highlight. Thanks to improvement in services, the euro area composite PMI indicated a slight pickup in momentum at the start of Q3, rising to a four-month high (50.9). While a reported first expansion in services activity in Germany since March contributed to that wider improvement, outperformance in the periphery remained the key driver, while private sector activity supposedly contracted in France (48.5). We caution that the August flash PMIs, coinciding with the holiday season, have been prone to large revisions in the past, particularly in France. And since the French PMIs were already a poor gauge for GDP growth in Q2, the INSEE business survey (Friday) should be watched for an alternative and more comprehensive perspective. Nevertheless, in the manufacturing sector, the PMIs will provide a helpful first view as to any impact from reduced uncertainty vis-à-vis EU-US trade arrangements, particularly with respect to new orders and future output expectations. Separately, the August flash Commission consumer confidence indicator (Thursday) will provide insights into household sentiment, although their willingness to spend has recently been stronger than this headline indicator suggested.

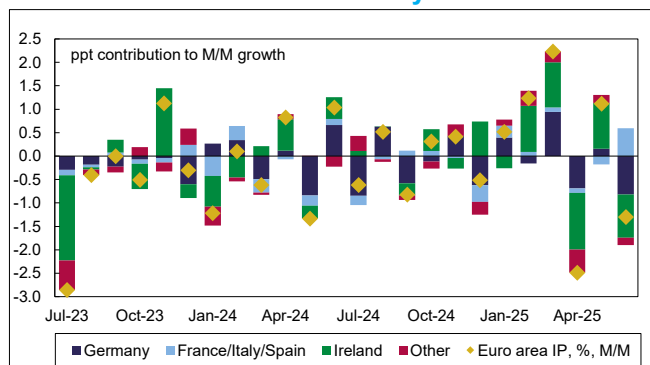
With respect to past activity, the coming week will bring euro area construction output (Thursday) and trade figures (Monday) for June. The former will confirm whether the construction sector added to euro area GDP growth in Q2, having trended more than 2½% above its Q1 level in the first two months of last quarter thanks to whopping growth in Spain. Tomorrow's Irish trade figures will be important for determining June's performance in the aggregate euro area. But we note that US data suggest that imports from Ireland shrunk considerably, halving to a 16-month low. And given softer German and French trade data, net goods trade seems bound to have subtracted from euro area GDP growth in Q2. Final GDP estimates for Germany in Q2 (Friday), including a first expenditure breakdown, should confirm that weaker exports and investment weighed on GDP last quarter. Following growth of 0.4%Q/Q in Q1, the first estimates for Q2 showed a mild contraction (-0.1%Q/Q). But given recent adverse revisions to German IP, the risks to that number seem skewed to the downside.

Euro area: Industrial production*



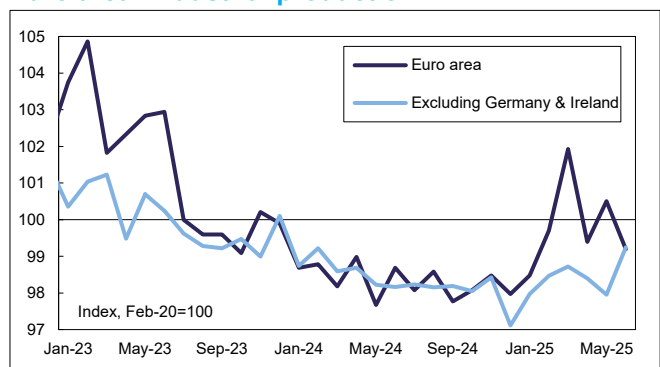
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Contributions to IP by member state



