Daiwa Capital Markets

Euro wrap-up

Overview

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- Bunds were little changed as the flash euro area PMIs signalled steady economic growth and a slight easing of cost pressures, while consumer confidence edged higher and wage settlement growth and household inflation expectations moderated.
- While UK consumer confidence rose to a 2-year high and public borrowing exceeded expectations, Gilts made modest gains as the flash PMIs suggested moderate growth in Q3.
- The coming week brings the account of ECB's July policy meeting, further euro area survey results and flash inflation data from France and Spain.

Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/28	2.840	-0.007
OBL 2.9 10/31	2.982	-0.003
DBR 3 08/36	3.255	-0.002
UKT 4⅜ 03/28	4.353	-0.018
UKT 4⅛ 03/31	4.586	-0.012
UKT 4¾ 10/35	5.060	-0.007

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

Euro area

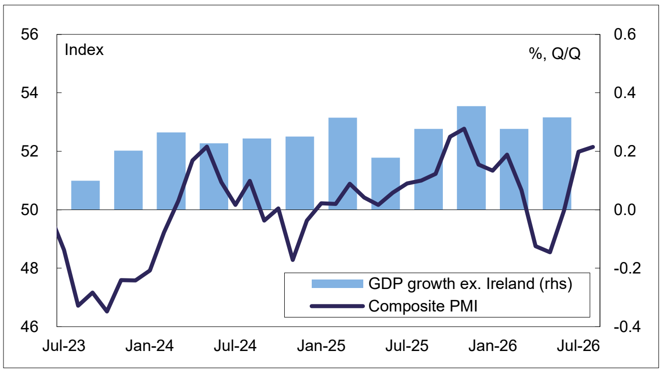
Flash PMIs suggest steady underlying GDP growth around 0.3%Q/Q in Q3

The flash euro area PMIs were a touch firmer than expected, with the headline composite activity index edging up very slightly to a nine-month high of 52.1. That is consistent with euro area GDP growth in Q3 of 0.3%Q/Q, which would match the rates for the region excluding Ireland in Q1 and Q2 and the norm of the past two years. Once again, the expansion was reportedly led by manufacturing, for which the euro area output PMI jumped to a 4½-year high (53.4) and new orders were also up the most since early 2022. That industrial sector expansion was seemingly most vigorous in Germany (56.7), where spending on defence, AI-related and infrastructure investments and stock-building all appear still to be boosting activity despite evidence of non-negligible supply-chain disruptions. If the PMIs are to be believed, services activity continued to grow at a more moderate pace than manufacturing, although the sector's headline index (51.7) was unchanged from July. And in both Germany and France, the PMIs pointed to contraction in the tertiary sector that pushed the respective composite PMIs (51.0 and 48.8) below their July levels. But we are not overly concerned. Those indices often provide an excessively weak signal of services growth. And the more comprehensive INSEE survey today suggested that the business climate in the sector in France rose back in line with its long-run average in August thanks not least to strength in hospitality. Similarly in part reflecting another good summer for tourism, the services activity PMI also reported the strongest growth in the sector for more than three years in the euro area bar Germany and France. And the respective composite PMI (55.8) suggested the most vigorous economic activity outside of the two largest member states since late 2021.

Consumer confidence edges up again, cost pressures no longer intensifying

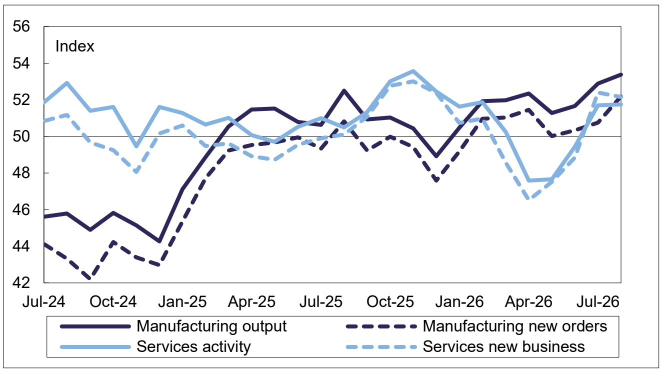
Although somewhat mixed, much of the remaining detail in the August flash PMIs, as well as today's other data, was broadly encouraging too. For example, the Commission's flash estimate of euro area consumer confidence in August unexpectedly improved for a fourth successive month, albeit by a little less than ½pt, to the highest level since February. And reflecting the pickup in both output and new orders, the euro area employment PMI (50.7) reported the first pickup in headcount in the year to-date, albeit only a marginal one. As well as reporting a faster pace of job growth in services, the survey suggested that manufacturers had ceased cutting staff levels for the first time in more than three years. Perhaps unsurprisingly, the improvement was most marked outside of the two largest member states, although the respective PMI pointed to welcome stabilisation in Germany. Meanwhile, despite higher wholesale energy prices and increasing freight costs, the composite input cost index fell to a six-month low (62.6), albeit remaining well above the pre-conflict level and long-run average. The improvement was concentrated in manufacturing, however. And while the reported moderation in output price pressures to a five-month low (54.0) was shared across the sectors, it was thanks solely to events in Germany.

