Bonds
Weekly

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A Rebound in Bond Prices: Just a breather?

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01 |
Our View

Bond Market Movers – Review and Outlook

What drove the bond markets last week?

- The U.S. Treasury Department has announced secondary sanctions against supporters of Iran but has not yet taken any specific measures. Meanwhile, with an eye on the Strait of Hormuz, fresh hope has been emerging that it will reopen.
- Isabel Schnabel, a member of the ECB's Executive Board perceived to be influential, emphasized the need for further monetary tightening, given that inflation risks are tilted to the upside and the economy remains robust.
- The ifo Business Climate improved much more than expected in August. Overall, the S&P Global Purchasing Managers' Indices for the eurozone showed a moderate improvement in sentiment.
- The ECB's wage indicator showed a slight decline in wage pressure for the second quarter. According to the latest ECB survey, consumer inflation expectations have also declined a bit.

What could drive market movements in the coming week?

- The financial markets are set to remain focused on news from the Middle East and trends in commodity prices. Is a reopening of the Strait of Hormuz actually getting closer?
- The gleanings of Kevin Warsh's speech in Jackson Hole could provide significant impetus for inflation expectations and term premiums in the U.S. Treasury market.
- In the eurozone, inflation is set to climb above the 3% mark again in August due to rising energy prices. By contrast, we expect the core rate to move sideways.
- In the U.S., current indicators suggest a slight decline in the ISM Manufacturing Index in August. We also expect sentiment in the service sector to cool modestly.
- The U.S. jobs report for August is likely to show a return to employment growth, though we forecast only modest job creation.
- The primary market for U.S. Treasury bonds is pausing next week. Meanwhile, supply pressure in the primary market for euro-denominated government bonds is likely to increase compared with last week. We expect a gross supply of up to EUR 35 billion, following just over EUR 20 billion the previous week. Net cash flows are set to fall deep into negative territory due to low reflows.

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A Rebound in Bond Prices: Just a breather?

German and European economies defy headwinds from the Middle East

Prices on the major government bond markets on both sides of the Atlantic have begun to rebound this week. The turmoil that had driven yields on ultra-long-term government bonds to multi-year highs a week ago has subsided for now. We attribute the improvement in sentiment in the bond market to two factors. First, the price of Brent crude oil has fallen notably at times this week, and with it, concerns about persistently high inflation. Market participants appear relieved that, as part of its much-heralded economic war against Iran, the U.S. government is, for now, hesitating to directly target China, a key trading partner of the mullahs' regime. In addition, hopes are once again emerging that the Strait of Hormuz will reopen. However, in our view, it remains unclear for the time being whether a breakthrough in this issue – which is still vital for the world's energy supply – is actually moving closer. In the euro bond market, the drop in energy prices has somewhat dampened market participants' speculation that, following a hike widely expected for September, the ECB will tighten its monetary policy once more before the end of the year. However, the resulting tailwind for the bond market was limited, as the latest economic data from the eurozone tended to play into the hands of the monetary policy hawks on the ECB Governing Council. In our view, both the ifo Business Climate Index and the Purchasing Managers' Indices for the euro area have underscored the resilience of the European economy in the face of a wide range of headwinds. As a result, the prevalence of positive economic surprises from the eurozone has continued to strengthen. According to the Citigroup Economic Surprise Indicator, this dominance is currently at its highest level in more than three years. We therefore conclude that the eurozone's monetary policymakers do not currently need to be overly concerned about the economy when implementing monetary policy measures to combat inflation.

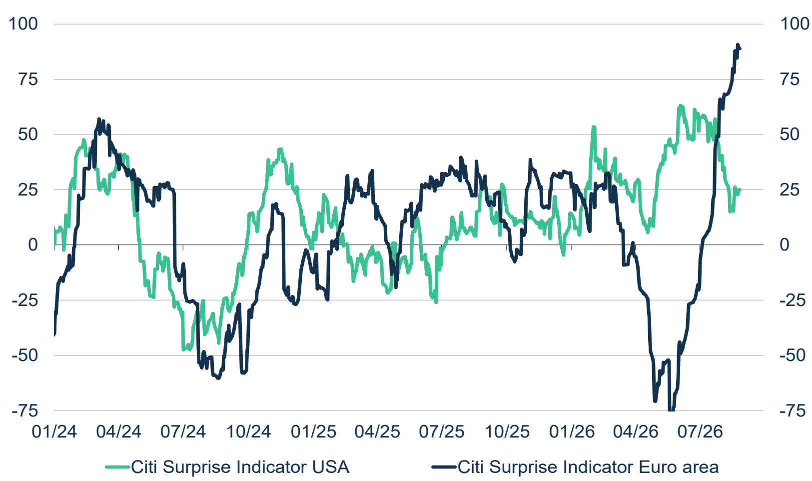
Brent crude oil price falls below 90 dollars per barrel again

However, macro data from the euro area pleases the hawks

Positive economic surprises clearly have dominated

Chart of the Week

Economic Surprise Indicators for the Eurozone and the U.S.



Source: Bloomberg, LBBW Research

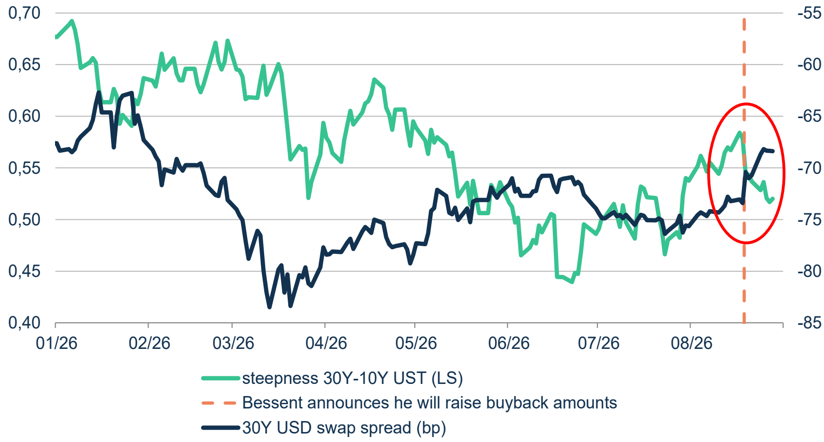
Second, with regard to the U.S. Treasury market, it appears that the U.S. Treasury Department's bond-buyback intervention, announced a week ago, has tamed the bond bears for now. Before the announcement of increased buyback volumes for long-term government bonds starting in September, speculation about a steeper U.S. yield curve was all the rage. Since then, the slope of the Treasury yield curve between the 30-