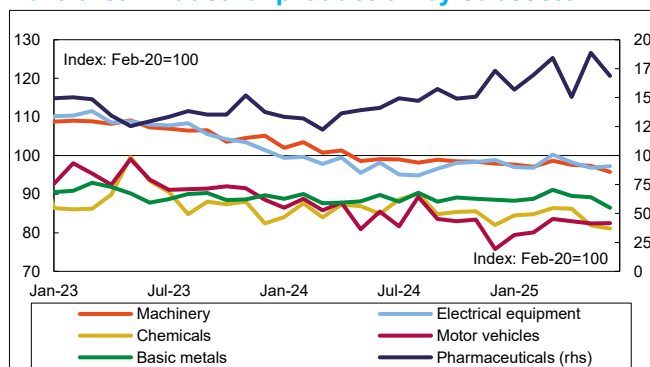
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Industrial production



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Industrial production by subsector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Meanwhile, today's confirmation of a sideways movement in French HICP inflation in July (0.9%Y/Y), taken alongside the similar lack of surprise across the other member states, should ensure that the final euro area data (Wednesday) also match the flash readings – which showed both headline (2.0%Y/Y) and core (2.3%Y/Y) rates remained steady in July. The detail should show that slightly firmer food and core goods prices were offset by continued moderation in services inflation, some of which might be related to volatile holiday-related components. Q2's preliminary labour cost and vacancies data (Wednesday) seem likely to signal further moderation in services inflation ahead. That said, despite a further decline in France, higher settlements in Germany in Q2 increase the odds of a pickup in the overall euro area negotiated wages figure (Friday). However, this should be unlikely to impact on the ECB's perception of risks, given that a moderate pickup would follow the sharp drop in Q1 (down 1.7ppts to 2.5%Y/Y), and remain consistent with ECB's forward-looking wage tracker, which points towards a more sustained moderation in the second half of the year.

UK

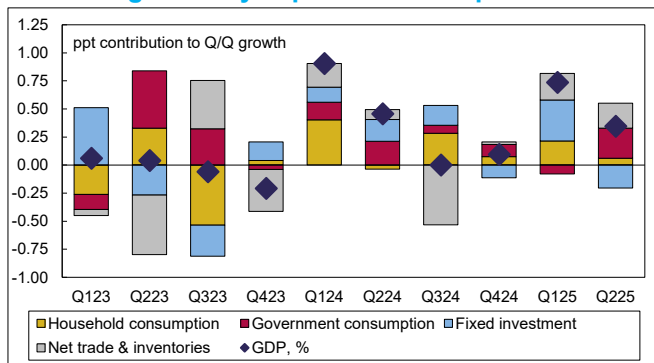
Q2 GDP growth beats consensus, but reliant on increased public spending

GDP growth in Q2 beat expectations at 0.3%Q/Q, 0.2ppt above the Bloomberg consensus and BoE projections. That inevitably marked a moderation from the vigorous 0.7%Q/Q pace of Q1, which had been flattered by one-off factors such as front running of US tariffs and a surge in housing market completions ahead of April's changes to stamp duty. But it meant that growth in the first half of the year reached an annualised rate of 2.2%, above the UK's potential rate and significantly firmer than the US and euro area G7 member states. Given the softness of activity through the second half of last year, however, the annual rate edged down slightly to 1.2%Y/Y, a rate that is probably close to potential and probably a better indication of the current underlying rate of growth. Indeed, recent years have often brought stronger-than-expected growth in the first half of the year followed by greater-than-expected weakness in the second half, so we wonder whether the GDP figures for H125 were flattered by inadequate seasonal adjustment. Moreover, the detail for Q2 showed that, in aggregate, private sector final demand subtracted from growth, with the expansion reliant on increased government spending.

