Euro wrap-up

Overview

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- After opening higher, Bunds followed USTs lower to close the day little changed as concerns related to US credit losses and trade tensions receded slightly, while final euro area inflation estimates brought an upwards revision to the core rate.
- Gilts followed USTs lower on a quiet day for UK economic news.
- The coming week will bring the flash PMIs for October, and UK inflation and retail sales figures for September.

Daily bond market movements

Bond	Yield	Change
BKO 1.9 09/27	1.898	-0.005
OBL 2.2 10/30	2.161	+0.006
DBR 2.6 08/35	2.577	+0.008
UKT 3¾ 03/27	3.870	+0.028
UKT 4⅜ 03/30	3.972	+0.023
UKT 4½ 03/35	4.529	+0.030

*Change from close as at 4:30pm BST.
Source: Bloomberg

Euro area

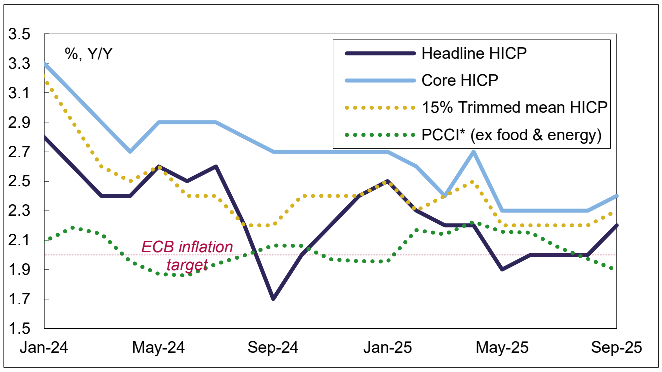
Uptick in euro area inflation due to base effects in auto fuels and certain services

The final estimates of euro area inflation in September confirmed that the headline HICP rate rose 0.2ppt to 2.2%Y/Y, a five-month high. This will have provided no surprises to the ECB, as it was bang in line with its September projection update. Moreover, the upwards impulses were largely related to base effects, which suggest no need for immediate concern. Certainly, the uptick was driven principally by a sideways move in auto fuel prices, which fell sharply a year earlier, and so pushed energy inflation up 1.6ppts to -0.4%Y/Y, a seven-month high. Admittedly, today's release brought an upwards revision to core inflation, by 0.1ppt to 2.4%Y/Y, a five-month high. But this reflected rounding – to three decimal places the final core rate was up just 0.008ppt to 2.355%Y/Y. The cause was a modest tweak to services inflation (up 0.02ppt to 3.24%Y/Y), with the detail revealing new impulses from mobile phone and accommodation pricing, which might simply reflect seasonal influences and prove temporary. Certainly, the ECB's seasonally adjusted data suggest that services pricing was better behaved this month, with momentum in the category edging down to an eight-month low (2.8%3M/3M annualised). Moreover, core goods inflation remained very subdued, moving sideways at just 0.8%Y/Y. Policymakers concerned about second-round effects from elevated food prices should take some comfort from the moderation of that component to a five-month low (3.0%Y/Y). And the core PCCI measure – which the ECB staff considers to be one of the better guides to underlying price pressures – fell to 1.9%Y/Y, the first sub-target reading in 14 months.

