

CW 26/2026 | LBBW Research | Strategy/Macro

Change at Downing Street

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Bond Market Movers – Review and Outlook

What drove the bond markets last week?

- Although negotiations on a deal between the U.S. and Iran are still ongoing and no one knows what will happen, the market has already made up its mind. Oil futures have fallen further. Consequently, expectations for inflation and the central banks' response are being adjusted.
- Where is the Fed headed? Kevin Warsh's announcements regarding a review of the Fed's strategy and some changes to its communication continue to be discussed. Less transparency could lead to greater volatility; on the other hand, market prices for assets would be less distorted by the Fed.
- The ECB is likely to stick to its course of cautious tightening for the time being. Recent remarks by President Lagarde and Chief Economist Lane suggest that the ECB expects inflation rates to remain elevated.
- Economic data for Germany was somewhat mixed. At least there are finally clear signs of growth-friendly reforms. However, sentiment remains subdued for now. This does not yet signal a turnaround.
- A change of leadership is on the horizon at Downing Street in the UK. What does this mean for fiscal policy? Surprises are possible.
- Auctions in the government bond market were generally uneventful.

What could move the market in the coming week?

- Negotiations between Iran and the U.S. remain in the spotlight. Outstanding issues include the fate of enriched uranium, Iran's frozen foreign assets, and the demand for a transit fee for the Strait of Hormuz.
- Inflation data for the eurozone should underscore that inflation barely eased in June. Monthly labor market data will be released from the U.S.—this year on Thursday instead of Friday due to the holiday (see below).
- Speeches by second-tier officials from the ECB and the Fed are likely to draw attention. Among others, ECB Executive Board member Schnabel will take the floor. For the Fed, speeches by representatives from the Chicago, Richmond, and Minneapolis Federal Reserve Banks are on the calendar.
- The ECB Forum in Sintra rounds out the week. As always, President Lagarde will deliver a keynote address at the Portuguese summer retreat.
- Things are likely to gradually quiet down on the primary market. In the U.S., the 4th of July falls on a Saturday this year. The 250th anniversary of the Declaration of Independence will be celebrated. Friday, July 3, is already a holiday, and the stock markets will remain closed. And the World Cup is still going on, too.

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Strait of Hormuz – open or closed?

There are still few issues that affect the financial markets as much as the closure (or opening) of the Strait of Hormuz. While people do get used to a lot of things (just look at the war in Ukraine), market participants continue to follow every piece of news that might shed light on the course of events with bated breath. For example, over the weekend, Iran announced that it was closing the Strait again, only to be contradicted later by a counter-statement from Tehran claiming that “progress” had been made in the talks.

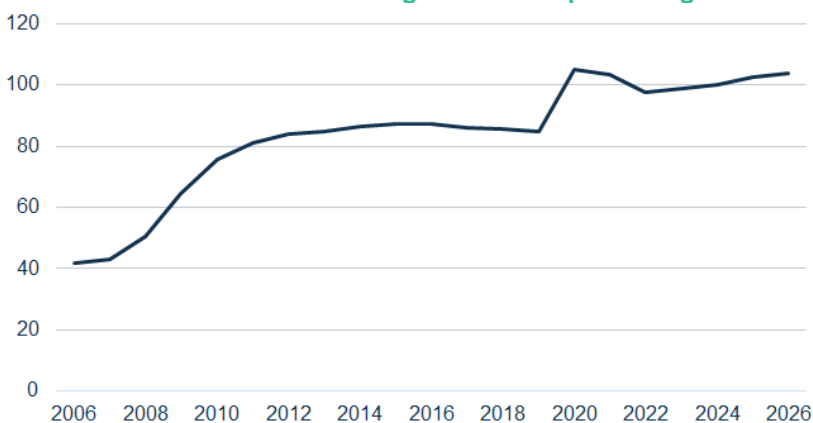
British Prime Minister Announces Resignation

The political topic of the week was likely British Prime Minister Keir Starmer’s announcement that he would step down from his political offices. Starmer is the leader of the Labour Party; once a successor is elected to that position, that person would automatically become Prime Minister as the leader of the majority in the British House of Commons. Although the Labour Party’s popularity has plummeted in the polls under Starmer, it nevertheless enjoys a large majority of seats in the House of Commons, a legacy of the 2024 election, when the Labour Party won nearly two-thirds of the parliamentary seats with about 35% of the vote.

Internal criticism of Starmer was sparked by Labour’s performance in the spring local elections, when the party lost a quarter of its seats to the up-and-coming “Reform UK” party led by Brexit architect Nigel Farage. The heat was on for Starmer after the popular mayor of Manchester, Andrew Burnham, won a seat in the House of Commons in a special election, thereby strengthening his claim to the leadership of the Labour Party.

There is no need to dwell here on the domestic political consequences of this power struggle. But the financial markets are also keeping a close eye on the maneuvers in London, particularly in light of the high level of public debt. Ten years after Brexit, most of the Brexiteers’ promises have proven to be unfounded. In contrast, public debt has risen rapidly, most recently to just over 100% of GDP.

Public debt in the United Kingdom as a percentage of GDP



Source: LSEG, LBBW

It remains to be seen whether Burnham, currently the front-runner, will in fact succeed Star-mer as party leader and prime minister; a decision is expected by September at the latest. At the same time, however, the markets are attaching great importance to the question of who will become the next Chancellor of the Exchequer. According to press reports, Ed Miliband, a member of the party’s left wing, is considered the favorite. He stands, more than almost anyone else, for phasing out oil and natural

U.S.-Iran:
Negotiations
are underway

It's Over for
Starmer in
London

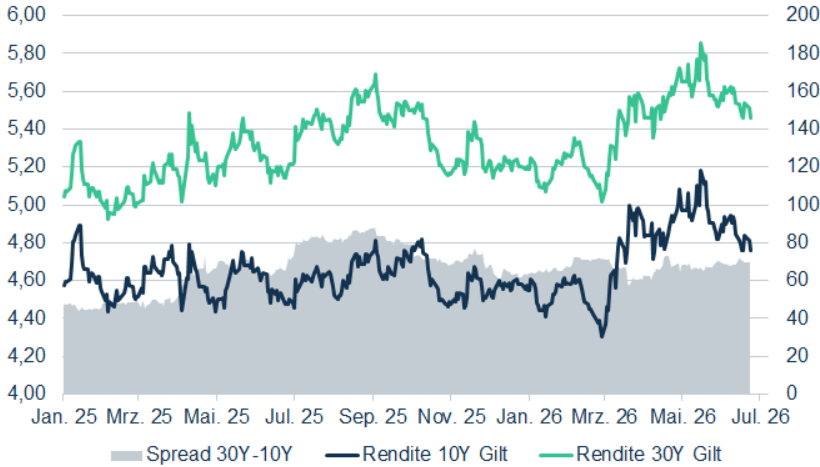
Will Burnham be
the successor?

The Huge Issue
of Government
Debt

Who will be
the finance
minister?

gas production in the North Sea and restructuring the economy toward “renewable” energy. However, more business-friendly candidates are also being discussed. So far, the bond markets have shown no signs of concern.

United Kingdom: Yields on outstanding government bonds with 10-year and 30-year remaining maturities



Source: LSEG, LBBW Research

Yields on British long- and ultra-long-term bonds have fallen by about 40 basis points since mid-May. The spread between 30-year and 10-year gilts is also unremarkable.

Germany: Pension Commission Presents Report

There was a major development to marvel at in Germany earlier this week. The Pension Security Commission, as it is officially known, presented its proposals for reforming the pension system. The commission was established by the federal government to drive forward the restructuring of the statutory pension system following the adoption of “Pension Package II.” In total, the commission has drawn up a list of 33 reform proposals. At the core of these proposals are an end to the (penalty-free) “retirement at 63” option, linking the retirement age to general life expectancy, and a funded supplementary pension. These proposals could also have a long-term impact on the capital markets. The labor shortage is hampering Germany’s growth potential. Calculations by the Deutsche Bundesbank show that, over the past ten years, the demographic aging effect has been mathematically associated with a reduction in economic growth of about 0.4 percentage points per year. In the coming years, this negative effect is likely to rise to around 0.6 percentage points per year. The shrinking population will then contribute an additional 0.2 percentage points to the decline in growth. If one follows relevant rules of thumb, according to which the real rate of return corresponds to real growth in the long term, the real rate of return will therefore decline by 0.6 percentage points due to aging. It will be interesting to see whether the planned extension of the working life will, if not reverse, at least halt this trend. We will likely not know for sure until a few decades from now.