year and 10-year segments has decreased by about 5 basis points, indicating that market participants have apparently readjusted their positions to some extent. In our view, a simultaneous rise in the 30-year USD swap spread underscores that the relative attractiveness of U.S. ultra-long-term bonds has improved in the eyes of investors (see the chart below).

U.S. yield curve flattened following buyback intervention

Bessent's intervention to buy back more long-term bonds did not remain without effect

Yield curve steepness (30Y-10Y) on the U.S. Treasury curve and 30Y USD swap spread



Source: Bloomberg, LBBW Research

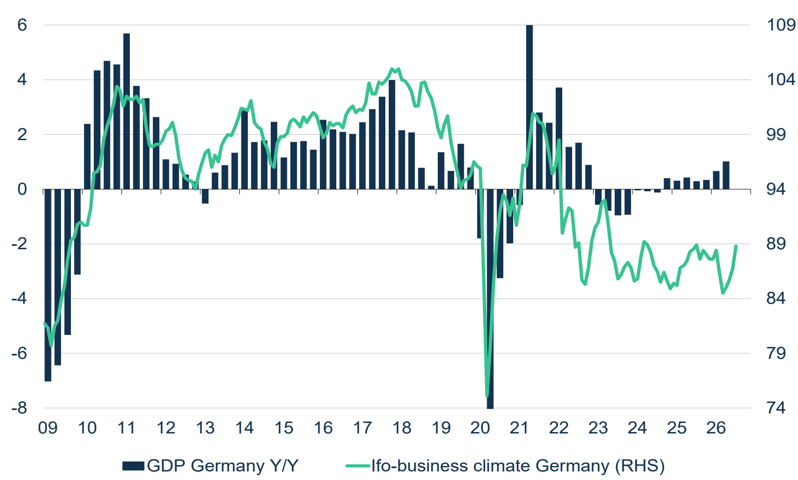
GDP growth forecast for Germany raised

In response to the unexpectedly strong performance of the German economy and to the bond market trends of recent weeks, we are making adjustments to our forecast tables. First, we are raising our 2026 GDP growth forecast for Germany from 0.5% to 0.7%. The positive performance in the first half of the year provides a solid foundation for full-year growth. The recent rise in the ifo Business Climate Index in August also offers hope for a sustained improvement in the economic environment. However, the economic headwinds resulting from low water levels in several major European rivers mean that growth isn't skyrocketing.

We expect Germany to grow by 0.7% in 2026

Consumer sentiment is at its highest level since a year ago

Germany's GDP growth (Y/Y) and the ifo business climate index



Source: LSEG, LBBW Research

However, the positive ifo trend masks still sluggish domestic demand!

We are also maintaining our relatively restrained GDP growth forecast for the coming year, as domestic economic activity in Germany has so far lagged significantly behind the recovery driven by foreign trade.

Forecasts for long-term interest rates on both sides of the Atlantic have been revised upward

Second, as regards trends in the major government bond markets on both sides of the Atlantic, we believe it would be premature to interpret the tentative signs of recovery seen in recent days as the beginning of a turnaround in market sentiment. Rather, for the coming months, we expect that investors' heightened awareness of the growing debt risks will lead long-term yields to settle at levels rather above the ranges seen in the first half of the year. Looking at the U.S. Treasury market, we strongly doubt that interventions by the U.S. Treasury Department will permanently prevent a further rise in the term premiums for long-term government bonds. In our view, holding back term premiums lastingly requires a credible shift in US fiscal policy toward consolidation.

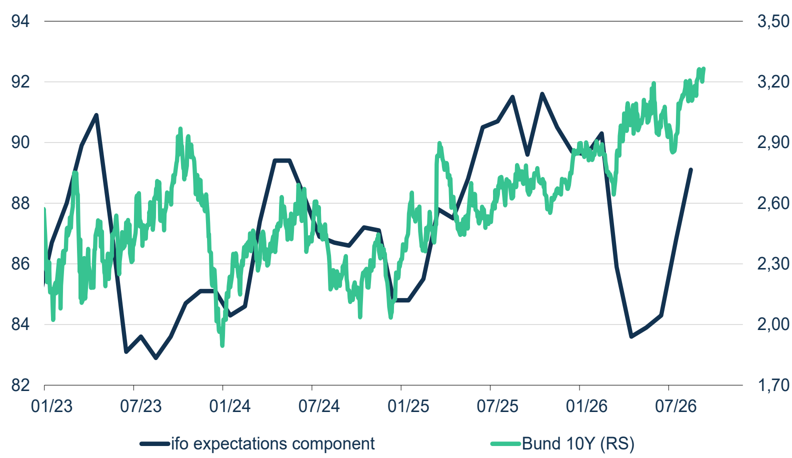
Buybacks are unlikely to lastingly stop term premiums from rising further

Looking ahead, we still think a correction in rate hiking speculation, which we consider excessive both for the Fed and for the ECB, may be a catalyst for a sustained improvement in bond market sentiment. For the time being, however, such an adjustment in expectations is being held back by the prospect that headline inflation rates could rise again in late summer and fall. Furthermore, in the eurozone, the unexpectedly sharp improvement in economic conditions currently plays right into the hands of bond bears (see the chart below).