Euro area: Composite PMI & GDP growth



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

Euro area: Manufacturing & services PMIs



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

Consumer inflation expectations & wage settlements moderating to allay 2nd round effect concerns

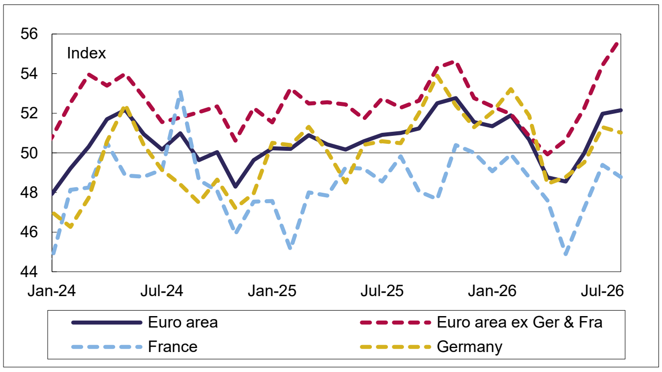
Regardless, while firms were sending slightly mixed messages about price-setting in the PMIs, the ECB's consumer survey at least reported a further moderation in household inflation expectations in July. Notably, the median expectations for 12 months (2.9%Y/Y) and three years ahead (2.7%Y/Y) both eased to their lowest levels since February, with the latter just 0.2ppt above the pre-conflict level. And the consumers' median inflation expectation five-years ahead was unchanged at 2.4%Y/Y, just 0.1ppt above the level in February, to suggest no major concerns about ECB credibility. Finally, just as those signals of easing inflation expectations should further allay concerns about second-round inflation effects, so too should the moderation in euro area negotiated wage growth in Q2 to 2.4%Y/Y, a rate that has only been lower once since end-2021. While Governing Council members will be watching closely the evolution of incoming settlements in the autumn, leading indicators including the ECB's wage trackers currently suggest that any pickup in compensation for the energy price shock should be limited.

The week ahead in the euro area

While the drip-feed of August business and consumer surveys will dominate the data calendar over the coming week, the most noteworthy releases from the euro area might perhaps be flash inflation figures for the current month from France and Spain (Friday). Their insights will refine expectations for the aggregate euro area release (on 1 September) which is likely to rise further. That forecast hinges primarily on higher auto fuel prices. But rising energy costs might also reimpose themselves via transport services, which were relatively muted in July. And additional upside risks are posed by ICT equipment and the impact of recent drought and wildfires. Still, food inflation should stay soft for the time being and broader pressures, possibly indicative of second-round effects, are likely to remain absent. Indeed, today's flash composite output price PMI was encouragingly softer. Price expectations indicators across the remainder of August's surveys, and particularly the Commission's economic sentiment indicators (Friday), will be watched by the ECB to reinforce that signal. And the ESIs should also provide a broader cross-check on the momentum in activity and new demand flagged in the PMIs. Before the Commission survey, the comprehensive German ifo indices (Tuesday) will hopefully provide confirmation of the PMIs' indication of acceleration in manufacturing. Consumer surveys from Germany (Thursday) and France (Tuesday) will also give provide timelier context for the uptick in the Commission's flash confidence reading.