Hints of greater dovishness among certain ECB policymakers

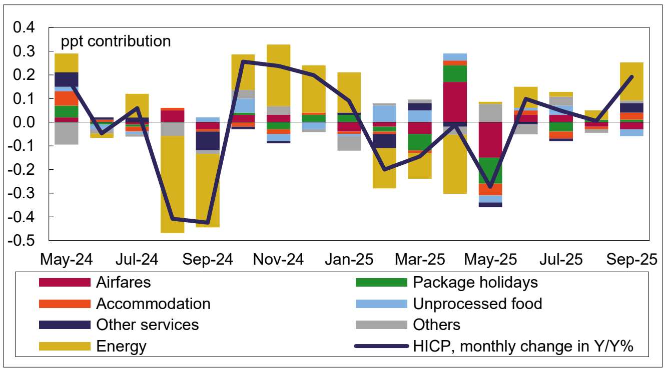
Due principally to base effects, services inflation is likely to tick higher at the turn of the year to 3½%Y/Y. But for the same reason, it will likely take a step down in the spring, with normalising pay growth thereafter supporting a sideways trend between 2-2½%Y/Y, broadly in line with long-run norms. Core goods pressures should remain absent, weighed by soft demand, euro strength and a possible influx of Chinese goods redirected from the US. And September will likely mark the peak for energy inflation over the near term, with a step down in January thanks to German cuts to electricity prices. A postponement of the introduction of the ETS2 carbon market in 2027 could in due course require a downwards revision to projections of energy inflation that year too. Overall, we expect headline inflation to fall back below 2.0%Y/Y from the start of 2026. But, assuming a gradual pickup in economic growth thereafter, it should still end the policy horizon close to target. So, Governing Council members speaking at the IMF annual meetings – including Lagarde, Lane and Nagel – largely stuck to the script that ECB policy is in "a good place", reinforcing our view that rates will remain unchanged from now to end-2026. But they reiterated that policy is not on a fixed path, with decisions still data dependent and to be taken on a meeting-by-meeting basis. Some members, including Villeroy and Wunsch, still consider risks to be skewed to the downside, suggesting that the next move in rates is more likely to be down than up. Strikingly too, Simkus suggested that he would welcome a 'risk-management cut' in December if the ECB's first inflation projection for 2028 is 'more than marginally' below target.

Euro area: Selected measures of inflation



*Persistent and common components of inflation. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Contribution to change in HICP inflation



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the euro area

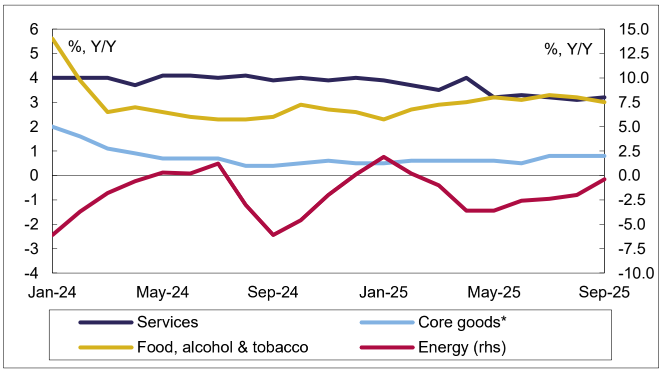
Turning to the week ahead, the October flash PMIs (due Friday) are set to provide insights into euro area GDP growth prospects at the start of Q4. Despite the pullback in overseas demand, these surveys have proved surprisingly resilient in recent months, with the euro area composite PMI slowly gaining momentum through to a 16-month high in September (51.2). While again led by the peripheral member states, last month encouragingly suggested a moderate expansion in Germany, with the respective composite PMI also to a 16-month high (52.0). That said, we expect the euro area composite PMI merely to move broadly sideways at the start of the current quarter, not least due to the political turbulence in France. INSEE's more comprehensive business survey (Thursday) will provide an alternative view prior to the French PMIs, which contrastingly deteriorated last month to a five-month low (48.1). French political uncertainty might also pose a headwind to a more sustained pickup in consumer confidence, for which the Commission's flash euro area index (also Thursday) and French INSEE survey (Friday) are also due. Regarding hard economic data, we expect euro area construction output (Monday) to expand about 0.5%M/M in August. But of greater interest in that release will be whether – as we expect – construction activity in Q2 is revised significantly lower to correct for the erroneous boost in Spanish housebuilding in April. Member state releases suggest that the sector contracted some 0.4%Q/Q in Q2, considerably weaker than growth of 2.4%Q/Q previously reported.

Aside from the data, Moody's sovereign credit rating update on France is scheduled at the end of next week. Given that PM Lecornu's budget talks will still have to navigate challenging arithmetic in the National Assembly, his government's survival this week is unlikely to usher in a sustained period of political calm. Eurostat's release of government finance statistics for Q2 (Tuesday) will no doubt illustrate France's recent poor record in fiscal consolidation too. So, at a minimum, we might expect the outlook on France's Aa3 rating to be revised to negative. But given Lecornu's decision to suspend the 2023 pension reform, a downgrade to A1, to be consistent with Fitch's downgrade last month, can't be ruled out. Separately, ECB President Lagarde (Wednesday) and influential Executive Board member Schnabel (Monday) are due to speak publicly.