Inflation might pick up again in the fall

An economic upturn suggests that yields are unlikely to fall for the time being

Yields on 10-Year German Government Bonds and ifo Expectations



Source: Bloomberg, LBBW Research

A significant source of uncertainty in all of this remains the future development of the situation in the Middle East. While we no longer expect a rapid and complete easing of tensions, the current practice of moving increasingly large volumes of crude oil "under the radar" through the Strait of Hormuz does reduce the risk of a renewed escalation of the energy price crisis.

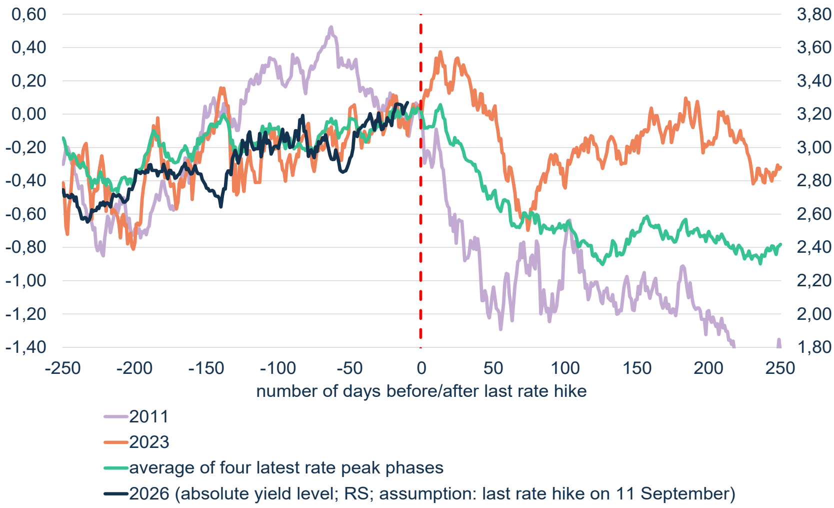
Middle East: Normalisation to come only gradually

Our conclusion is as follows: Bond bears are likely to retain the upper hand over the next three to six months. Only when investors are sufficiently convinced that there is no longer a good reason to fear (further) monetary tightening measures by the major central banks is sentiment likely to shift more sustainably in a bond-friendly direction. For the euro bond market, the following chart shows that, in the past, the point at which the ECB's key interest rate peaked has been a reliable starting point for a medium-term decline in the 10-year Bund yield. On average, over the last four policy rate cycles, the benchmark yield peaked shortly after the final policy rate hike was implemented. Over the next six to twelve months, the yield fell by an average of more than half a percentage point. However, it is important to note that the potential for yield declines was muted during a prolonged key rate plateau period, such as in

2022–23. Since we do not expect the ECB to shift rapidly toward monetary easing in the coming year, we see only moderate scope for a decline in long-term interest rates in 2027.

Key rate peak hints at a medium-term yield decline

Yields topped out around the same time as the key rate peaked
Yields on 10-Year German government bonds and historical trends (cumulative change) around ECB key rate peaks



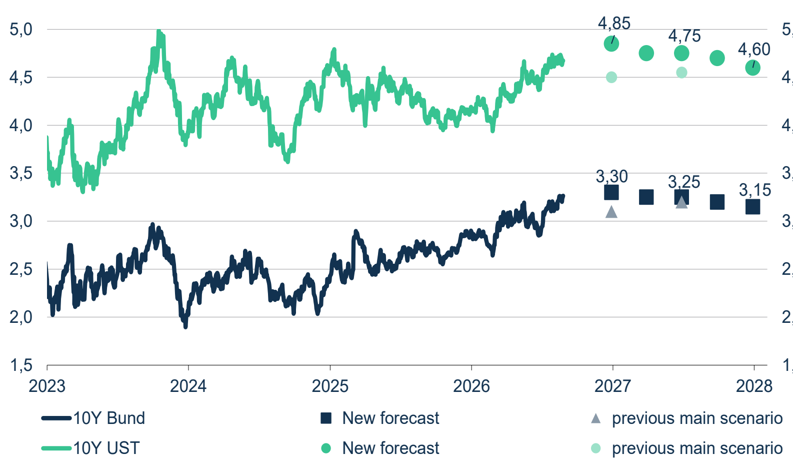
Source: Bloomberg, LBBW Research

We reaffirm our forecast of steeper curves

We are raising our forecast for the 10-year Bund yield as at the end of 2026 from 3.10% to 3.30%. By the end of 2027, we expect the yield to be 3.15%. With regard to the U.S. Treasury market, we are revising our year-end 2026 forecast for the 10-year benchmark yield upward from 4.50% to 4.85%. By the end of 2027, we expect the level to be 4.60%. We reaffirm our long-held view for both sides of the Atlantic that yield curves are set to steepen over the medium term.

10-Year Bund: Forecast Raised to 3.30% as of the End of 2026

Year-end 2026 forecasts for long-term rates raised
Yields on 10-year German government bonds and 10-year U.S. Treasuries, with previous and new LBBW forecasts



Source: Bloomberg, LBBW Research

Forecasts at a Glance

Euro Area	Spot	31.12.26	30.06.27	31.12.27*
ECB Main Refinancing Rate	2,40	2,65	2,65	2,40
ECB Deposit Rate	2,25	2,50	2,50	2,25
Overnight Rate (€STR)	2,19	2,45	2,45	2,20
3M Euribor	2,56	2,55	2,55	2,30
Swap 2Y	3,08	3,00*	2,80*	2,50
Swap 5Y	3,14	3,10*	2,95*	2,75
Swap 10Y	3,30	3,30*	3,20*	3,10
Bund 2Y	2,88	2,80*	2,65	2,35
Bund 5Y	3,00	2,95*	2,85*	2,65
Bund 10Y	3,27	3,30*	3,25*	3,15
Swap/Bund 2Y	20	20*	15*	15
Swap/Bund 5Y	14	15*	10*	10
Swap/Bund 10Y	3	0	-5	-5
Spread BBB Corporates/Bund	90	100*	105*	110