There is also much anticipation surrounding the funded supplementary pension plan. It is expected to create a major new player (namely, a state-run pension fund) as well as a wide range of private solutions in the form of licensed funds. Either way, this is likely to, first, slightly increase the savings rate of private households (and dampen consumer demand) and, second, create new investment demand. Since investors are explicitly seeking riskier investments (such as stocks), government bonds will probably not be among the winners here.

Can
Germany
still reform?

The labor force is
becoming scarce

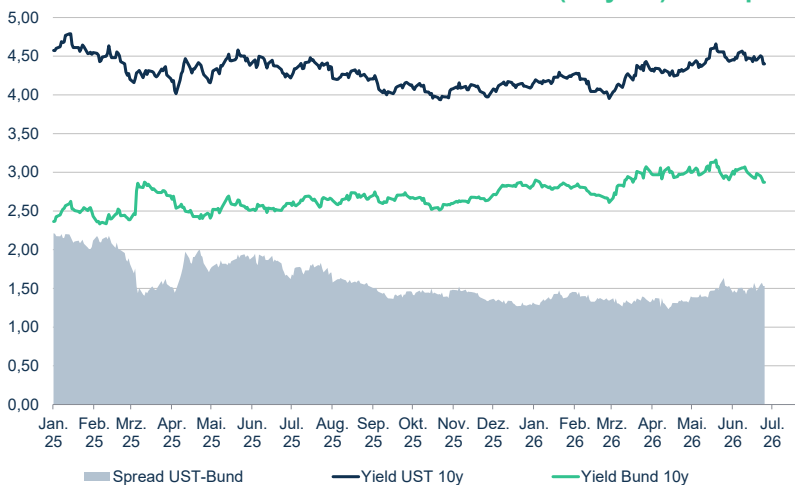
U.S.: Economy Remains Stable

Economic data from the U.S. was largely in line with expectations, though perhaps a tad better overall. First-quarter GDP was revised upward from 1.6% to 2.1%. The figures for the current quarter were also not bad. The key figures were May's household income and consumer spending. Both rose by 0.7% from the previous month (see "Events of the Week" for details). Prices for personal consumption expenditures (PCE rate) rose by 4.1% year-over-year. The core rate (excluding food and energy) rose by 3.4%. Overall, these figures clearly argue against potential interest rate cuts by the Federal Reserve and increase the likelihood of a rate hike.

Government bonds on the winning side; notable movements in the foreign exchange market and in gold

Bond markets were on the winning side last week. Due to turbulence in the stock markets, investors once again sought safety. Yields on 10-year German government bonds fell by more than 10 basis points to 2.79%. In the U.S., speculation about the Federal Reserve's future strategy is currently causing uncertainty in the financial markets. The new FOMC Chairman, Kevin Warsh, had announced plans to reform the FOMC's policy. Among other things, there was talk of reviewing the relevant indicators for the U.S. economy. Furthermore, there is the threat—or the promise (depending on one's point of view)—that the Fed will guide the markets less through its wording and instead adopt a more restrained communication strategy.

Yields on U.S. Treasuries and German Bunds (10-year) and Spread



Source: LSEG, LBBW Research

The Fed received backing from U.S. Treasury Secretary Scott Bessent. Bessent spoke in favor of significantly reducing forward guidance. The FOMC's projections on the path of the federal funds rate – known as "dot plots" – should be eliminated, according to Bessent. He also expressed hope that the Fed would address the inflation risks resulting from the war in Iran, as well as the productivity gains from the introduction of artificial intelligence, in an "unbiased" manner.

According to futures for the Fed Funds Target Rates, the market currently expects a 25-basis-point rate hike by the Fed. At the beginning of the year and immediately before the start of the war in Iran, the market had priced in two to three rate cuts of this magnitude.

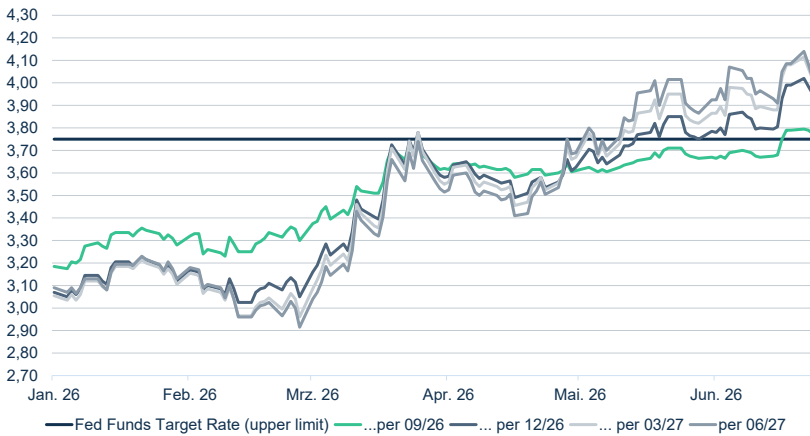
Focus on U.S. Figures

Bond markets are positive

Support for Warsh

The market expects an interest rate hike in the U.S.

Fed Funds Target Rate and Market Expectations

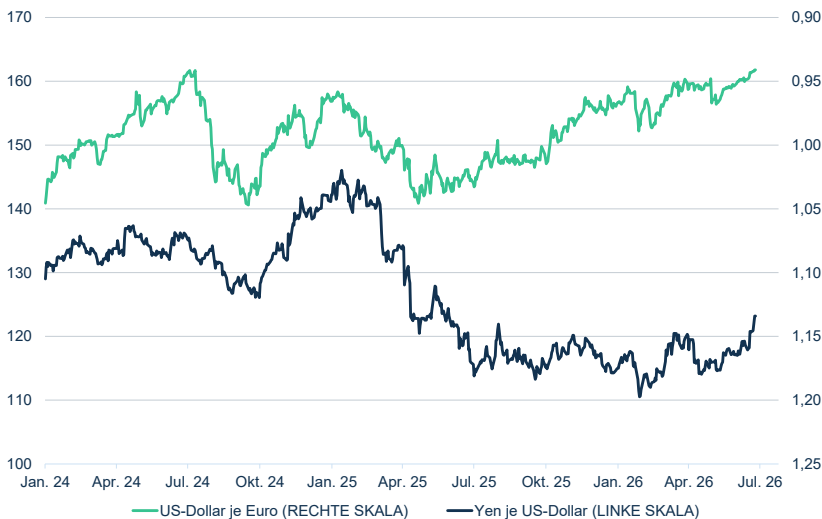


Source: LSEG, LBBW Research

The shift in interest rate expectations also benefited the U.S. dollar, which continued to gain strength during the week under review. One euro cost less than 1.14 U.S. dollars. The last time the euro traded at such levels was in August 2025. In Tokyo, the weakness of the domestic yen is causing increasing concern. At over 161 yen per U.S. dollar, the currency has reached levels last seen on the exchange rate boards in mid-2024. Verbal interventions have only managed to temporarily slow the trend of recent months.

Strong Greenback

Exchange rates of the Japanese Yen and the Euro against the U.S. Dollar










Source: LSEG, LBBW Research

The government bond auctions were well received by the market in this bond-friendly environment, even though the summer lull seems to be slowly setting in. The additional issuance of the originally 30-year Bundesanleihe maturing in 2037, which raised nearly 900 million, still attracted a bid-to-cover ratio of 1.7 (up from 1.3). Meanwhile, the Federal Finance Agency of the Federal Republic of Germany announced that the federal government plans to raise 138 billion euros from investors in the third quarter of 2026. According to the current plan, Germany will issue securities this year totaling a record amount of approximately 512 billion euros. This plan remains unchanged from the announcement made last December.