The week ahead in the UK

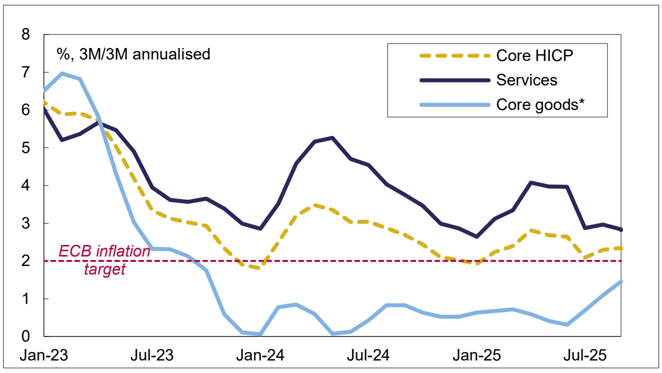
In the context of November's MPC policy decision, the coming week's UK economic dataflow – notably inflation (Wednesday) and retail sales figures for September and the October flash PMIs (both Friday) – could be of particular interest. The BoE has long expected September to mark the peak of the UK's present 'inflation hump', principally as the lull in petrol prices one-year ago increases the contribution of energy inflation (evident too in today's euro area detail). As a result, we, like the BoE, expect the headline CPI rate to rise to 4.0%Y/Y, up 0.2ppt from August. Moreover, having eased to 3.6%Y/Y in August, we expect the core rate to edge slightly higher reflecting slight increases in the goods and services

Euro area: Key HICP components



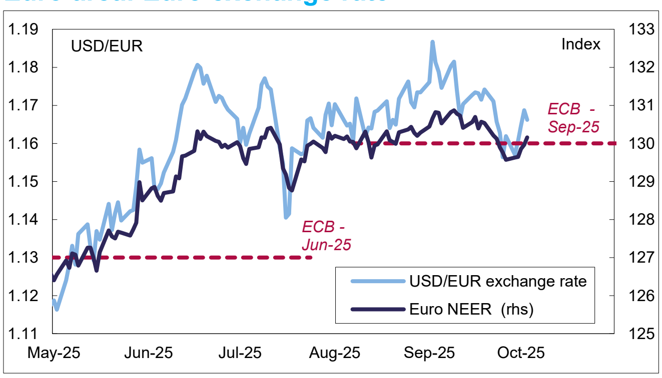
*Non-energy industrial goods. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Core inflation momentum



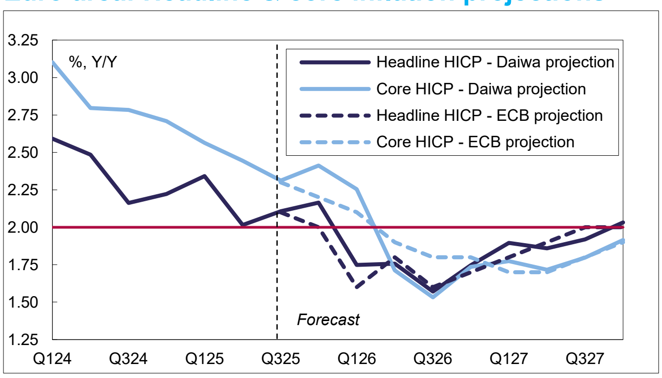
*Non-energy industrial goods. Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Euro exchange rate



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Euro area: Headline & core inflation projections