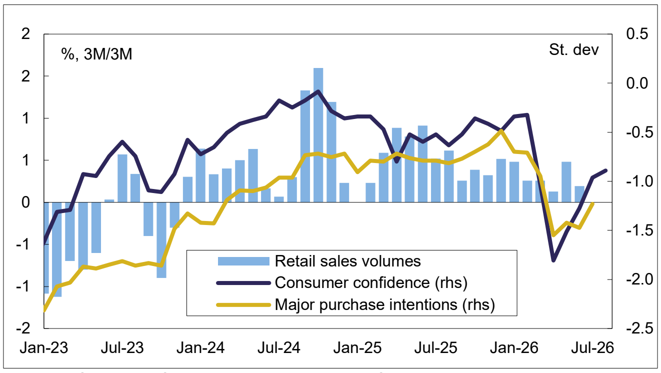
The ifo survey will be accompanied by the final German Q2 GDP estimates. We don't expect any revisions to their preliminary headlines, which showed growth moderating 0.2ppt from its four-year high in Q1 of 0.4%Q/Q, but nonetheless marked a third consecutive quarter of growth for the first time since 2022. In terms of the expenditure contributions, growth was likely characterized again by stronger government expenditure, while private consumption remained subdued, contributing only negligibly, and fixed investment likely softened amid the uncertainty surrounding the oil shock. Moreover,

Euro area: Composite PMIs by member state



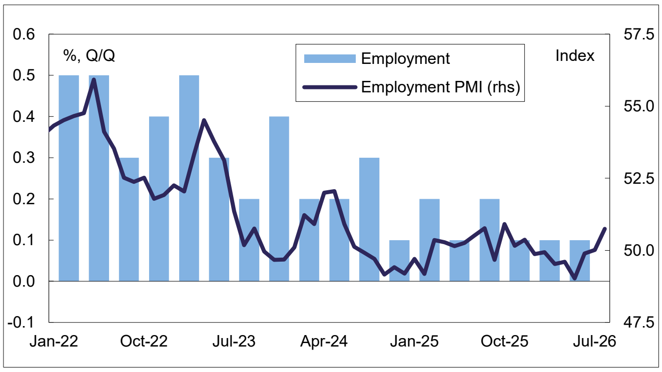
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer confidence & retail sales



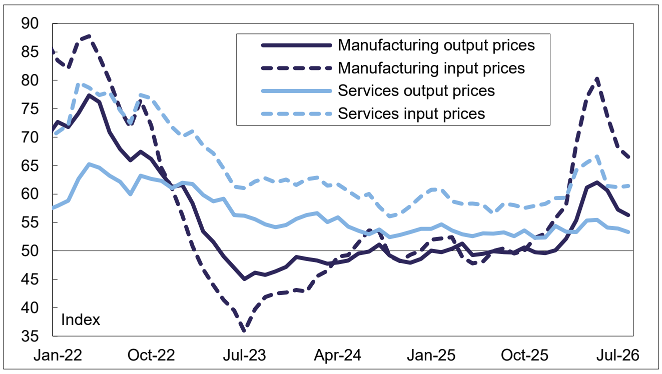
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Employment growth & PMI



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

Euro area: Price PMIs

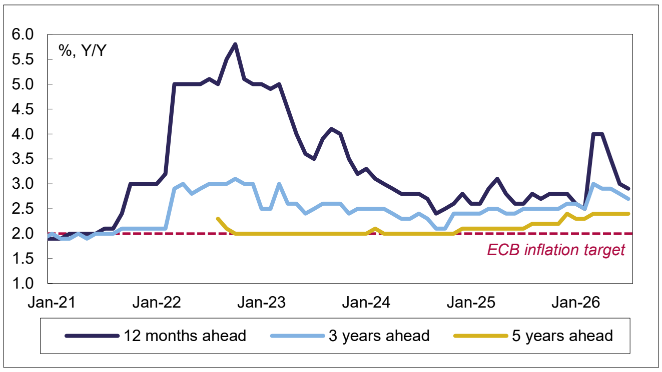


Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

despite a third successive quarter of growth in goods exports, growth in imports seems likely to have dulled any impulse from net trade. But stockpiling by firms ahead of potential supply disruption suggests that inventories contributed positively. Meanwhile, having contracted slightly at the start of the year, final GDP estimates from France (Thursday) are also likely to confirm the modest rebound in Q2 (0.2%Q/Q), with growth in consumption and net trade helping to weather similar weakness in fixed investment. Looking ahead, French consumer spending (Friday) and euro area bank lending (Thursday) data will also provide some gauge of activity at the start of Q3.