Primary Market Heading Toward Summer Break

Forecasts at a Glance

Euro Area		Spot	30.09.26	31.12.26	30.06.27
ECB Main Refinancing Rate		2,40	2,65	2,90	2,90
ECB Deposit Rate		2,25	2,50	2,75	2,75
Overnight Rate (€STR)		2,18	2,45	2,70	2,70
3M Euribor		2,29	2,55	2,80	2,80
Swap 2Y		2,72	2,95	3,05	2,95
Swap 5Y		2,73	3,05	3,15	3,10
Swap 10Y		2,91	3,25	3,35	3,30
Bund 2Y		2,53	2,75	2,90	2,85
Bund 5Y		2,60	2,90	3,05	3,05
Bund 10Y		2,86	3,20	3,35	3,35
Swap/Bund 2Y		19	20	15	10
Swap/Bund 5Y		13	15	10	5
Swap/Bund 10Y		5	5	0	-5
Spread BBB Corporates/Bund		93	130	125	120
USA		Spot	30.09.26	31.12.26	30.06.27
Fed Funds Target Rate		3,75	3,75	3,75	3,75
Overnight Rate (SOFR)		3,62	3,65	3,65	3,65
3M Money Market		3,74	3,75	3,75	3,65
Swap 2J (SOFR-OIS)		3,95	3,90	3,90	3,65
Swap 5J (SOFR-OIS)		3,85	3,95	3,95	3,80
Swap 10J (SOFR-OIS)		3,97	4,20	4,25	4,10
Treasury 2Y		4,09	4,05	4,10	3,85
Treasury 5Y		4,14	4,25	4,30	4,15
Treasury 10Y		4,38	4,65	4,75	4,65
G5		Spot	30.09.26	31.12.26	30.06.27
Japan	Overnight Rate (TONAR)	0,98	1,05	1,05	1,30
Japan	10Y Government Bond	2,61	2,75	2,80	2,85
UK	Overnight Rate (SONIA)	3,73	3,95	4,20	4,20
UK	10Y Government Bond	4,70	5,00	5,15	5,00
Switzerland	Overnight Rate (SARON)	-0,04	-0,05	-0,05	-0,05
Switzerland	10Y Government Bond	0,27	0,50	0,55	0,55
FX		Spot	30.09.26	31.12.26	30.06.27
EURCHF		0,9205	0,92	0,93	0,94
EURCNY		7,7363	8,22	8,17	7,94
EURGBP		0,8617	0,85	0,85	0,85
EURJPY		183,86	187	186	182
EURUSD		1,1375	1,20	1,22	1,24
USDCHF		0,8092	0,77	0,76	0,76
USDCNY		6,8011	6,85	6,70	6,40
GBPUSD		1,3200	1,41	1,44	1,46
USDJPY		161,64	156	152	147
Economic Development		2024	2025	2026e	2027e
	Germany				
	GDP	-0,5	0,4	0,3	0,8
	Inflation	2,3	2,2	3,0	2,5
	Euro Area				
	GDP	0,9	1,5	0,8	1,0
	Inflation	2,4	2,1	3,0	2,5
	UK				
	GDP	1,0	1,3	0,8	1,3
	Inflation	2,5	3,2	2,8	2,4
	USA				
	GDP	2,8	2,1	2,2	1,6
	Inflation	3,0	2,7	3,8	2,2
	Japan				
	GDP	-0,2	0,4	0,6	0,8
	Inflation	2,7	2,2	2,0	1,8
	China				
	GDP	5,0	3,7	3,5	3,2
	Inflation	0,2	0,0	1,2	1,5
	World				
	GDP	3,2	3,3	2,7	2,8
	Inflation	3,5	3,4	3,8	3,0

Changes to the foregoing week are marked by a (*)

Sources: LSEG, Bloomberg, LBBW Research

Main Events of the Past Week

- **Middle East conflict:** The situation remains unclear. Negotiations between the U.S. and Iran are underway in Switzerland. Israel is not directly involved. However, there is a connection, as Israel also attacked Iran in March, and reports continue to emerge of clashes between Israel and the Iranian-backed Hezbollah militia in Lebanon. Also absent from the negotiating table are the Arab Gulf states, which were drawn into this war by Iran and are (alongside Iran itself) the most severely affected by the closure of the Strait of Hormuz. The status of the negotiations themselves is unclear. On the sidelines of the negotiations, there was only general talk of “encouraging signs”.
- **Middle East Conflict:** The U.S. Senate has passed a resolution directing President Donald Trump to end the war against Iran or to seek explicit authorization from Congress for further military action. The Senate voted 50 to 48 in favor of the resolution. Four Republican senators also joined in support. The House of Representatives had already voted in favor of this resolution earlier this month. While the resolution is not binding on the president and is purely symbolic in nature, it reflects the dwindling support for Trump’s foreign policy in the United States.
- **United Kingdom:** British Prime Minister Starmer has announced his resignation as leader of the Labour Party and, consequently, as prime minister. Starmer had come under pressure following the local and regional elections, among other things, as his Labour Party suffered significant losses. The Labour Party’s governing bodies will decide on the next steps. The handover is scheduled to take place by September at the latest.
- **European Central Bank:** The President of the European Central Bank (ECB) participated in a hearing before the European Parliament’s Committee on Economic and Monetary Affairs on the topic of “Monetary Policy Amid Heightened Geopolitical Tensions and Frequent Supply Shocks.” Lagarde explained monetary policy and answered questions from members of Parliament. Her remarks were consistent with those made at the ECB press conference on June 11. The ECB continues to make data-dependent decisions on key interest rates in the euro area on a meeting-by-meeting basis. The next day, ECB Chief Economist Philip Lane elaborated on Lagarde’s remarks. Central to his assessment is the view that the inflation rate will remain well above the target until the first half of 2027.
- **Eurozone:** Purchasing Managers’ Indices showed mixed results in June. In the eurozone, the composite index rose from 48.5 to 49.5. While manufacturing, at 51.2, nearly matched the previous month’s level, the services sector edged up from 47.7 to 48.9. In Germany, the picture was almost the opposite. The composite PMI fell from 48.8 to 48.0; the manufacturing sector edged up slightly (50.1 from 50.0); and the PMI for the service sector fell from 48.1 to 46.8.
- **Germany:** The German government’s debt (including local governments and social security) rose in the first quarter, partly due to the special funds for infrastructure and the Bundeswehr. As of the end of March, the government, including all special budgets, had a debt of 2,726.5 billion euros, according to the Federal Statistical Office.
- **Germany:** The Pension Commission has presented its report on pension insurance reform. This means the federal government now has 33 recommendations on the table. Both the CDU/CSU and the SPD now want to implement them. Key points include

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The U.S. and Iran Are Negotiating in Switzerland

UK: The End for Prime Minister Starmer

Lagarde and Lane before the European Parliament

EMU: Mixed Early Indicators

Germany's debt is rising

extending the working life in line with life expectancy and introducing a funded supplementary pension modeled after the Swedish system.

- *Germany:* The business climate improved in June from 85.0 to 85.6. The current situation rose from 86.1 to 87.0, and expectations improved from 83.9 to 84.1.
- *Germany:* The GfK Consumer Confidence Index rose from -29.7 to -29.2 index points in July. By contrast, the propensity to buy (shown here for June) fell from 13.6 to 13.4.
- *U.S.:* The estimate for first-quarter GDP growth was revised upward from 1.6% to 2.1% (annualized growth compared with the previous quarter). The deflator was revised from 3.4% to 3.5%.
- *U.S.:* Household income and consumer spending each rose by 0.7% (in real, seasonally adjusted terms) in May compared with the previous month. This was higher than in April (income: 0.0%, consumption: +0.4%) and also higher than the consensus forecast (0.4% and 0.6%, respectively). The core PCE rate stood at 4.1%, which was also the consensus forecast of economists surveyed by Reuters. In the previous month, the figure was 3.8%.
- *U.S.:* Orders for durable goods fell by 4.5% in May compared with the previous month. The figure for April was revised upward from +8.0% to +8.5%. Excluding volatile “transportation goods”—primarily orders for aircraft—orders rose by 1.3%, following a 1.4% increase in April. Orders for capital goods, excluding military goods, rose by 1.6% after a decline of 0.7% in April. All in all, these figures point to a fairly stable investment environment in the U.S.
- *Venezuela:* Two strong earthquakes in quick succession have severely affected the South American country. In addition to the capital, Caracas, other cities across the country were shaken. Buildings collapsed, and roads, bridges, and railways were severely damaged. Acting President Delcy Rodríguez declared a state of emergency. The quakes were the strongest ever recorded in the history of this oil-rich country.
- *Middle East/Persian Gulf:* Saudi Arabia's oil company, Aramco, is resuming operations at the Ras Tanura oil loading terminal on the country's east coast after a four-month hiatus.