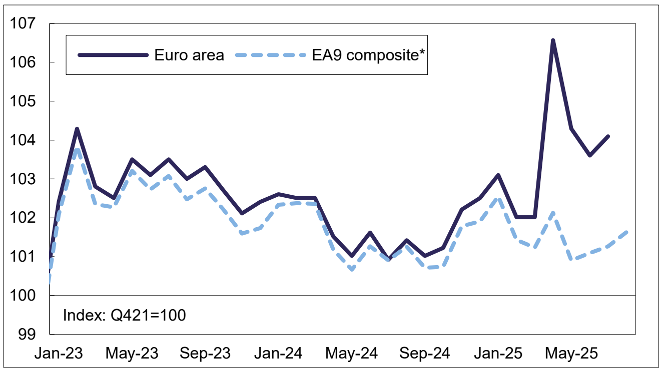


Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

components, albeit with our expectations for the latter (at 4.8%Y/Y) being below the BoE's latest projection. On a more encouraging note, food price inflation should begin to show signs of stabilisation. And the inflation report will also bring a first regular PPI update since publication of that series was suspended seven months ago over data quality concerns. For the record, in addition to back revisions to the series, the ONS's periodic updates have shown that factory gate inflation has risen steadily higher since March, to 2.9%Y/Y in August, although the broadly flat trend in producer input prices (-0.1%Y/Y) suggests that pipeline pressures remain otherwise absent.

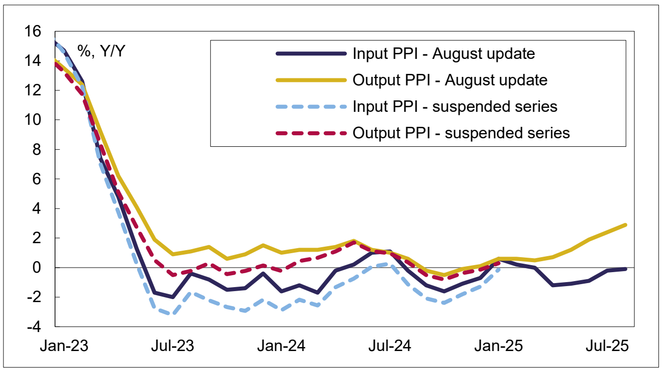
Naturally, the price PMIs might also draw attention to any indications about the sustainability of the disinflation process going forward. As too will the employment PMI, for hints of a possible 'bottoming out' in the labour market. Crucially, October's flash PMIs will provide insights into private sector activity at the start of Q4, having followed August's 12-month high composite PMI reading (53.5) with suggestions of a sudden, and broad, loss of growth momentum in September (50.1). To the extent that the decline in manufacturing output reflected the production halt at JLR that month, we expect to see some improvement despite the phased restart risking a lengthier headwind. The CBI's industrials survey (Thursday) should offer an earlier signal. But as in Europe, the dominant services sector is expected to recover only modestly, consistent with only moderate expansion. Moreover, following strong growth in August, the sharp decline in September's services PMI and downbeat BRC retail survey flags risks to the same day's retail sales release. Consumer confidence also weakened in that month and seems likely to remain downbeat into October (also due Friday) amid continuous Budget speculation. September's public finance numbers (due Tuesday) will provide an update on the government's borrowing overshoot so far this financial year, and the latest excuse for yet more speculation about potential tax measures ahead of the Budget announcement on 26 November.

Euro area: Construction output growth



**Based on the latest data from the nine largest member states by construction weighting. Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

UK: PPI inflation



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

The next Euro wrap-up will be published on Tuesday 21 October 2025

European calendar

Today's results							
Economic data							
Country		Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area	🇪🇺	Final headline (core) HICP Y/Y%	Sep	**2.2 (2.4)**	*2.2 (2.3)*	2.0 (2.3)	-
Auctions							
Country		Auction					
- Nothing to report -							

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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	0.2	0.2	0.3	0.3	1.3	1.0	1.4
UK	0.7	0.3	0.2	0.3	0.3	0.4	1.5	1.3	1.5
Inflation, %, Y/Y									
Euro area									
Headline HICP	2.3	2.0	2.1	2.2	1.7	1.8	2.2	1.7	1.9
Core HICP	2.6	2.4	2.3	2.4	2.3	1.7	2.4	1.8	1.8
UK									
Headline CPI	2.8	3.5	3.9	3.6	3.2	2.5	3.4	2.6	1.9
Core CPI	3.6	3.7	3.7	3.5	3.3	2.6	3.6	2.7	1.7
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	4.00	3.75	3.50	4.00	3.50	3.50