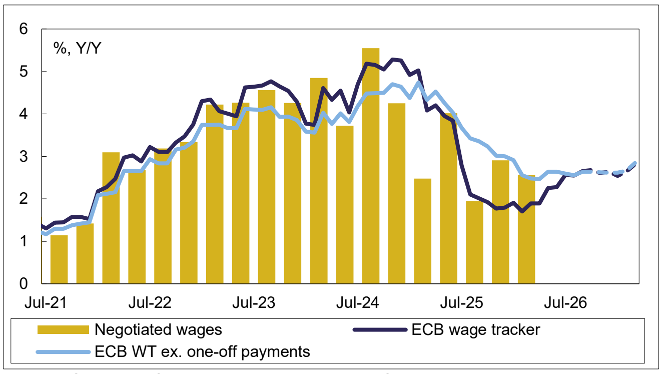
Aside from the data, the coming week will also bring the account of July's Governing Council monetary policy meeting (Thursday). Admittedly, the minutes from that meeting could be at risk of being outflanked by the likely steady flow of ECB-speak coming out of Jackson Hole and elsewhere. And they are also bound to remain silent about the likely frequency and timing of potential future tightening. But at the very least, they seem likely to reinforce expectations for a hike in September. Indeed, in her press conference, Lagarde noted that, while the vote to hold policy was unanimous, there were 'some' governors asking whether a hike should have been considered.

Euro area: Consumer inflation expectations



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

Euro area: Negotiated wages & ECB wage tracker



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

UK

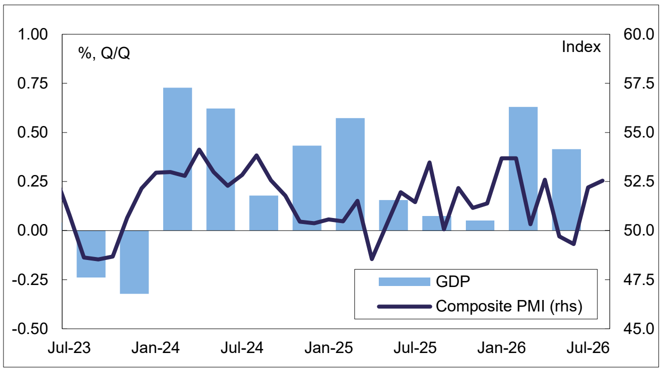
Flash PMIs point to sustained, if slightly subdued, momentum in Q3

Contrasting expectations for a modest deceleration, the flash UK PMIs flagged a further pickup in business activity midway through Q3. Following a near-3pt rise in July, the headline composite output PMI edged up a more reserved 0.3pt in August to 52.5. The acceleration was services-led, with a six-month high in the business activity index (52.8, up 0.7pt) purportedly helped by greater domestic certainty. Output in the manufacturing sector also rose for a fifth successive month but, conflicting with a relatively bullish CBI survey on Thursday, reported its slowest pace during that spell (51.2, down 1.7pts). Nevertheless, output expectations rose in both sectors to send the respective indicator to a sixth-month high (67.9, up 2.3pts). And while the composite employment PMI floundered below the 50.0-threshold for a 23rd consecutive month, its rate of contraction was the softest since October. To some extent, that supports the findings of the latest REC jobs report, which hinted at stabilisation in the UK labour market. However, this will not significantly alter the picture for the MPC. Tentative signs of an end to declines in labour demand come against a backdrop of widening slack. Growth momentum signalled by the PMIs remains sluggish by historical standards, below levels before the conflict. And demand appears to remain fairly subdued too, with new foreign orders reportedly slipping back and backlogs being run down at the fastest pace since November. The price PMIs were mixed too, muddying any signals regarding firms' pricing behaviour. No doubt reflecting the latest swings in energy prices, input and output price indices for services firms accelerated for the first month in four. But they remained less intense than in June. And cost pressures in the manufacturing sector were thankfully no worse, with the respective output price PMI encouragingly falling the most since the start of the conflict.