USA	Spot	31.12.26	30.06.27	31.12.27*
Fed Funds Target Rate	3,75	3,75	3,75	3,50
Overnight Rate (SOFR)	3,64	3,65	3,65	3,40
3M Money Market	3,77	3,75	3,65	3,40
Swap 2J (SOFR-OIS)	4,09	4,05*	3,65	3,35
Swap 5J (SOFR-OIS)	4,13	4,15*	3,85*	3,60
Swap 10J (SOFR-OIS)	4,30	4,40*	4,25*	4,10
Treasury 2Y	4,23	4,20*	3,85*	3,55
Treasury 5Y	4,40	4,45*	4,20*	3,95
Treasury 10Y	4,68	4,85*	4,75*	4,60

G5		Spot	31.12.26	30.06.27	31.12.27*
Japan	*Overnight Rate (TONAR)*	0,98	1,25	1,30	1,50
Japan	*10Y Government Bond*	2,94	2,90*	2,95*	3,00
UK	*Overnight Rate (SONIA)*	3,73	3,95	3,95	3,70
UK	*10Y Government Bond*	5,03	5,10*	5,00*	4,85
Switzerland	*Overnight Rate (SARON)*	-0,05	-0,05	-0,05	-0,05
Switzerland	*10Y Government Bond*	0,40	0,45*	0,45	0,40

FX	Spot	31.12.26	30.06.27	31.12.27*
EURCHF	0,9376	0,93	0,94	0,95
EURCNY	7,8276	7,91	7,62	7,62
EURGBP	0,8569	0,85	0,85	0,85
EURJPY	185,71	186	182	180
EURUSD	1,1646	1,18	1,19	1,20
USDCHF	0,8050	0,79	0,79	0,79
USDCNY	6,7214	6,70	6,40	6,35
GBPUSD	1,3591	1,39	1,40	1,41
USDJPY	159,46	158	153	150

Economic Development		2024	2025	2026e	2027e
Germany	*GDP*	0,0	0,4	0,7*	0,8
	Inflation	2,3	2,2	2,7	2,3
Euro Area	*GDP*	1,0	1,5	0,8	1,0
	Inflation	2,4	2,1	2,9	2,4
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	3,6	2,2
Japan	*GDP*	0,1	1,1	0,6	0,8
	Inflation	2,7	3,2	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

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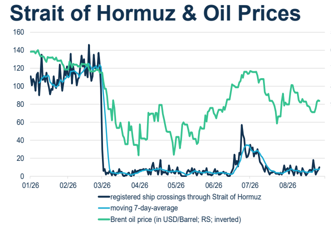
- *Global Economy:* IMF Chief Georgieva reiterates her assessment that the global economy has performed better than expected in the face of the energy price shock – with growth defying strong headwinds from high debt, persistent inflation, and trade tensions – However, the IMF expresses concern about the deteriorating fiscal situation in some countries, as evidenced by rising bond yields and a stalling decline in inflation.
- *Middle East Conflict:* U.S. Treasury Secretary Bessent states that, as part of the previously announced economic war against Iran, the U.S. will launch an "economic attack" against the country's financial ties around the globe – no specific punitive measures have been imposed so far – Bessent also refrained from naming countries that could face secondary sanctions as a result of their support for Iran, as well as from providing a specific timeline for implementing his announcements – The U.S. Treasury Department also announced new sanctions against individuals, organizations, and ships.
- *Middle East Conflict:* According to media reports, Iran and Oman are pressing ahead with their efforts to reach a provisional framework agreement on the resumption of shipping traffic in the Strait of Hormuz – technical talks on a permanent shipping corridor in the strait are set to continue.
- *Middle East Conflict – Energy Price Crisis:* According to insiders, Qatar and Kuwait have now increased their oil shipments through the Strait of Hormuz to 70% of pre-war levels – overall, current estimates suggest that 7 to 8 million barrels of oil per day are passing through the strait.
- *Geopolitics:* Chinese President Xi has signaled that his country will not bow to U.S. threats of sanctions related to economic ties with Iran – China will take "all necessary measures" to protect its interests.
- *War in Ukraine:* Ukrainian President Zelenskyy sees a window of opportunity for a U.S.-brokered peace agreement by late summer 2027 – Ukraine, together with its allies, presented a position paper containing proposals that include, among other things, a ceasefire and a U.S. proposal for a free-trade zone in the Donbas region of eastern Ukraine, to be administered by a third party – Moscow, however, promptly rejected the free-trade zone proposal.
- *War in Ukraine:* According to Kremlin sources, Russian President Putin is considering further escalation of the war against Ukraine – Russia reportedly views negotiations on a peace agreement as having reached a dead-end – intensified missile strikes on Ukrainian cities are being considered, along with speculation about the use of tactical nuclear weapons as a "last resort" – Observers have also been speculating for some time about a new wave of Russian mobilization.
- *U.S. – Trade Policy:* New U.S. tariffs of 50% on certain imports from Canada, which had been postponed, will take effect after the Canadian government rejected the agreement proposed by the U.S. – Prime Minister Carney announces Canadian retaliatory tariffs of the same magnitude, set to take effect in early September – U.S. Trade Representative Greer raises the possibility of a trade embargo against certain Canadian products.
- *U.S. – Trade Policy:* According to media reports, the U.S. government is considering imposing new, sweeping tariffs on imports of semiconductors and semiconductor products – under which foreign companies would be exempt from the tariffs only if they invest in U.S. chip production.