Public spending up on political priorities; household spending up for 4th quarter (but only just)

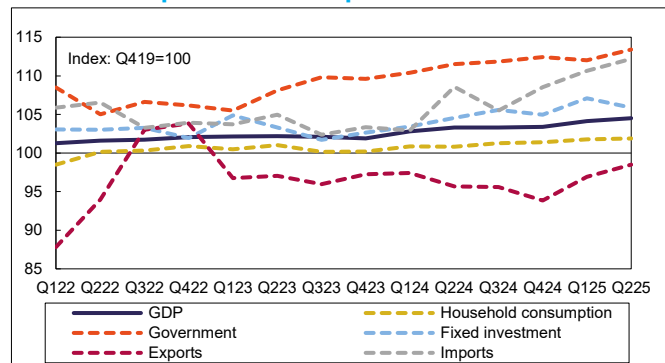
With last year's fiscal policy decisions feeding through to the real economy, government consumption rose in Q2 by a sizeable 1.2%Q/Q, the most in seven quarters, to add 0.3ppt to GDP growth. The increase reflected extra spending on government priorities such as defence and healthcare, which should be largely sustained over the parliament. However, the latter category was exaggerated by a temporary jump in the number of vaccinations. Meanwhile, tallying with the marked

UK: GDP growth by expenditure component



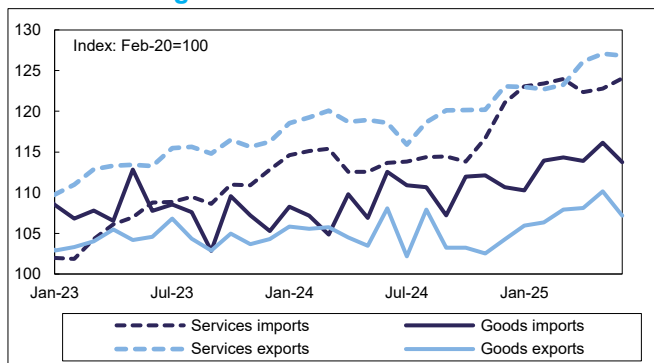
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: GDP expenditure components



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

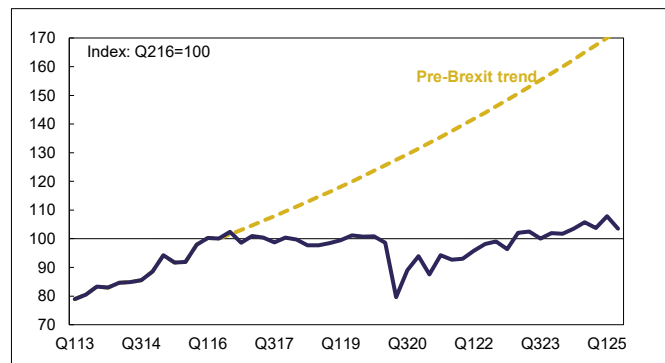
UK: Trade in goods and services*



*Excluding precious metals.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Business fixed investment



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

slowdown in retail sales last quarter, private consumption growth moderated, by 0.3ppt to just 0.1%Q/Q in Q2, thus contributing minimally to GDP growth. That, however, still represented a fourth successive quarterly increase in household spending, supported by continued positive real-terms growth in pay despite the sharp pickup in inflation from April.

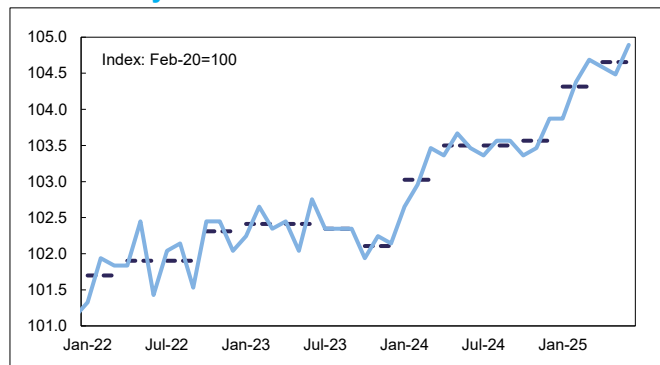
Business capex reversed Q1 gain, but drop in goods exports modest after tariff front-running