Retail sales likely to retain positive trend as consumer confidence rises to 2-year high

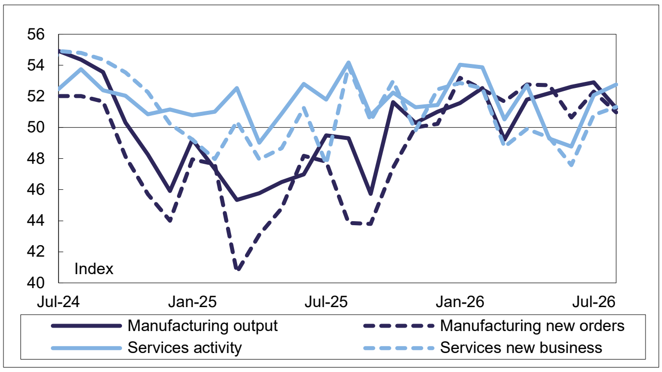
Following firm growth over the prior two months, retail sales volumes unsurprisingly slipped back in July, declining 0.5%M/M. However, despite some downward revisions to the estimates for May and June, sales volumes were still up a strong 1.1%3M/3M pointing to positive momentum. Sales excluding auto fuel were softer still in July (-0.9%M/M) but the strongest on a three-month basis in nine months (1.6%3M/3M) similarly suggestive of a favourable underlying trend. With hot weather and the World Cup keeping consumers away from the shops but encouraging sales of air conditioners, fans and football shirts among other items, momentum in non-store (i.e. largely online) sales was especially vigorous at 6.0%3M/3M, the best in 14 months. And with food inflation having dissipated over prior months, the growth trend in food store sales (0.6%3M/3M) was the firmest in 10 months. As summer discounting kicked off earlier than usual this year, sales at clothing and household goods stores were also soft in July. But they were also still robust on a three-month basis. And with GfK's headline consumer confidence indicator unexpectedly rising in August to a two-year high (-14, more than 10pts above April's low), retail sales look on track for another quarter of solid growth in Q3. Among other things, the survey pointed to the most upbeat household income expectations since January and the brightest optimism regarding the economic outlook in two years. And with savings intentions down, they judged the climate for making major purchases to be the best since end-2021.

UK: Composite PMI & GDP growth



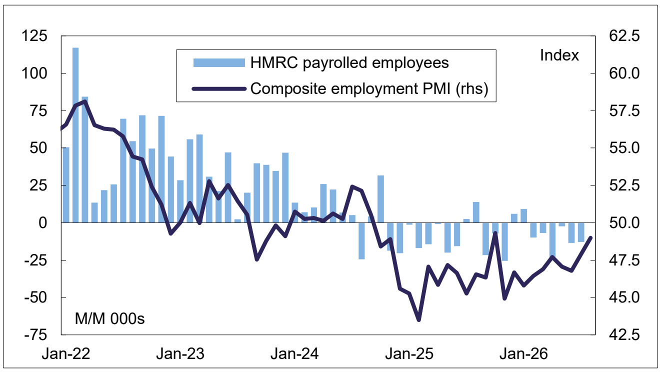
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing & services PMIs



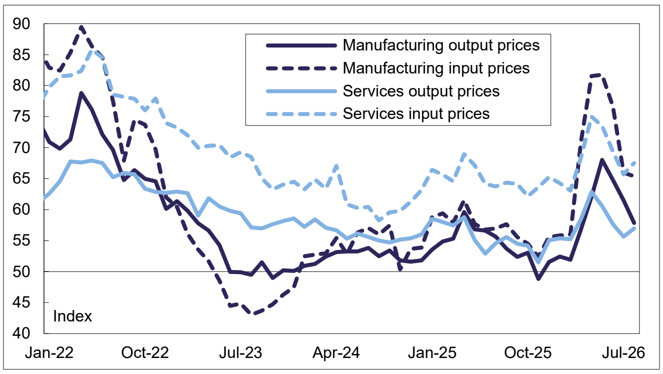
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Payrolled employment & PMI