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

The coming week's calendar

The coming week's key events & auctions

Country	BST	Event / Auction
		Monday 20 October 2025
Euro area	15.00	ECB's Schnabel to participate in panel on the European economy at an ECB-BIS-CEPR conference, Frankfurt
		Tuesday 21 October 2025
Euro area	10.00	Eurostat to publish Government financial accounts for Q225 and final deficit-debt statistics for 2024
	12.00	ECB President Lagarde to speak at Norges Bank Climate Conference, Oslo
Germany	10.30	Auction: to sell up to €750mn of 1.3% 2027 green bonds
	10.30	Auction: to sell up to €750mn of 2.5% 2035 green bonds
UK	10.00	Auction: to sell £1.5bn of 1.5% 2053 green bonds
		Wednesday 22 October 2025
Euro area	13.25	ECB President Lagarde to give keynote speech at Frankfurt Finance and Future Summit, Frankfurt
Germany	10.30	Auction: to sell up to €3bn of 2.5% 2032 bonds
		Thursday 23 October 2025
UK	10.00	Auction: to sell £4.75bn of 4.125% 2031 bonds
		Friday 24 October 2025
France	-	Moody's to publish credit rating update

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key data releases

Country		BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
			Monday 20 October 2025			
Euro area		09.00	ECB current account balance €bn	Aug	-	27.7
		10.00	Construction output M/M% (Y/Y%)	Aug	*0.4 (0.7)*	0.5 (3.2)
Germany		07.00	PPI Y/Y%	Sep	-1.5	-2.2
UK		00.01	Rightmove house prices M/M% (Y/Y%)	Oct	-	0.4 (-0.1)
			Tuesday 21 October 2025			
France		-	Retail sales Y/Y%	Sep	-	-0.9
UK		07.00	Public sector net borrowing £bn	Sep	20.8	17.7
			Wednesday 22 October 2025			
UK		07.00	Headline (core) CPI Y/Y%	Sep	*4.0 (3.7)*	3.8 (3.6)
		07.00	PPI – output (input) prices Y/Y%	Sep	3.6 (0.8)	2.9 (-0.1)
		09.30	House price index Y/Y%	Aug	-	2.8
			Thursday 23 October 2025			
Euro area		15.00	Preliminary Commission consumer confidence indicator	Oct	-15.0	-14.9
France		07.45	INSEE business (manufacturing) confidence indicator	Oct	95 (96)	96 (96)
UK		11.00	CBI industrial trends survey – total orders (selling prices) % balance	Oct	-30 (6)	-27 (4)
		11.00	CBI industrial trends survey – business optimism % balance	Oct	-	-27
			Friday 24 October 2025			
Euro area		09.00	Preliminary services (manufacturing) PMI	Oct	51.3 (49.9)	51.3 (49.8)
		09.00	Preliminary composite PMI	Oct	51.0	51.2
Germany		08.30	Preliminary services (manufacturing) PMI	Oct	51.0 (49.5)	51.5 (49.5)
		08.30	Preliminary composite PMI	Oct	51.6	52.0
France		07.45	INSEE consumer confidence indicator	Oct	86	87
		08.15	Preliminary services (manufacturing) PMI	Oct	48.9 (48.4)	48.5 (48.2)
		08.15	Preliminary composite PMI	Oct	48.9	48.1
Spain		08.00	PPI Y/Y%	Sep	-	-1.5
		08.00	Unemployment rate %	Q3	-	10.29
UK		00.01	GfK consumer confidence indicator	Oct	-20	-19
		07.00	Retail sales – incl. auto fuels M/M% (Y/Y%)	Sep	-0.2 (0.6)	0.5 (0.7)
		07.00	Retail sales – excl. auto fuels M/M% (Y/Y%)	Sep	-0.8 (0.6)	0.8 (1.2)
		09.30	Preliminary services (manufacturing) PMI	Oct	51.2 (46.8)	50.8 (46.2)
		09.30	Preliminary composite PMI	Oct	50.7	50.1

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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