In contrast, fixed investment subtracted 0.2ppt from GDP growth, dropping 1.1%Q/Q due to sharp declines in spending on transport goods and other machinery and equipment. While housebuilding and the public sector provided some offset, business fixed capex fell a steep 4.0%Q/Q, fully reversing the gain in Q1, as higher labour costs and uncertainty related to US tariffs and the future path of UK fiscal policy likely persuaded many firms to put plans on hold. We note, however, that revisions to this component can be significant, and we would not be surprised if the full extent of the decline in capex was less marked than currently indicated. Indeed, despite signs of a slowdown in stock-building last quarter, 0.2ppt of GDP growth in Q2 was allocated by the ONS to inventory and alignment adjustments to balance the national accounts, suggesting scope for revisions to be made in due course. Finally, in terms of trade, goods exports fell back only very modestly in Q2 after a surge in Q1 due to tariff front running. And that impact was more than offset by a third successive quarter of vigorous growth in exports of services, which remain the UK's comparative advantage. In contrast, imports of services dropped while goods imports jumped. As a result, total growth in volumes of exports (1.6%Q/Q) was little different to that of imports (1.4%Q/Q), so the contribution of net trade to GDP growth was broadly neutral.

Broad-based expansion in output in Q2 with gains in services, manufacturing & construction

As well as a positive revision to the figure for April, stronger-than-expected Q2 GDP growth reflected a firm pickup in June, when economic output rose 0.4%M/M, the most in three months. Services activity rose for a second successive month to be up 0.4%Q/Q in Q2. Growth in business-facing services was particularly vigorous in IT and consultancy. So, despite the strength in healthcare, overall, business services marginally outpaced that in consumer-facing activities. Meanwhile, by rebounding somewhat in June after three successive months of payback for tariff front-running, manufacturing production rose 0.3%Q/Q in Q2 after the jump of 1.1%Q/Q in Q1. Growth in pharmaceuticals and machinery was strong for a second successive quarter, but the autos subsector more than fully reversed its Q1 gain. Among the major sectors, however, construction saw the strongest growth in Q2, up 1.2%Q/Q, marking the fifth successive quarter of expansion and the best of that run. New private housebuilding – another top political priority – rose for a fourth successive quarter and by about 1½%Q/Q, while repair and maintenance of private housing was up more than 3%Q/Q.

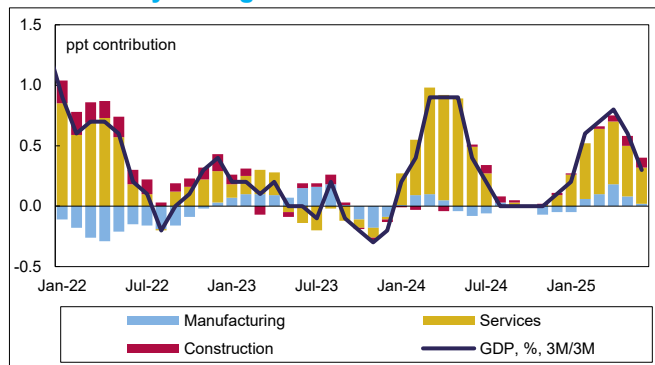
UK: Monthly GDP*



*Dashed lines represent quarterly average.

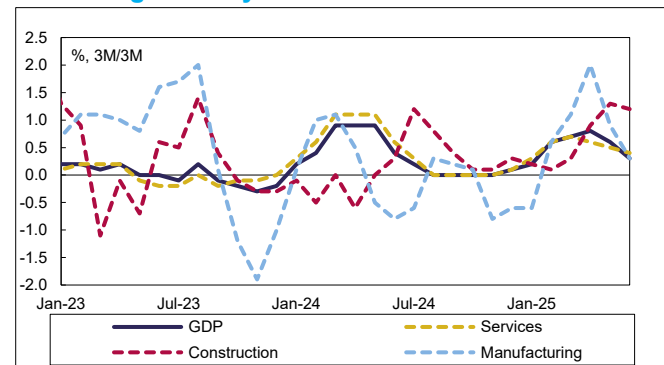
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Monthly GDP growth & contributions