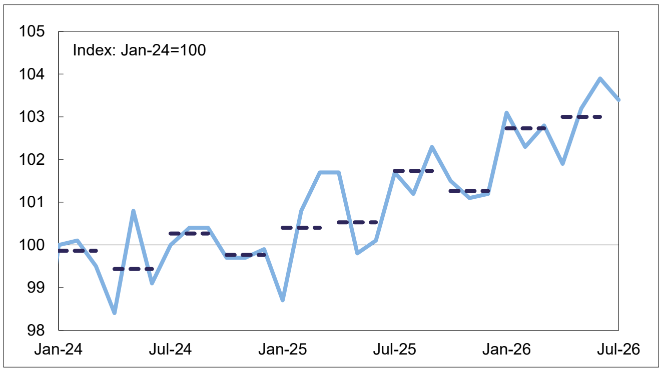
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Price PMIs



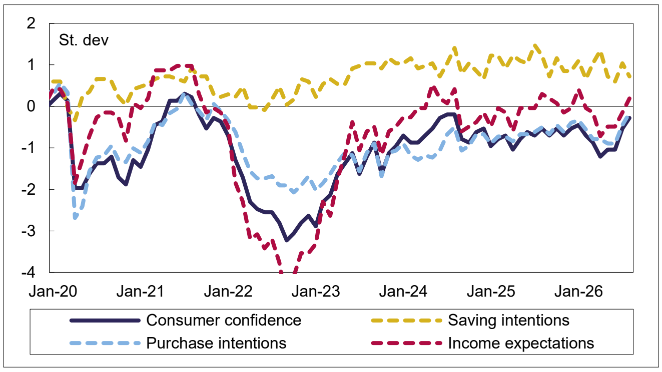
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Retail sales volumes*



**Dashed lines represent quarterly averages. Source: Macrobond and Daiwa Capital Markets Europe Ltd.*

UK: Consumer confidence



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

Burnham bounce likely to be challenged by fiscal realities

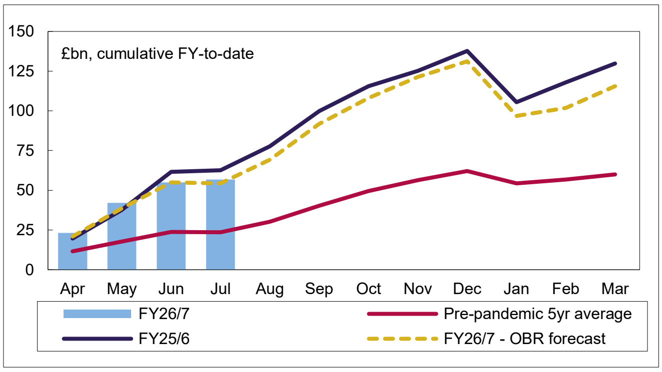
To some extent, the improvement in consumer confidence likely constitutes a 'Burnham bounce', with households hoping that the new Prime Minister will have greater ability than his predecessor to improve the trajectory of the UK economy and living standards. In attempting to meet those expectations, however, Burnham and his new Chancellor Healey will remain constrained by the public finances, with little room for manoeuvre on either taxation or spending when the next Budget is announced on 28 October. Today's data showed that net public sector borrowing in July exceeded expectations as well as the level a year earlier at £1.8bn. So, cumulative borrowing in the first four months of the fiscal year reached £56.7bn, down £6bn from the same period in FY25/6 but £2.3bn above the OBR's forecast. Admittedly, that is a relatively small overshoot, and the current budget – the binding constraint of the government's fiscal rules – in the fiscal year to-date was exceptionally close to the OBR's expectation. Nevertheless, given stronger-than-expected government revenues from corporation tax, personal income tax and National Insurance Contributions, the overshoot in public borrowing illustrates the continued struggle with public expenditure control. Government spending on social benefits and – perhaps inevitably given recent shifts in inflation and bond yields – debt interest continues to exceed expectations. And with Burnham having made several new spending and tax commitments since taking office, speculation of possible new government revenue initiatives unsurprisingly persists despite the tax-take as a share of GDP already being on course to reach a post-War high this year. As in recent years, such speculation could serve to influence behaviour and weigh on economic activity ahead of the Budget announcement, whether or not the suspected new policy measures eventually materialise.

The week ahead in the UK

Ahead of the Bank Holiday on 31 August, the coming week looks set to be exceptionally quiet for economic news from the UK. Indeed, most notable for the near-term inflation outlook will be the announcement by Ofgem of its regulated household energy price cap for the three months from 1 October. Despite the government's temporary 5ppt cut in VAT on electricity from that date, given recent shifts in wholesale oil and gas prices, we expect the cap on the annual bill for the typical household to be hiked by about 2.3% to around £1700. Given base effects, however, that would have only a minimal positive impact on the annual rate of energy inflation and a negligible impact on overall CPI inflation in October.