Pension Commission Presents Recommendation

Ifo Index Rises in June

U.S. Figures: Stable Economy in the Second Quarter

Severe Earthquakes in Venezuela

Ras Tanura Resumes Operations

Next Week's Data

TIME	COUNTRY		PERIOD	LBBW FORECAST	CONSENSUS FORECAST ¹⁾	LAST VALUE ²⁾	IMPORTANCE
FRIDAY, 26.06.2026							
16:00	USA	Uni Michigan Consumer Confidence (final)	Jun		50,0	48,9	**
MONDAY, 29.06.2026							
10:00	EMU	Money Supply M3 (Y/Y)	May	2,6	-	2,7	**
11:00	EMU	Economic Sentiment	Jun	94,0	-	93,5	***
11:00	EMU	Industrial Confidence	Jun	-8,0	-	-8,0	*
	GE	Retail Sales (M/M, sa)	May		0,0	0,0	*
TUESDAY, 30.06.2026							
01:30	JPN	Unemployment Rate (sa)	May	2,5	2,5	2,5	*
08:00	UK	GDP (Q/Q) (final)	Q1		0,6	0,6	*
09:00	CH	KOF Swiss Leading Indicator	Jun	98,2	-	98,0	*
09:55	GE	Unemployment Rate (sa)	Jun	6,3	-	6,3	*
09:55	GE	Unemployment Change (thous., sa)	Jun	0,0	-	-12,0	*
14:00	GE	CPI (Y/Y) (prelim.)	Jun	2,6	-	2,6	***
15:00	USA	S&P / CS Composite-20 (M/M)	Apr		-	-0,2	*
15:45	USA	Chicago Purchasing Manager Index	Jun		-	62,7	*
16:00	USA	Consumer Confidence (CB)	Jun	96,0	94,2	93,1	***
WEDNESDAY, 01.07.2026							
01:50	JPN	Tankan Index	Q2	15	16	17	**
03:45	CHN	Caixin PMI Manufacturing	Jun	52,0	51,9	51,8	***
09:30	CH	PMI Manufacturing	Jun	56,5	-	57,3	*
09:55	GE	PMI Manufacturing (final)	Jun		-	50,0	*
10:00	EMU	PMI Manufacturing (final)	Jun		-	51,3	*
11:00	EMU	HICP, flash estimate (Y/Y) (prelim.)	Jun	3,1	-	3,2	***
14:15	USA	ADP Employment Change (thous.)	Jun	130	110	122	**
16:00	USA	Construction Spending (M/M)	May		-	0,4	*
16:00	USA	ISM Manufacturing	Jun	53,5	53,8	54,0	***
THURSDAY, 02.07.2026							
08:30	CH	CPI (Y/Y)	Jun		0,2	0,6	*
11:00	EMU	Unemployment Rate (sa)	May	6,3	-	6,3	**
14:30	USA	Change in Nonfarm Payrolls (thous.)	Jun	150	130	172	***
14:30	USA	Unemployment Rate (sa)	Jun	4,3	4,3	4,3	***
14:30	USA	Average Hourly Earnings (M/M)	Jun	0,3	0,3	0,3	***
16:00	USA	Factory Orders (M/M)	May		-	4,8	*
FRIDAY, 03.07.2026							
09:55	GE	PMI Services (final)	Jun		-	46,8	*
09:55	GE	PMI Composite (final)	Jun		-	48,0	*
10:00	EMU	PMI Services (final)	Jun		-	48,9	*
10:00	EMU	PMI Composite (final)	Jun		-	49,5	*

1) Consensus forecast according to Bloomberg/Reuters

2) Should a provisional estimate be available, it is stated instead of the reference figure of the previous period

Sources: Bloomberg, LBBW Research

EUR government bonds: Supply is set to remain on track to record high in Q3

Review: Gross supply fell by 12% Q/Q in Q2

Bond issuance by eurozone countries followed the usual seasonal pattern closely in the second quarter. This implies, on the one hand, a noticeable slowdown in primary market activity compared to the record-high levels of the first quarter, with a projected decline of 12%. On the other hand, debt managers made greater use of the primary market than in the same period last year (+8%). In this regard, the trend observed in the first quarter continued. According to our analysis, gross government bond issuance from the euro area (excluding Slovenia, Slovakia, Croatia, Cyprus, Malta, Luxembourg, and the Baltic states) is set to total approximately EUR 402 billion between April and June (as of June 25, 2026: EUR 389 billion). This is the second-highest figure for a spring quarter, surpassed only in 2020, the year of the COVID-19 pandemic. In the second quarter of 2025, gross supply was EUR 372 billion. When comparing the cumulative issuance for the first half of the year to our 2026 issuance forecast of EUR 1,418 billion, the issuance progress amounts to just over 60%.

Current issuance reduction: approximately 60%

Expected gross issuance volume in 2026 by country (in billions of euros, LBBW forecast)

Country	LBBW forecast volume of issuance in 2026	already issued (as of 25.06.2026)	issued in %	volume in 2025	change
France	344	201	58%	333	3%
Germany	350	190	54%	290	21%
Italy	344	214	62%	360	-4%
Spain	168	107	63%	163	3%
Portugal	18	13	74%	21	-13%
Austria	47	31	67%	45	4%
Greece	9	8	84%	8	15%
Belgium	51	32	62%	45	13%
Netherlands	52	28	53%	38	37%
Finland	25	14	58%	24	5%
Ireland	10	8	83%	8	21%
Sum	1418	846	60%	1334	6%

Source: Bloomberg, LBBW Research

We continue to view the risks to our full-year forecast as broadly balanced. The growing economic damage caused by the war in Iran, which is triggering additional government spending through fiscal stimulus measures, remains a major risk factor.

Gross supply in Q3: -20% Q/Q – Net issuance set to rise moderately

Our outlook for the primary market in the euro government bond market for the third quarter is based on two assumptions: First, we assume that government debt managers will continue to follow the usual seasonal pattern closely. The latter suggests that primary market activity will continue to slow down during the summer months. Over the past four years, gross

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Gross supply in Q2: up 8% on previous year

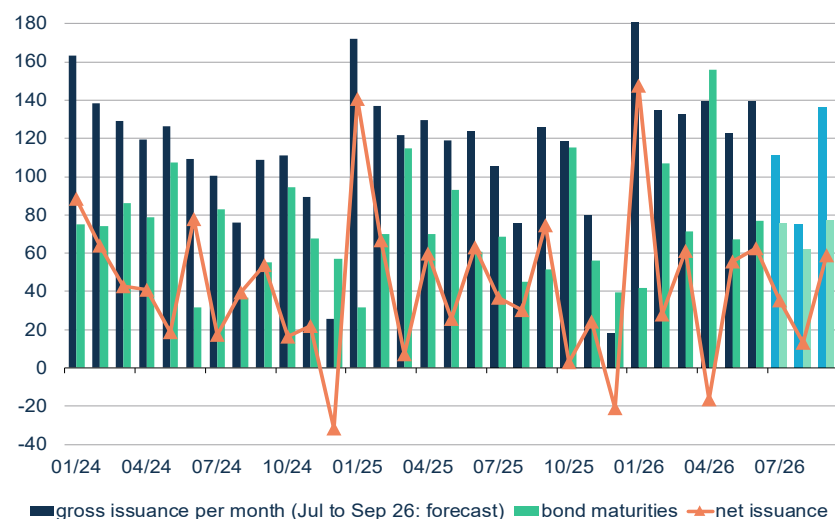
Issuance forecast for 2026 at €1.418 billion – Risks balanced!

issuance has declined by between 18% and 23% on a quarter-over-quarter basis from Q2 to Q3. Second, compared to the same period last year, we expect the moderate upward trend of the first half of the year to continue. This results in a total forecast of EUR 323 billion for gross issuance by eurozone countries in the third quarter, a 20% decline compared with Q2. As a result, primary market activity is set to exceed the previous seasonal record set in 2025 (EUR 307 billion) by about 5%.