Middle East: The U.S. is hesitant to directly target China

Strait of Hormuz & Oil Prices



Sources: Bloomberg, LBBW Research

Kremlin considers further escalation in Ukraine

- *Monetary Policy – ECB:* Executive Board member Schnabel reaffirms the need for further tightening of monetary policy – upside risks to inflation and a robust economy in the euro area thus call for further hikes – Inflation is likely to exceed the 2% mark for an "extended period," according to Schnabel.
- *Germany – Economy:* ifo Business Climate Index surprised on the upside in August – indicator jumped from 86.7 to 88.8 points – the sharpest rise in nearly four years and the highest level since August 2025 – Expectations jump from 86.8 to 89.1 points – Assessment of the current situation improves from 86.5 to 88.5 points.
- *Germany – Economy:* Chancellor Merz believes a GDP growth rate of over 1% is possible for 2027 – In light of the latest economic indicators, the definitive end of the recession is in sight, he says – federal government dismisses fears that Germany, too, could be swept up in the turmoil on the bond markets given its rising debt – Merz does not share concerns that Germany's increased debt will become a problem for its credit rating.
- *Germany – Energy Policy:* The Federal Ministry of Economics addresses growing concerns about the security of the gas supply – says it is satisfied with the fill levels of gas storage facilities despite them being historically low at around 50% – a shortage is "not foreseeable."
- *Eurozone – Economy:* S&P Global's Purchasing Managers' Index (PMI) for the manufacturing sector rose in August from 51.9 to 52.8 points – highest level since spring 2022 – while the index for the services sector remained flat at 51.7 points, and the composite index also showed little change.
- *Eurozone – Inflation:* ECB survey on consumers' inflation expectations shows a slight decline in inflation concerns – one-year expectations fall from 3.0% to 2.9%, dropping below 3% for the first time since February 2026 – Expectations for three years are down from 2.8% to 2.7%.
- *Eurozone – Wages:* The ECB's negotiated wages indicator signals a slight easing of wage pressure for Q2 2026, to a rate of 2.4% (Y/Y), down from 2.6% in the first quarter.
- *Germany – Real Estate Market:* The Association of German Pfandbrief Banks (vdp) reports a significant increase in real estate loans from its member banks for the first half of 2026, specifically by 8.5% (Y/Y) – the vdp nevertheless notes that sentiment remains subdued – Residential real estate loans rose by 5.3%, while commercial real estate loans increased by 14.3% from a very low base.
- *U.S. – Economy:* According to a Conference Board survey, consumer confidence declined slightly in August, from 90.2 to 89.4 points – lowest level since January 2026 – Expectations plummeted, while assessments of the current situation brightened – From consumers' perspective, the labor market has improved unexpectedly sharply, with the corresponding indicator rising to a four-month high.
- *U.S. – Labor Market:* Weekly ADP data show a moderate acceleration in employment growth for the four-week period ending August 8, to an average of 11,750, up from 9,500 in the previous period.
- *U.S. – Inflation:* PCE core rate remained at 3.3 % (Y/Y) in July.
- *U.S. – Midterm Elections:* The Supreme Court upholds the U.S. government's appeal against lower courts' rulings blocking planned restrictions on access to absentee voting – but the legal battle over the conduct of the election is not yet over.
- *AI:* Chip giant Nvidia has issued an optimistic outlook for AI chip revenue – revenue is expected to grow by an additional 70% by 2028 – demand would be enough to drive even stronger growth – outlook has, for now, allayed concerns about an AI bubble.

Schnabel reiterates need for another rate hike

German government pacifies worries over natural gas

Wage pressure remains modest in the Eurozone

PCE core inflation stuck above 3%

Nvidia: AI boom continues

Next Week's Data

TIME	COUNTRY		PERIOD	LBBW FORECAST	CONSENSUS FORECAST[1)]	LAST VALUE[2)]	IMPORTANCE
FRIDAY, 28.08.2026							
11:00	EMU	Economic Sentiment	Aug	97,5	97,5	96,9	***
11:00	EMU	Industrial Confidence	Aug	-5,6	-5,1	-6,1	*
15:45	USA	Chicago Purchasing Manager Index	Aug	-	57,9	57,6	*
16:00	USA	Uni Michigan Consumer Confidence (final)	Aug	-	51,0	51,0	**
16:00	USA	Fed Chairman Warsh to speak at Jackson Hole Symposium					***
17:55	EMU	ECB Board Member Schnabel to speak in Jackson Hole					***
	FR	Rating Review France (Fitch)					**
SATURDAY, 29.08.2026							
	ICL	Referendum in Iceland on reopening of EU accession talks					**
MONDAY, 31.08.2026							
14:00	GE	CPI (Y/Y) (prelim.)	Aug	3,0	2,9	2,8	***
	GE	Retail Sales (M/M, sa)	Jul	0,5	0,4	-0,7	*
TUESDAY, 01.09.2026							
03:45	CHN	RatingDog PMI Manufacturing	Aug	51,2	51,4	50,9	***
09:30	CH	PMI Manufacturing	Aug	54,2	53,5	53,2	*
09:55	GE	PMI Manufacturing (final)	Aug	54,1	-	54,1	*
10:00	EMU	PMI Manufacturing (final)	Aug	52,8	-	52,8	*
11:00	EMU	HICP, flash estimate (Y/Y) (prelim.)	Aug	3,1	3,2	2,9	***
11:00	EMU	HICP Core, flash estimate (Y/Y) (prelim.)	Aug	2,5	-	2,5	***
11:00	EMU	Unemployment Rate (sa)	Jul	6,3	-	6,3	**
16:00	USA	Construction Spending (M/M)	Jul	-	0,2	-0,1	*
16:00	USA	ISM Manufacturing	Aug	55,2	55,2	55,6	***
WEDNESDAY, 02.09.2026							
14:15	USA	ADP Employment Change (thous)	Aug	49	48	44	**
16:00	USA	Factory Orders (M/M)	Jul	0,7	0,6	-0,3	*
20:00	USA	Fed to publish Beige Book					**
THURSDAY, 03.09.2026							
08:30	CH	CPI (Y/Y)	Aug	-	0,5	0,4	*
09:00	CH	GDP (Q/Q)	Q2	1,6	-	0,7	**
09:55	GE	PMI Services (final)	Aug	48,5	-	48,5	*
09:55	GE	PMI Composite (final)	Aug	51,0	-	51,0	*
10:00	EMU	PMI Services (final)	Aug	51,7	-	51,7	*
10:00	EMU	PMI Composite (final)	Aug	52,1	-	52,1	*
11:00	EMU	PPI (Y/Y)	Jul	5,0	-	4,6	*
14:30	USA	Nonfarm Productivity (final)	Q2	-	1,4	1,4	*
14:30	USA	Trade Balance (bn USD)	Jul	-88,0	-74,5	-73,3	**
14:30	USA	Unit Labor Cost (final)	Q2	-	1,3	1,3	*
16:00	USA	ISM Services Index	Aug	53,7	54,3	54,1	***
FRIDAY, 04.09.2026							
08:00	GE	Factory Orders (M/M)	Jul	-0,5	-	3,1	**
11:00	EMU	Retail Sales (M/M)	Jul	-	-	-0,3	*
14:30	USA	Change in Nonfarm Payrolls (thous.)	Aug	65	55	-23	***
14:30	USA	Unemployment Rate (sa)	Aug	4,2	4,1	4,1	***
14:30	USA	Average Hourly Earnings (M/M)	Aug	0,3	0,3	0,1	***
	POR	Rating Review Portugal (Fitch)					**