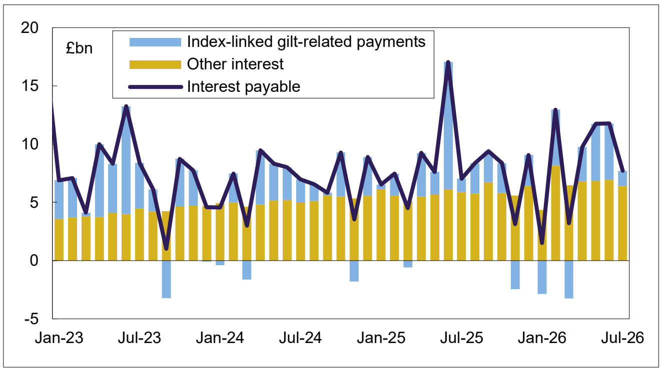
Data-wise, the calendar is threadbare, with the most notable release being the CBI's Distributive Trades Survey for August. While this will provide a first insight into the strength of retail, wholesale and motor trade sales this month, we caution that the survey has failed to tally with recent official ONS sales data. Indeed, while the official retail sales figures have reported strong growth sales volumes in 2026, the CBI survey suggested that sales slumped.

UK: Public sector net borrowing



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

UK: Central government debt interest payments



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The next Euro wrap-up will be published on Tuesday 25 August 2026

Daiwa economic forecast

	2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2	2026	2027	2028
GDP	%, Q/Q						%, Y/Y		
Euro area	0.0	0.4	0.2	0.2	0.3	0.4	0.8	1.1	1.4
UK	0.6	0.4	0.2	0.2	0.5	0.3	1.2	1.2	1.4
Inflation, %, Y/Y									
Euro area									
Headline HICP	2.0	3.0	3.2	3.4	3.4	2.7	2.9	2.7	1.9
Core HICP	2.3	2.4	2.5	2.7	2.8	2.8	2.5	2.7	2.2
UK									
Headline CPI	3.1	2.8	3.1	3.3	3.4	2.8	3.1	2.7	2.0
Core CPI	3.2	2.5	2.8	3.0	3.1	3.1	2.9	3.0	2.5
Monetary policy, %									
ECB									
Deposit Rate	2.00	2.25	2.50	2.50	2.50	2.50	2.50	2.25	2.25
Refi Rate	2.15	2.40	2.65	2.65	2.65	2.65	2.65	2.40	2.40
BoE									
Bank Rate	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.25	3.25

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	Preliminary services (manufacturing) PMI	Aug	**51.7 (52.8)**	51.5 (51.8)	51.7 (51.9)	-
	Preliminary composite PMI	Aug	**52.1**	51.7	52.0	-
	Preliminary Commission consumer confidence indicator	Aug	**-15.5**	-16.0	-15.9	-
	ECB consumer expectations survey – 1Y- (3Y-) ahead CPI Y/Y%	Jul	**2.9 (2.7)**	-	3.0 (2.8)	-
	Negotiated wages Y/Y%	Q2	**2.44**	2.40	2.46	2.56
Germany	Preliminary services (manufacturing) PMI	Aug	**48.5 (54.1)**	50.1 (52.1)	49.8 (52.2)	-
	Preliminary composite PMI	Aug	**51.0**	51.3	51.3	-
France	Preliminary services (manufacturing) PMI	Aug	**48.4 (51.5)**	49.4 (50.0)	49.6 (49.8)	-
	Preliminary composite PMI	Aug	**48.8**	49.5	49.4	-
	INSEE business (manufacturing) confidence indicator	Aug	**98 (103)**	98 (101)	97 (101)	-
	INSEE production (own-company production) outlook indicator	Aug	**-11 (9)**	-	-10 (-1)	-11 (-)
UK	Preliminary services (manufacturing) PMI	Aug	**52.8 (51.5)**	51.8 (51.5)	52.1 (51.9)	-
	Preliminary composite PMI	Aug	**52.5**	51.6	52.2	-
	GfK consumer confidence indicator	Aug	**-14**	-18	-17	-
	Retail sales – incl. auto fuels M/M% (Y/Y%)	Jul	**-0.5 (1.6)**	-0.5 (2.2)	1.0 (4.2)	0.7 (3.8)
	Retail sales – excl. auto fuels M/M% (Y/Y%)	Jul	**-0.9 (2.3)**	-0.5 (3.3)	1.1 (5.4)	0.9 (5.0)
	Public sector net borrowing £bn	Jul	**1.8**	0.0	16.0	12.8