On a net basis, however, an increase in supply is emerging in the euro area despite falling gross issuance, albeit a modest one. The reason for this is that maturities are about to decline even more sharply than issuance activity. According to our analysis, bonds totaling EUR 215 billion will mature in the third quarter, a decrease of more than EUR 80 billion compared with the second quarter. Based on our assumptions regarding gross issuance, net supply is likely to increase by 5% to just under EUR 110 billion. About half of this will be attributable to September. Consequently, towards the end of the quarter, the EUR government bond market will thus be under the spell of above-average net issuance, (see the chart below), which may depress bond prices.

A bond-friendly environment in August

Gross and net supply of EUR government bonds per month since the beginning of 2024 (in billions of euros; Q3 2026: LBBW Forecast)



Source: Bloomberg, LBBW Research

July: A closer look

According to our forecast, only one of the government issuers we have analyzed here is set to make greater use of the primary market in the third quarter than in the previous quarter, namely Germany. Based on that, we expect gross supply to reach EUR 100 billion in Q3, an increase of about 15% (quarter-over-quarter).

In July, the federal government is likely to place just under EUR 35 billion in capital market debt, the highest figure since March. A sharp increase of over 30% compared with June stands in stark contrast to the outlook for the Euro area as a whole, where we think gross issuance will decline by 20% to EUR 111 billion. Germany's primary market program features a total of three new issues: The Federal Finance Agency is issuing a new 10-year Bund (EUR 6 billion on July 8, plus a tap of EUR 6 billion on July 29), a new OBL (EUR 6 billion on July 21), and a new Schatzanweisung (EUR 6 billion on July 14). In addition, there will be taps of the 7-year Bund 11/32 (EUR 3.5 billion on July 1) as well as one double tap each in the 15/20-year segment (EUR 2 billion on July 22) and in the 30-year segment (EUR 3 billion on July 15). In addition, the Finance Agency will increase the size of one or two green government bonds on July 7 (estimated value: EUR 2 billion).

Rise of 5%
expected over
Q3 2025 for gross
supply

Maturities to
drop sharply

High net supply in
September

German supply to
increase by about
15% Q/Q

From France, we expect gross issuance to total EUR 77 billion in the third quarter, a 20% decline from the previous quarter. According to our forecast, gross issuance in July is set to total between EUR 26 billion and EUR 28 billion, which means a modest decline over June. On July 2, the 10-year OAT 11/36 and other (ultra-)long-term bonds are likely to be increased (total volume: EUR 12 to EUR 13 billion). For the mid-month auction (July 16), we expect additional taps of the 3-year OAT 09/29, the 5-year OAT 02/32, and several inflation-indexed government bonds (total volume: EUR 14 to 15 billion).

Germany ahead of France and Italy

Details of the expected government bond issuance in July (in billions of euros)

July 2026 - estimated								
	short	med	long	ultra	linker	Total	ret.	net
France	6,5	6,0	8,0	4,5	2,0	27,0	2,9	24,1
Germany	6,0	9,5	12,0	7,0		34,5	6,2	28,3
Italy	7,0	8,0	4,0	2,0	2,0	23,0	20,2	2,8
Spain	3,5	3,0	2,5	2,5	0,5	12,0	35,3	-23,3
Portugal			1,3			1,3	9,7	-8,4
Austria		2,0				2,0	5,8	-3,8
Greece							2,6	-2,6
Belgium		1,5	1,5	1,0		4,0		4,0
Netherlands		2,0		4,0		6,0	18,7	-12,7
Finland				1,5		1,5	0,3	1,2
Ireland								
Total	23,0	32,0	29,3	22,5	4,5	111,3	101,8	9,5
in %	21%	29%	26%	20%	4%			

Source: Bloomberg, LBBW Research

According to our forecast, Italy is likely to lose its leading position in the primary market activity rankings in the third quarter and slip to third place, with activity totaling just EUR 70 billion (-35% Q/Q). We think July will account for 22 to 25 billion euros of this total. At the auction scheduled for July 10, the Tesoro could place a new 7-year BTP and tap the 3-year BTP 09/29 as well as an ultra-long-term bond (total volume: EUR 8 to EUR 9 billion). The end-of-month auctions (July 28 and 30) could include taps of the 10-year BTP 07/36, the 5-year BTP 06/31, as well as a short-term BTP, a linker, and a floater (total volume: EUR 14 to 16 billion).

With regard to Spain, we expect the country's Treasury to conduct taps of three to four existing bonds on both July 2 and July 16, with a total volume of EUR 5.5 to 6 billion for each date. In sum, the issuance volume in July may reach roughly EUR 12 billion. For Q3 as a whole, we expect Spanish gross supply to total EUR 31 billion, a drop of nearly 40% compared to the spring quarter. In our view, Portugal could increase the size of one or two existing bonds by a total of EUR 1 to EUR 1.25 billion on July 8. Moreover, we expect Belgium to increase the size of three existing OLOs on July 27 by a total of EUR 3.5 to EUR 4 billion. The Netherlands could launch a new 20-year NETHER bond in the first half of July. In addition, an existing government bond with a medium-term remaining maturity could be topped up on July 14 or July 28 (total volume: EUR 6 to 7 billion). Austria is set to offer two government bonds totaling up to EUR 2 billion for a top-up on July 7, while Finland is may hold an auction on July 21 (EUR 1.5 billion).

Net cash flows to be only slightly negative in July

A likely slower pace of activity in the primary market in July will be set against higher inflows from maturities and coupon payments compared with June. All in all, this results in a net supply surrounding that is more bond-friendly. While an above-average supply overhang weighed on prices in June, in and of itself, the gross supply of EUR 111 billion we expect for July will be set against reflows for reinvestment totaling EUR 101 billion. Of this amount, EUR 75 billion is attributable to bond

France: Taps only

Spain, Portugal, and the Nether- lands will show negative net issuance

Italy: New 7-year BTP possible

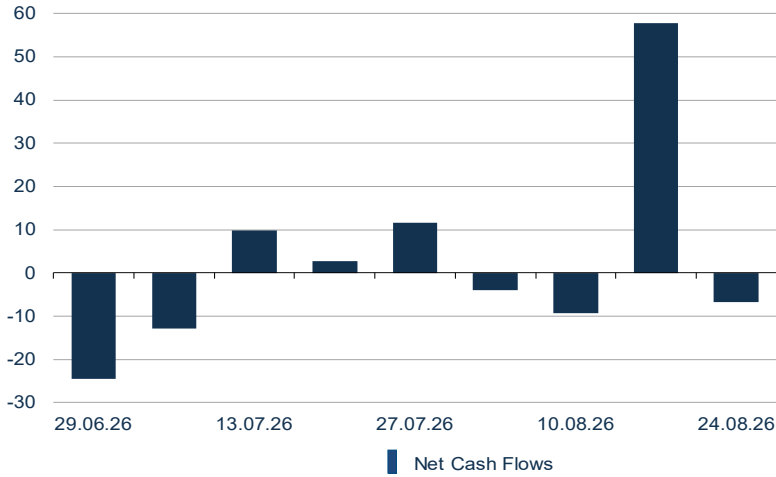
Is the Nether- lands about to place a new 20-year bond?

July: Reflows nearly as high as new issues

maturities. Net supply is therefore set to nearly halve month-over-month to EUR 35 billion.

Positive net cash flows in the second half of July

Expected net cash flows (reflows minus issuance) per week (in billions of euros)



Source: Bloomberg, LBBW Research

Positive net cash flows may well support government bond prices, particularly toward the end of next month, while supply overhang is still set to dominate in the first half of July (see chart above).