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

02 I

Rates

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EUR government bonds: Primary market set for a pickup in September

Review: Summer lull somewhat busier than expected

Gross supply: Increase of 15% compared to August 2025

Primary market activity among eurozone countries slowed significantly in August for the second consecutive month. Given the seasonal patterns in the market, a decline was to be expected. But issuance activity in the capital markets segment did not fall quite as sharply as we had anticipated: According to our analysis, the gross supply of EUR government bonds from the eurozone (excluding Slovenia, Slovakia, Croatia, Bulgaria, Cyprus, Malta, Luxembourg, and the Baltic states) totaled EUR 86 billion in the month drawing to a close. This is the lowest figure so far this year, representing a 25% decline compared to July. However, funding activity was approximately 15% higher than the level recorded in August 2025 (75 billion EUR). If one disregards the typical seasonal pattern, the overall upward trend in government bond issuance was thus evident even during the summer lull. Large-volume syndicated issuance was once again scarce in August, but activity in this area picked up somewhat toward the end of the month: Germany increased the size of its current 30-year benchmark bond through a syndicate, while Finland placed a new 7-year issue. Meanwhile, the cumulative gross issuance volume of the eurozone countries analyzed here since the start of 2026 will have reached 1,064 billion euros by the end of August, thus already significantly exceeding the trillion mark which means one month earlier than last year! Year-over-year, this represents an increase of 8%.

Italy and Spain issued less

Issuance progress as of the end of August: 75%
Forecast gross issuance volume in 2026 by country (in billions of EUR, LBBW forecast)

Country	LBBW forecast volume of issuance in 2026	already issued (as of 27.08.2026)	issued in %	volume in 2025	change
France	**344**	262	76%	333	3%
Germany	**350**	257	73%	290	21%
Italy	**344**	259	75%	360	-4%
Spain	**168**	126	75%	163	3%
Portugal	**18**	15	81%	21	-13%
Austria	**47**	33	70%	45	4%
Greece	**8**	8	94%	8	3%
Belgium	**51**	41	79%	45	13%
Netherlands	**52**	35	68%	38	37%
Finland	**25**	20	80%	24	5%
Ireland	**11**	10	86%	8	33%
Sum	**1418**	**1064**	**75%**	1334	**6%**

Source: Bloomberg, LBBW Research

Issuance forecast for 2026 at 1,418 billion EUR

We have been maintaining our previous forecast, meaning we expect gross issuance by eurozone countries to total EUR 1,418 billion for the full year 2026 (+6% Y/Y). The most recent issuance trend, which came in a bit above our expetations, suggests that the risks to the forecast are slightly skewed to the upside. Upward risks to countries' funding needs stem primarily from the still-unresolved Iran conflict.

According to our estimates, Ireland and Greece are each already so far along in meeting their funding needs for 2026 that they could complete their capital market activities as early as the end of the third quarter. The rest of the EMU countries are clustered around the average issuance progress rate of 75% as of the end of August. At the bottom of the rankings are the Netherlands (68%).

EMU: 75% of funding raised

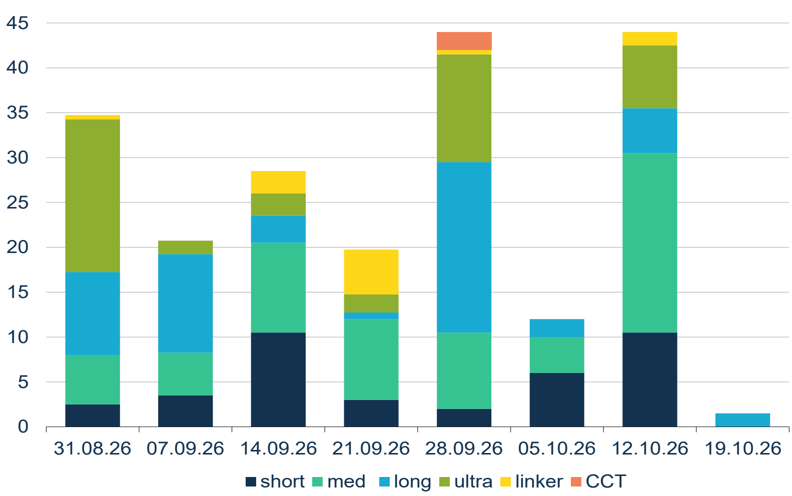
Outlook: Activity to picks up sharply in September

In September, bond issuance by eurozone countries is set to rebound at least as strongly as it declined in the previous month. In line with the typical seasonal pattern, debt managers may set sort of a final funding focus for 2026 at the end of the summer quarter, before primary market activity gradually slows down over the remaining months of the year. The number of syndicated new issuances is likely to remain moderate, though, which is why total gross issuance is unlikely to quite reach the peak levels seen in the first third of the year. We see Italy (30Y) and Austria as potential candidates for syndicated bond issuances in September. The Netherlands has also announced that it will hold an auction at the end of September to place a new ultra-long-term security. For the eurozone as a whole, we expect the gross supply of EUR government bonds to range between 120 and 135 billion (forecast: 129 billion EUR). This compares with 126 billion EUR in September 2025.