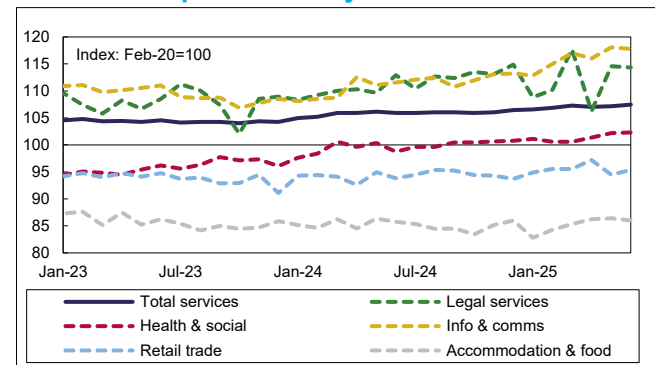
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: GDP growth by sector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Services production by subsector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

GDP growth likely to be a touch firmer in Q3 despite increased fiscal & monetary policy uncertainty










Separately, we note that today's RICS residential survey pointed to a softening of the housing market in July. Surveyors had a broadly flat near-term sales outlook amid declining new buyer enquiries, perhaps due in part to greater uncertainty about the future path of monetary policy and unease about the future path of fiscal policy, particularly taxation. And we think that such uncertainty will weigh somewhat on broader economic growth in Q3. However, given the positive carryover of growth from June into Q3, as well as the likelihood of ongoing increases in public spending and private consumption, we have revised up our GDP forecast for the current quarter to 0.4%Q/Q. That rate or firmer would likely be enough to ensure that the four MPC members who voted for unchanged monetary policy this month would continue to resist further easing over the remainder of this year. However, given uncertainty about the UK's potential growth rate, it need not be an obstacle to a rate cut in November for the majority on the MPC, who should continue to place more weight on evidence of moderating pay growth and ongoing disinflation.

The week ahead in the UK

July's CPI inflation data (Wednesday) will provide the main economic event in the coming week in the UK. After June's print surprised slightly to the upside – as the headline rate rose to 3.6%Y/Y, 0.2ppts above the Bank's expectations – the BoE subsequently revised up its forecast for August, with hotter food, energy and services components translating into a higher peak (4.0%Y/Y) by September. As such, the BoE expects CPI inflation to rise a further 0.2ppt in July to 3.8%Y/Y, an 18-month high. While we also expect inflation to edge up, we expect the rise in services to be slightly softer, at just 0.1ppt to 4.8%Y/Y. So, we expect headline inflation to nudge up to 3.7%Y/Y, with the core rate unchanged at the same rate. Once again, there will be no producer price data released alongside the CPI figures, as the ONS now expect their publication to recommence only from October. In their absence, the PMI price indices have flagged gradual moderation in input costs and, to a greater extent, output prices over recent months, in addition to a steady improvement in broader private sector activity in June and July. The August flash PMIs (Thursday) are expected to maintain that trend, with the composite output PMI possibly matching June's nine-month high (52.0). And the employment PMIs will be watched for signs of moderation in the current pace of loosening in the labour market. Meanwhile, although the retail sector contributed positively to Q2's positive GDP surprise, we expect July's figures to be more downbeat. And with the current inflation hump dampening real incomes and growing speculation about further tax-raising measures in the autumn, the risks to August's consumer confidence survey (Friday) also seem skewed to the downside. Thursday's public finance statistics will provide an update as to the extent of the Chancellor's fiscal challenges through July.