The maturities in July will be distributed as follows: Italy (EUR 17.2 billion on July 15), Spain (EUR 24.7 billion on July 30), the Netherlands (EUR 17.2 billion on July 15), Portugal (EUR 9.3 billion on July 21) and Austria (EUR 4.9 billion on July 15). Based on this, the supply situation appears particularly favorable in the Spanish, Portuguese, and Dutch government bond markets.

Positive and negative net cash flows alternate through August

Maturities in July will be wide-spread

Credit Strategy

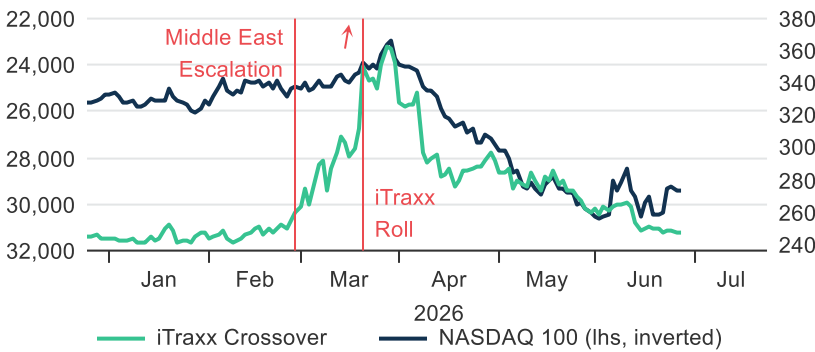
Credits remain stable

Spreads Have Little Room Left to Fall

The capital markets were indecisive this week. Hopes for a lasting peace regarding the Iran conflict and a gradual reopening of the Strait of Hormuz were offset by gloomy economic forecasts and concerns about rising interest rates. U.S. tech stocks, in particular, have seen significant volatility recently. This had little effect on the iTraxx Crossover. Following the spike in March, risk premiums on European corporate bonds had recently returned to pre-crisis levels.

iTraxx Is Not Keeping Pace with the Stock Markets

iTraxx Crossover vs. NASDAQ 100 (inverted)

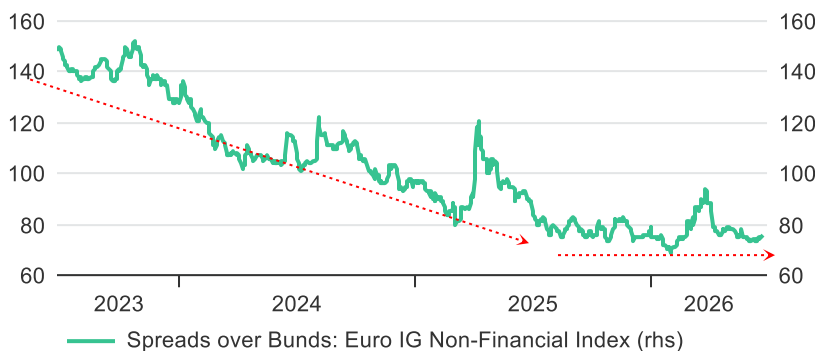


Source: LSEG, LBBW Research

Spreads on investment-grade corporate bonds have also been moving sideways at low levels recently. The yield trend for IG-rated corporate bonds has thus been driven largely by movements in Bund yields over the past few months. Uncertainty regarding the economy remains high. As a result, we see little potential for spreads to narrow further; rather, we expect them to widen slightly in the medium term.

IG spreads are trading sideways

EUR IG Non-Financials Spreads Over German Government Bonds (in bps)



Source: LSEG, LBBW Research

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iTraxx is barely moving

Spreads with Soil Formation

Very little room for a downward adjustment

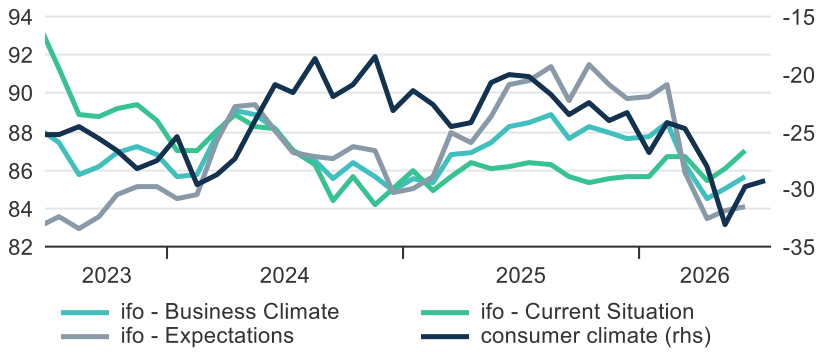
Sentiment is stabilizing

The Ifo Business Climate Index rose by 0.7 points to 85.6 in June. The current conditions component was largely responsible for the increase, while business expectations rose surprisingly little.

The GfK Consumer Climate Index for July came in lower than expected, but still managed to rise by 0.5 points to a weak -29.2 points. This was primarily due to a slight increase in income expectations.

The mood brightens slightly

Ifo Index and GfK Consumer Climate Index

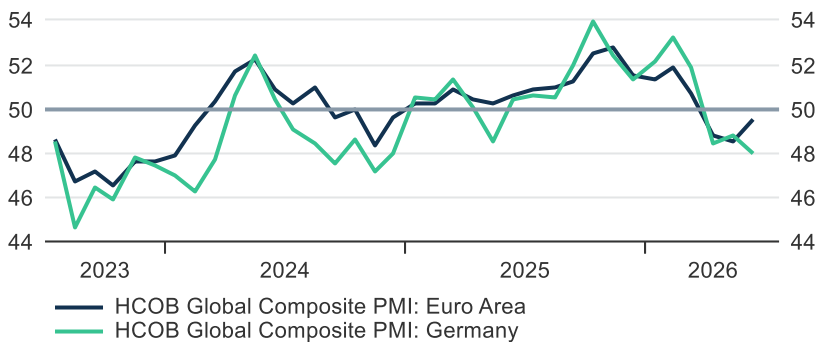


Source: LSEG, LBBW Research

The German purchasing managers' indices showed no growth in June. Despite a projected increase, both the service sector and the manufacturing sector saw a significant decline. Overall, the index fell to 48 points—its lowest level since the end of 2024—while its European counterpart rose significantly and is once again approaching the expansion threshold.

German Purchasing Managers Are Once Again More Pessimistic

Purchasing Managers' Indices for Germany and the Eurozone



Source: LSEG, LBBW Research

CONCLUSION – Credit markets move sideways

Despite volatile markets and declines in U.S. tech stock indices, corporate bond spreads have recently remained at low levels. Meanwhile, the economy is sending mixed signals, but on average, the trend is slightly positive. We never tire of emphasizing that, in our view, a great deal of optimism is already priced into the markets. A moderate rise in credit spreads and yields over the next few months would therefore come as no surprise.

ifo Index Rises Slightly Again

Consumer Sentiment Remains Low

German PMIs are falling...