New issues from Italy, Austria, and the Netherlands may be in the pipeline

Primary market activity likely to get a late-summer boost

Expected weekly issuance volume of EUR government bonds, by maturity segment (in billions of euros)



Source: Bloomberg, LBBW Research

Weekly average set to rise to about EUR 30 billion

In our view, the "duration load" on the bond market is likely to rise month-over-month in line with gross issuance volumes. What's more, we expect that the combined share of the 10-year and ultra-long segments in the gross supply for September will be around 50%, which is somewhat higher than in the previous month (43%). In terms of issuer segments, the share of peripheral countries is set to normalize to around 40%, following a well-below-average figure of 21% in August. Conversely, Germany's share is falling from 38% to 25%.

Duration load to climb significantly

Germany: Gross issuance set to remain flat

In August, Germany defended its top position in the league table for the euro government bond market with gross issuance of EUR 33 billion. In our view, competition for this position is likely to be fiercer again in September. The Federal Finance Agency is projecting gross issuance of EUR 31 billion. When combined with a tap in Green Bunds (1.5 billion EUR on September 8), this results in roughly flat gross supply compared to the previous month. In the conventional segment, only taps are planned as well. The following securities are being offered: Treasury Note

09/28 (EUR 5 billion on September 15), the OBL 10/31 (EUR 5.5 billion on September 1 plus EUR 5 billion on September 29), and the 10-year Bund 08/36 (EUR 5.5 billion each on September 9 and September 30). In addition, there will be dual taps in the 30-year maturity segment (EUR 2.5 billion on September 16) and in the 15/20-year maturity segment (EUR 2 billion on September 23).

Germany: Taps only

Supply from Italy and Spain set to rebound forcefully

For France, we expect capital market funding of 26 to 28 billion EUR in September, virtually unchanged from the previous month (EUR 26.5 billion). On September 3, we think the Trésor may issue additional 10-year OAT 11/36 bonds and tap two other (ultra-)long-term bonds (total volume: EUR 12 to 13 billion). On September 17, we expect taps in the short- to medium-term maturity segment, including the 5-year OAT 02/32, as well as the issuance of a new inflation-indexed government bond (total volume: 13 to 15 billion EUR). Italy may ramp up its bond issuance particularly sharply on a month-over-month basis, from just EUR 12 billion most recently to EUR 32 billion. Of this amount, up to EUR 10 billion may be attributable to the ultra-long-term syndicated bond we mentioned above. On September 10, the Tesoro may well tap the 3-year BTP 09/29, the 7-year BTP 09/33, and an ultra-long-term bond via auction (estimated volume: EUR 9 billion). As part of the end-of-month auctions (Sept. 24 and 29), we believe the Tesoro may float a new 5-year BTP, along with taps of a 10-year BTP, a short-term BTP, a linker, and a floater (total: EUR 14 billion).

Italy: New 5-year BTP possible

Like Italy, Spain is also set to bring its funding activity back to normal levels in September following the summer lull. Debt managers are likely to use the two auction dates scheduled for September 3 and September 17 to increase the volume of three to four existing bonds each across the entire maturity spectrum – in both cases for a total of EUR 5 to 6 billion. Among them will be an inflation-protected bond on September 3. In addition, we can imagine that a new inflation-protected government bond will be brought to market.

Spain: Supply is returning to “normal”

Highest net issuance to come from Spain and Germany
Details of the government bond supply to be expected in September (in billions of euros)

September 2026 - estimated								
	short	med	long	ultra	linker	Total	ret.	net
France	5,5	7,0	8,0	4,5	2,5	27,5	26,5	1,0
Germany	5,0	10,5	12,5	4,5		32,5	19,9	12,6
Italy	6,5	9,5	3,0	11,5	2,0	32,5	43,1	-10,6
Spain	2,5	3,0	2,5	2,5	3,5	14,0		14,0
Portugal		1,3	0,8			2,0		2,0
Austria		4,0	1,5			5,5	0,3	5,2
Greece			0,5			0,5	0,0	0,5
Belgium		1,5	1,5	1,0		4,0		4,0
Netherlands			2,5	5,0		7,5		7,5
Finland				1,5		1,5	4,9	-3,4
Ireland			1,3			1,3	0,0	1,2
Total	19,5	36,8	34,0	30,5	8,0	128,8	94,7	34,0
in %	15%	29%	26%	24%	6%			

Source: Bloomberg, LBBW Research

Portugal is expected to offer one or two existing OTs with a total volume of 1.25 billion EUR for tapping on September 9. Ireland is set to make what could be its last primary market offering of the year on September 3. The Netherlands is planning two capital market appearances in September, including the placement of a new ultra-long-term bond with a volume of 5 to 6 billion EUR on September 29. On September 8, the Treasury could, in our view, tap the 10-year NETHER 07/36 by approximately 2.5 billion EUR. Belgium is planning an auction for August 28, during which three existing OLOs may be offered for tapping (total volume of EUR 3 to 4 billion), including the 10-year OLO 06/36. From Austria, we expect two

Netherlands to place new ultra-long-term bond existing Bunds to be reopened on September 8 for a total volume of up to 1.7 billion EUR, while Finland is likely to tap two bonds on September 15 (EUR 1 to 1.5 billion).