Auctions

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's data calendar

The coming two week's key data releases

Country		BST	Release	Period	Market consensus/ *Daiwa forecast*	Previous
			Monday 24 August 2026			
			- Nothing scheduled -			
			Tuesday 25 August 2026			
Germany		07.00	GDP – final estimate Q/Q% (Y/Y%)	Q2	*0.2 (0.9)*	0.4 (0.8)
		07.00	GDP – private consumption Q/Q%	Q2	0.2	0.0
		07.00	GDP – government spending Q/Q%	Q2	0.9	0.9
		07.00	GDP – capital investment Q/Q%	Q2	-	-1.5
		09.00	ifo current assessment (expectations) indicator	Aug	87.0 (87.5)	86.5 (86.7)
		09.00	ifo business climate indicator	Aug	87.2	86.6
France		07.45	INSEE consumer confidence indicator	Aug	87	86
Spain		08.00	PPI Y/Y%	Jul	-	7.0
			Wednesday 26 August 2026			
UK		11.00	CBI distributive trades survey – reported retail sales % net balance	Aug	-35	-26
			Thursday 27 August 2026			
Euro area		10.00	M3 money supply Y/Y%	Jul	3.5	3.3
Germany		07.00	GfK consumer confidence indicator	Sep	-29.3	-29.6
France		07.45	PPI Y/Y%	Jul	-	2.6
			Friday 28 August 2026			
Euro area		10.00	Commission economic sentiment indicator	Aug	97.6	96.9
		10.00	Commission services (industrial) confidence indicator	Aug	4.9 (-5.2)	4.7 (-6.1)
		10.00	Final Commission consumer confidence indicator	Aug	*-15.5*	-15.9
Germany		07.00	Import prices M/M% (Y/Y%)	Jul	0.3 (6.9)	-0.7 (6.1)
		08.55	Unemployment claims rate % (change 000s)	Aug	6.4 (5)	6.4 (6)
France		07.45	Preliminary HICP (CPI) Y/Y%	Aug	2.6 (2.4)	2.4 (2.1)
		07.45	Consumer spending M/M% (Y/Y%)	Jul	-	0.4 (0.1)
		07.45	GDP – final estimate Q/Q% (Y/Y%)	Q2	*0.2 (0.7)*	-0.1 (0.8)
		07.45	Total (private sector) payrolls Q/Q%	Q2	- *(-0.1)*	0.0 (-0.1)
Italy		10.00	Istat economic (manufacturing) confidence indicator	Aug	(90.0)	95.6 (89.6)
		10.00	Istat consumer confidence indicator	Aug	95.0	94.2
Spain		08.00	Preliminary HICP (CPI) Y/Y%	Aug	4.6 (4.2)	3.9 (3.6)
		08.00	Retail sales Y/Y%	Jul	-	0.5

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming two week's key events & auctions

Country		BST	Event / Auction
			Monday 24 August 2026
			- Nothing scheduled -
			Tuesday 25 August 2026
Germany		10.30	Auction: to sell up to €5bn of 2.7% 2028 bonds
UK		10.00	Auction: to sell £4bn of 4.125% 2033 bonds
			Wednesday 26 August 2026
Germany		10.30	Auction: to sell up to €1bn of 2.6% 2041 bonds
		10.30	Auction: to sell up to €1bn of 1.25% 2048 bonds
UK		07.00	Ofgem to announce household energy price cap for Q426
			Thursday 27 August 2026
Euro area		12.30	ECB to publish monetary policy account of 22-23 July Governing Council meeting
Euro area/UK		-	The Kansas City Fed's annual Jackson Hole Economic Policy Symposium begins, Wyoming
			Friday 28 August 2026
Italy		09.30	Auction: to sell bonds*

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

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