...European PMIs are rising

Credits remain stable despite existing risks

Calendar/Analytics

Developed Markets Overview

	2 Years			10 Years		
Euro Area	Yields	Spread	Change*	Yields	Spread	Change*
Bund	2,53			2,86		
Jumbo	2,80	27	4	3,26	40	2
Swap	2,72	19	0	2,91	5	0
Netherlands	2,52	0	-1	2,98	12	0
Austria	2,59	6	0	3,11	25	0
France	2,70	17	1	3,63	78	2
Belgium	2,59	6	0	3,42	56	1
Italy	2,70	17	1	3,59	73	2
Spain	2,60	7	0	3,34	48	1
Ireland	n.a.	n.a.	n.a.	3,03	17	0
Portugal	2,52	-1	2	3,24	38	2
Greece	n.a.	n.a.	n.a.	3,55	69	1
EX. EURO AREA	Yields	Spread	Change*	Yields	Spread	Change*
USA	4,09	156	3	4,38	152	5
Canada	2,75	22	9	3,38	53	12
Japan	1,40	-113	11	2,61	-25	8
UK	4,12	159	-2	4,70	184	-2
Switzerland	0,03	-250	8	0,27	-259	3

* Weekly change of the spread w.r.t. Bund w/w

Sources: Bloomberg, LBBW Research

Issuing Calendar Government Bonds

Date	Country	Type	Maturity	Coupon	Size	Comment
29.06.2026	Belgium	OLO			€ 4 bn.	Tap
30.06.2026	Japan	JGB	2Y		JPY 2.8 tn.	
01.07.2026	Germany	Bund	11/32	2.50%	€ 3.5 bn.	Tap
01.07.2026	UK	UKTI	5Y		GBP 1.5 bn.	Tap
02.07.2026	Japan	JGB	10Y		JPY 2.6 tn.	
02.07.2026	France	OAT	11/36	3.70%	€ 6 bn.	Tap
02.07.2026	France	OAT	15Y - 30Y		€ 6 bn.	Tap
02.07.2026	Spain	SPGB	3Y - 30Y		€ 5.5 bn.	Tap
02.07.2026	Spain	SPGB€i			€ 0.5 bn.	Tap
02.07.2026	UK	Green UKT	11Y		GBP 3 bn.	Tap

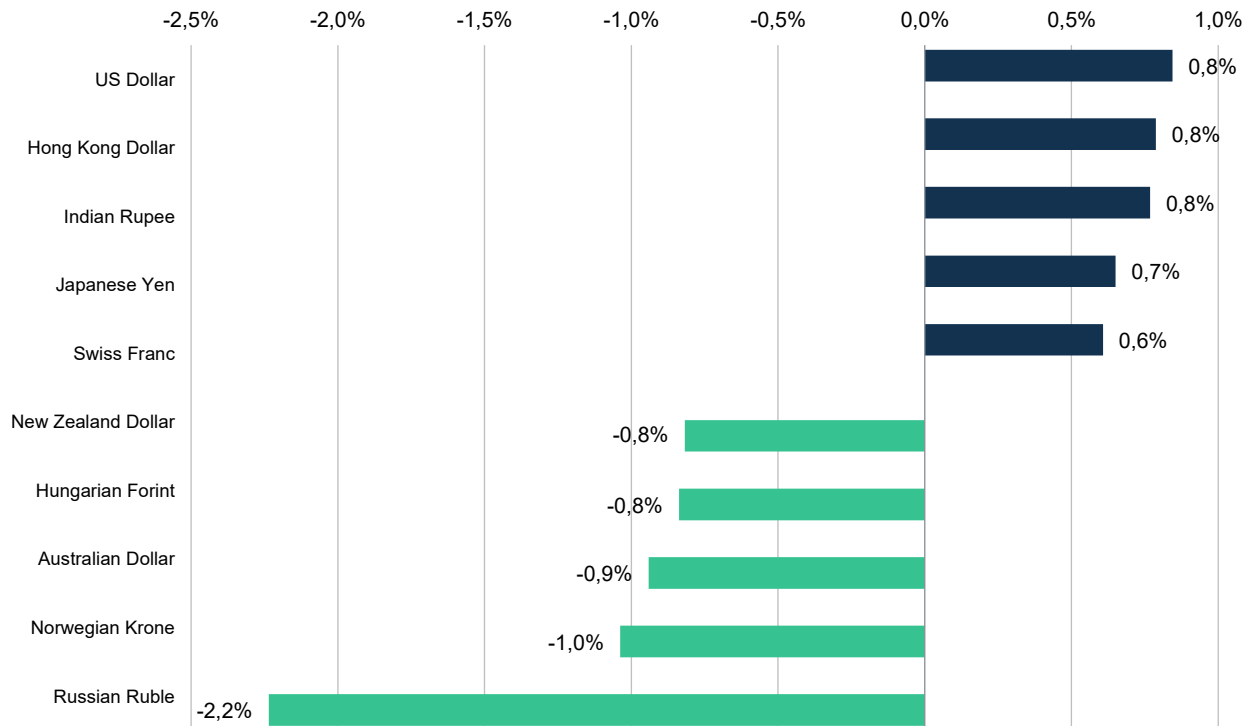
Sources: Bloomberg, LBBW Research

Central Banks and FX Monitor

Country	Next meeting	Current key rate	Latest change	Previous key rate	CPI YoY	6M trend	6M FX change ag. EUR	EUR-FX	6M EUR-FX Forward
Euro Area	23.07.26	2,25%	11.06.26	2,00%	3,2%	↗			
United States	29.07.26	3,75%	10.12.25	4,00%	4,2%	↑	2,1%	1,1459	1,1546
United Kingdom	30.07.26	3,75%	18.12.25	4,00%	2,8%	↘	1,0%	0,8668	0,8734
Japan	31.07.26	1,00%	16.06.26	0,75%	1,5%	↓	0,0%	184,81	183,44
China	***	2,00%	25.09.24	2,30%	1,2%	↗	6,4%	7,76	7,70
Switzerland	24.09.26	0,00%	19.06.25	0,25%	0,6%	↑	0,8%	0,9238	0,9121
Argentina	***	29,00%	31.01.25	32,00%	33,1%	↘	2,2%	1.662,85	1.871,10
Australia	11.08.26	4,35%	05.05.26	4,10%	3,2%	↗	8,5%	1,63	1,65
Brazil	05.08.26	14,25%	17.06.26	14,50%	4,7%	•	9,4%	5,92	6,22
Canada	15.07.26	2,25%	29.10.25	2,50%	2,8%	↗	-0,2%	1,62	1,62
Czech Republic	06.08.26	3,75%	18.06.26	3,50%	2,1%	•	0,4%	24,22	24,36
Denmark	***	2,00%	12.06.26	1,75%	1,9%	↘	0,0%	7,47	7,46
Hong Kong	***	4,00%	08.11.24	4,25%	1,7%	↗	1,4%	8,98	9,00
Hungary	23.06.26	6,25%	24.02.26	6,50%	1,8%	↓	9,5%	353,19	357,97
India	05.08.26	5,25%	06.02.25	5,50%	3,9%	↑	-3,4%	108,27	110,85
Indonesia	22.07.26	5,75%	18.06.26	5,50%	3,1%	↗	-3,9%	20.407,51	20.845,33
Mexico	25.06.26	6,50%	07.05.26	6,75%	3,9%	•	6,2%	19,87	20,33
New Zealand	08.07.26	2,25%	26.11.25	2,50%	3,1%	•	1,9%	2,00	2,00
Norway	13.08.26	4,25%	07.05.26	4,00%	3,1%	•	6,7%	11,13	11,25
Poland	08.07.26	3,75%	04.03.26	4,00%	3,1%	•	-1,2%	4,26	4,29
Romania	08.07.26	6,50%	07.08.24	6,75%	10,9%	↗	-2,9%	5,24	5,33
Russia	19.06.26	14,50%	24.04.26	15,00%	5,3%	↘	12,1%	84,05	89,86
Singapore	***	1,64%	n.a.	1,61%	1,8%	↗	2,3%	1,48	1,47
South Africa	23.07.26	7,00%	28.05.26	6,75%	4,5%	↑	4,1%	18,86	19,28
South Korea	16.07.26	2,50%	29.05.25	2,75%	3,1%	↗	-1,1%	1.751,10	1.755,83
Sweden	20.08.26	1,75%	23.09.25	2,00%	0,8%	↗	-1,2%	10,98	10,95
Turkey	23.07.26	37,00%	22.01.26	38,00%	32,6%	•	-5,9%	53,26	62,55

Sources: Bloomberg, LBBW Research

The Strongest Currency Appreciations and Depreciations Against the Euro This Week