The next Euro wrap-up will be published on Monday 18 August 2025





























Daiwa economic forecast

| | | 2025 | | | | 2026 | | 2025 | 2026 | 2027 |
|---------------------------|---|---------------|------|------|------|------|------|---------------|------|------|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| GDP | | %, Q/Q | | | | | | %, Y/Y | | |
| Euro area |  | 0.6 | 0.1 | 0.1 | 0.2 | 0.2 | 0.3 | 1.2 | 0.9 | 1.3 |
| UK |  | 0.7 | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 | 1.5 | 1.3 | 1.4 |
| Inflation, %, Y/Y | | | | | | | | | | |
| Euro area | | | | | | | | | | |
| Headline HICP |  | 2.3 | 2.0 | 2.0 | 2.3 | 1.9 | 1.9 | 2.2 | 1.8 | 1.8 |
| Core HICP |  | 2.6 | 2.4 | 2.3 | 2.4 | 2.3 | 1.7 | 2.4 | 1.8 | 1.6 |
| UK | | | | | | | | | | |
| Headline CPI |  | 2.8 | 3.5 | 3.8 | 3.4 | 2.9 | 2.2 | 3.4 | 2.3 | 1.8 |
| Core CPI |  | 3.6 | 3.7 | 3.7 | 3.5 | 3.2 | 2.4 | 3.6 | 2.4 | 1.6 |
| Monetary policy, % | | | | | | | | | | |
| ECB | | | | | | | | | | |
| Deposit Rate |  | 2.50 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| Refi Rate |  | 2.65 | 2.15 | 2.15 | 2.15 | 2.15 | 2.15 | 2.15 | 2.15 | 2.15 |
| BoE | | | | | | | | | | |
| Bank Rate |  | 4.50 | 4.25 | 4.00 | 3.75 | 3.50 | 3.25 | 3.75 | 3.25 | 3.00 |

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/ <i>Daiwa forecast</i> | Previous |
|---------------------------------|---|--|--------|--|-------------|
| Monday 18 August 2025 | | | | | |
| Euro area |  | 10.00 Trade balance €bn | Jun | - | 16.2 |
| UK |  | 00.01 Rightmove house prices M/M% (Y/Y%) | Aug | - | -1.2 (0.1) |
| Tuesday 19 August 2025 | | | | | |
| Euro area |  | 09.00 ECB current account €bn | Jun | - | 32.3 |
| Wednesday 20 August 2025 | | | | | |
| Euro area |  | 10.00 Final headline (core) HICP Y/Y% | Jul | <u>2.0 (2.3)</u> | 2.0 (2.3) |
| |  | 10.00 Preliminary labour costs Y/Y% | Q2 | - | 3.4 |
| |  | 10.00 Preliminary job vacancy rate % | Q2 | - | 2.4 |
| Germany |  | 07.00 PPI Y/Y% | Jul | - | -1.3 |
| UK |  | 07.00 Headline (core) CPI Y/Y% | Jul | <u>3.7 (3.7)</u> | 3.6 (3.7) |
| |  | 09.30 House price index Y/Y% | Jun | - | 3.9 |
| Thursday 21 August 2025 | | | | | |
| Euro area |  | 09.00 Preliminary services (manufacturing) PMI | Aug | <u>51.0 (49.6)</u> | 51.0 (49.8) |
| |  | 09.00 Preliminary composite PMI | Aug | <u>50.8</u> | 50.9 |
| |  | 10.00 Construction output M/M% (Y/Y%) | Jun | - | -1.7 (2.9) |
| |  | 15.00 Preliminary Commission consumer confidence indicator | Aug | <u>-14.9</u> | -14.7 |
| Germany |  | 08.30 Preliminary services (manufacturing) PMI | Aug | - | 50.6 (49.1) |
| |  | 08.30 Preliminary composite PMI | Aug | - | 50.6 |
| France |  | 08.15 Preliminary services (manufacturing) PMI | Aug | - | 48.5 (48.2) |
| |  | 08.15 Preliminary composite PMI | Aug | - | 48.6 |
| UK |  | 07.00 Public sector net borrowing £bn | Jul | - | 20.7 |
| |  | 09.30 Preliminary services (manufacturing) PMI | Aug | <u>52.3 (48.5)</u> | 51.8 (48.0) |
| |  | 09.30 Preliminary composite PMI | Aug | <u>52.0</u> | 51.5 |
| |  | 11.00 CBI industrial trends survey – total orders (selling prices) % balance | Aug | - | -30 (21) |
| Friday 22 August 2025 | | | | | |
| Euro area |  | 10.00 Negotiated wages Y/Y% | Q2 | - | 2.5 |
| Germany |  | 07.00 GDP – final estimate Q/Q% (Y/Y%) | Q2 | <u>-0.1 (0.0)</u> | 0.4 (-0.2) |
| France |  | 07.45 INSEE business (manufacturing) confidence indicator | Aug | - | 96 (96) |
| |  | - BdF retail sales Y/Y% | Jul | - | -1.1 |
| UK |  | 00.01 GfK consumer confidence indicator | Aug | <u>-20</u> | -19 |
| |  | 07.00 Retail sales – incl. auto fuel M/M% (Y/Y%) | Jul | - | 0.9 (1.7) |
| |  | 07.00 Retail sales – excl. auto fuel M/M% (Y/Y%) | Jul | - | 0.6 (1.8) |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions













| Country | BST | Event / Auction |
|---------------------------------|---|---|
| Monday 18 August 2025 | | |
| - Nothing scheduled - | | |
| Tuesday 19 August 2025 | | |
| Germany |  | 10.30 Auction: to sell €4.5bn of 2.2% 2030 bonds |
| UK |  | 10.00 Auction: to sell £1.6bn of 1.125% 2035 inflation-linked bonds |
| Wednesday 20 August 2025 | | |
| Germany |  | 10.30 Auction: to sell €1bn of 2.5% 2046 bonds |
| |  | 10.30 Auction: to sell €1.5bn of 2.5% 2054 bonds |
| Thursday 21 August 2025 | | |
| France |  | 09.50 Auction: to sell bonds* |
| |  | 10.50 Auction: to sell inflation-linked bonds* |
| Friday 22 August 2025 | | |
| - Nothing scheduled - | | |

*Details to be announced. 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 |
|-----------|---|--------|---------------------|--|--------------|--------------|
| Euro area |  GDP – second estimate Q/Q% (Y/Y%) | Q2 | 0.1 (1.4) | <u>0.1 (1.4)</u> | 0.6 (1.5) | - |
| |  Employment – first estimate Q/Q% (Y/Y%) | Q2 | 0.1 (0.7) | - | 0.2 (0.7) | - |
| |  Industrial production M/M% (Y/Y%) | Jun | -1.3 (0.2) | -1.0 (1.5) | 1.7 (3.7) | 1.1 (3.1) |
| France |  Final HICP (CPI) Y/Y% | Jul | 0.9 (1.0) | <u>0.9 (1.0)</u> | 0.9 (1.0) | - |
| UK |  GDP – first estimate Q/Q% (Y/Y%) | Q2 | 0.3 (1.2) | <u>0.2 (1.0)</u> | 0.7 (1.3) | - |
| |  Preliminary output per hour Y/Y% | Q2 | -0.8 | - | -0.2 | - |
| |  Monthly GDP M/M% (3M/3M%) | Jun | 0.4 (0.3) | <u>0.2 (0.2)</u> | -0.1 (0.5) | - |
| |  Services output M/M% (3M/3M%) | Jun | 0.3 (0.4) | 0.2 (0.2) | 0.1 (0.4) | - (0.5) |
| |  Industrial output M/M% (Y/Y%) | Jun | 0.7 (0.2) | 0.3 (-0.2) | -0.9 (-0.3) | -1.3 (-0.2) |
| |  Construction output M/M% (Y/Y%) | Jun | 0.3 (1.5) | 0.3 (1.5) | -0.6 (1.2) | -0.5 (1.4) |
| |  Trade (goods trade) balance £bn | Jun | -5.0 (-22.2) | -5.8 (-21.9) | -5.7 (-21.7) | -4.5 (-22.1) |
| |  RICS house price balance % | Jul | -13 | -5 | -7 | - |

Auctions

| Country | Auction |
|-----------------------|---------|
| - Nothing to report - | |

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.blumatrix.com/sellside/Disclosures.action>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.