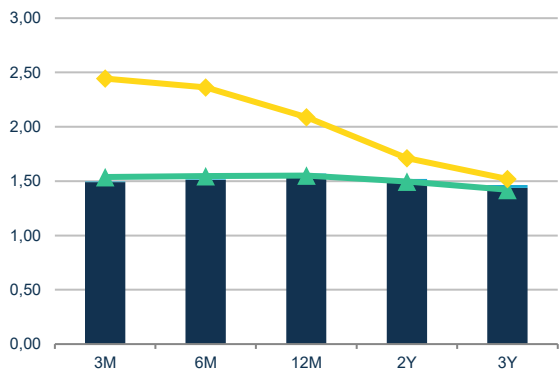


Sources: Bloomberg, LBBW, Research

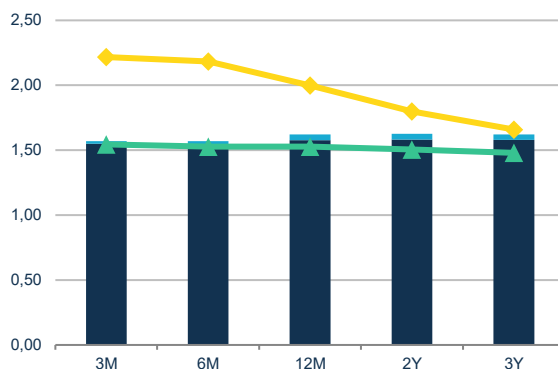
Interest rate differential and FX insurance costs vs. the Euro for selected currencies

interest rate differential, basis swap rates and insurance costs

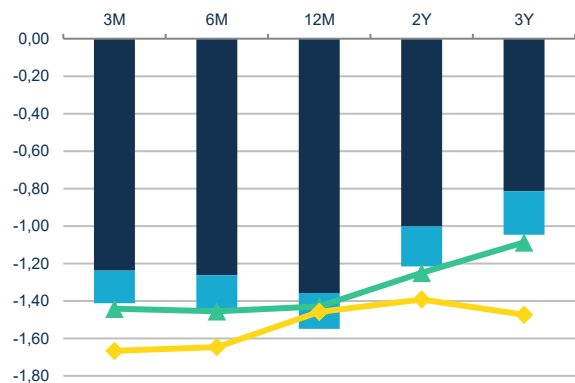
US dollar



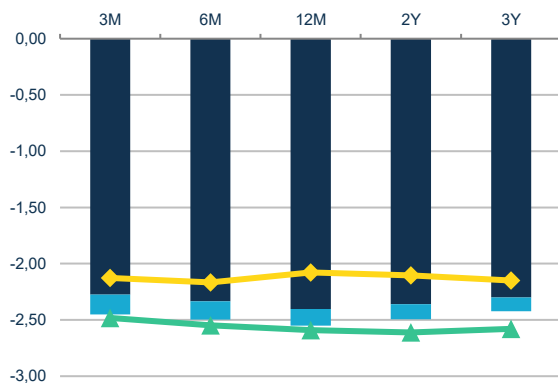
British pound



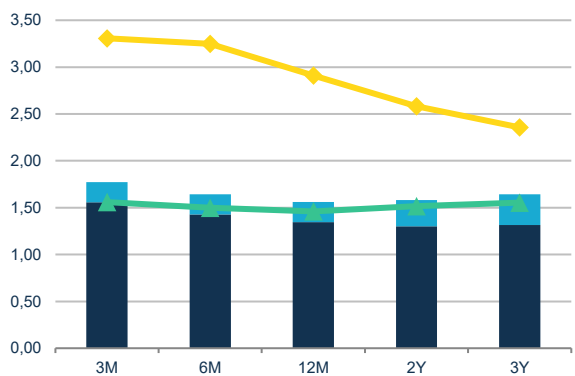
Japanese yen



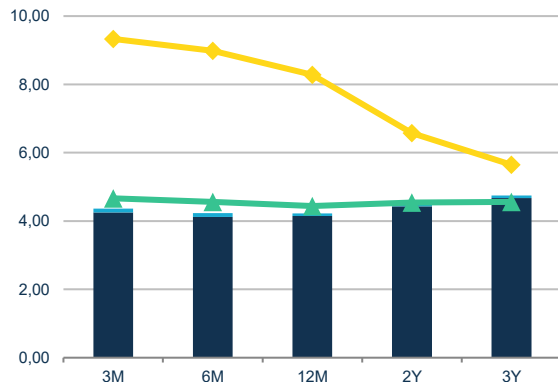
Swiss franc



Polish zloty



Mexican peso



■ interest rate differential
▲ insurance costs (p.a.; current)

■ basis swap rates
◆ insurance costs one year ago

Sources: Bloomberg, LBBW Research

Credit Spreads

5Y CDS Spreads	Current	Changes				
		1W	1M	3M	6M	1Y
IG Corporates	52	0	-3	-19	1	-5
HY & NR Corporates	247	-3	-22	-104	2	-44
Senior Financials	54	0	-3	-24	0	-9
Sub Financials	88	-1	-5	-46	-5	-14

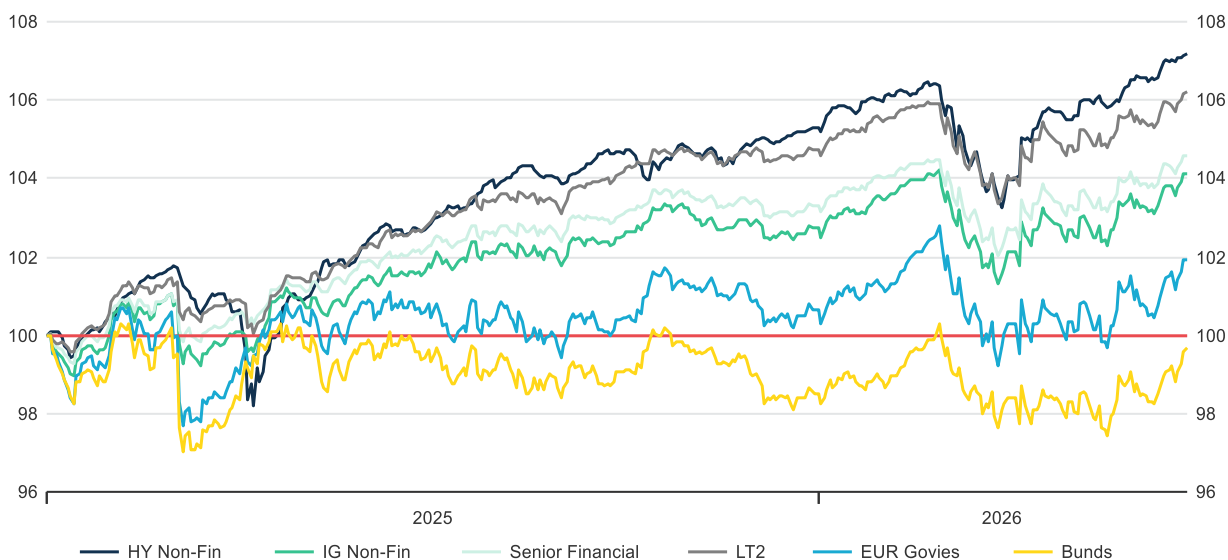
EUR Indices	Current	Changes				
		1W	1M	3M	6M	1Y
Non-Financials	76	2	0	-8	2	-15
Banks Senior Preferred	53	0	-2	-10	-6	-18
Banks Senior Bail-in	72	-1	-1	-12	-1	-17
Banks Subordinated	107	-1	-1	-18	-4	-34

*time lag of one day, Asset Swap Spreads

26.06.2026

Sources: LSEG, LBBW Research

Performance Credits vs. Bunds



Quellen: LSEG, LBBW Research

Allocation recommendations (Credits vs. Bunds)

Under observation of 6 – 12 months

	Recommendation	Segments	Regions	Strategies
Rates	0	0 0-3 years	0/+ Euro periphery	Multi-Callables
		0/+ 4-7 years	0 German Bunds	Inflation-linked bonds
		0/- 8-10 years	0/- USD-Bonds	
		0/+ Corporate Inv. Grade	0/- Emerging Markets Debt	
Credit	0/+	0 Corporate High Yield		
		0/+ Corporate Hybrids (IG)		
		0/+ Senior Financials		
		0/+ Covered Bonds/SSAs		
		0 Tier 2 Inv. Grade/ Sen. Non-Pref.		

Sources: LBBW Research

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Sources/Charts: Refinitiv Datastream, Ecowin, Bloomberg, LBBW Research

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