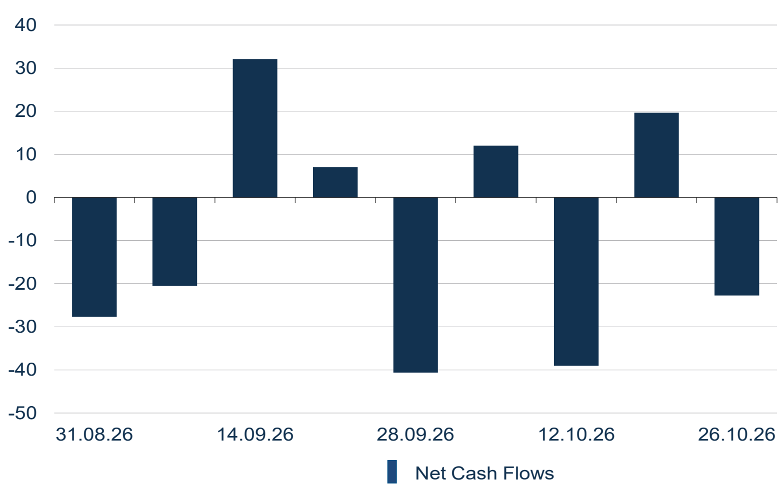
Net issuance: Highest level since June

If our forecast that the primary market will emerge from the summer lull with momentum in September proves accurate, this will play into the hands of the bond bears in the near term. On balance, the supply situation is shifting toward the bond-negative side. Compared to the moderate levels seen in August, net issuance is likely to more than double. It is true that the reflows available for reinvestment are also picking up compared to the previous month. However, they do so to a lesser extent than gross supply: We project gross issuance of EUR 129 billion, which will be offset by reflows of EUR 95 billion next month. Of this amount, EUR 76 billion will be attributable to maturities. Net issuance is therefore set to climb to over EUR 50 billion, up from EUR 23 billion in August. Net cash flows (reflows minus outflows) will be stuck well below zero in the first half of the month, while the picture is set to improve starting in the middle of the month (see the chart below). Another downer is the continued drain of demand resulting from the ECB's "quantitative tightening." According to our estimates, this drain will amount to EUR 15 billion for the EUR government bond market in September, the same as for August. This creates a constant, bond-negative "background noise".

Reflows to rise only moderately compared to August

Net cash flows to be strongly negative in the first half of September

Forecasted net cash flows (reflows minus issuance) per week (in billions of EUR)



Net Cash Flows: Alternating signs from mid-September

Source: Bloomberg, LBBW Research

The maturities in September will be distributed among France (EUR 24.0 billion on September 24), Germany (EUR 19.0 billion on September 17), Finland (EUR 4.0 billion on September 15) and Italy (EUR 28.1 billion on September 15). As a result, net supply on the French and Italian government bond markets will likely be only slightly above zero in each case, which should support prices there, in and of itself.

Maturities in September from France, Germany, Finland and Italy

03 I

Credit Strategy

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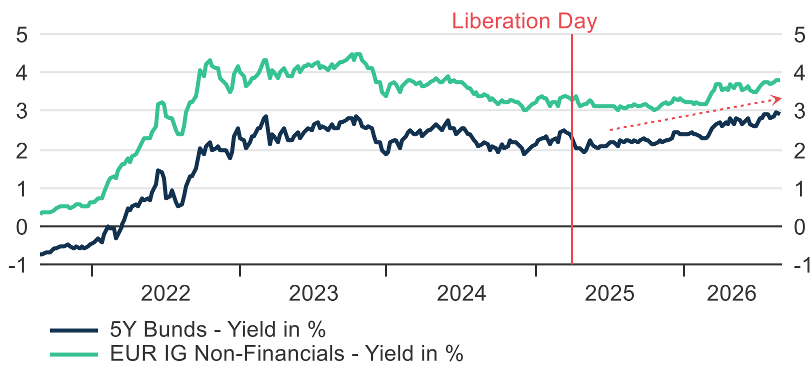
Bunds Drive Corporate Yields

Rising government debt has led to higher yields not only in the U.S. but also in Germany. As a result, corporate bond yields have also risen to new annual highs. For euro-denominated non-financials with investment-grade ratings, the index yield is currently in the 4% range—a level last seen in 2024.

Yields in Sync

Corporate Bond Yields and German Government Bond Yields
EUR IG Non-Financials vs. 5-Year Bunds (Yields in %)



Source: LSEG, LBBW Research

The rise in yields has recently occurred in tandem, as the risk premiums on corporate bonds relative to German government bonds have remained virtually unchanged over the past three months. Spreads against Bunds last peaked at the start of the Iran War (110 basis points for BBB rated corporate bonds). Given the current very low spread level of approximately 90 basis points—which also corresponds to the 12-month median—we expect spreads to rise again in the medium term.

With our new forecast horizon through the end of 2027, we now expect a gentler spread increase towards the long-term median. In our view, a low spread level will be supported by high Bund yields, generally strong corporate earnings, and robust demand for corporate bonds.

BBB Forecasts
12/2026: 100 bps
06/2027: 105 bps
12/2027: 110 bps

BBB Corporate Bond Spreads with LBBW Forecasts
EUR Non-Financials, OAS in basis points

Source: Bloomberg, LBBW Research

04 I

Calendar/Analytics

Developed Markets Overview

	2 Years			10 Years		
Euro Area	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
Bund	2,88			3,27		
Jumbo	3,08	21	-2	3,60	33	-1
Swap	3,08	21	0	3,30	3	1
Netherlands	2,85	-3	0	3,35	8	-1
Austria	2,90	2	0	3,48	21	0
France	3,06	18	-1	4,12	85	-2
Belgium	2,91	3	-1	3,82	55	-3
Italy	3,06	18	0	4,09	82	-1
Spain	2,91	3	-1	3,72	45	-1
Ireland	n.a.	n.a.	n.a.	3,42	15	0
Portugal	2,87	-1	0	3,62	35	0
Greece	n.a.	n.a.	n.a.	3,95	68	-2
EX. EURO AREA	**Yields**	**Spread**	**Change***	**Yields**	**Spread**	**Change***
USA	4,23	135	-3	4,68	141	-7
Canada	2,97	9	-10	3,71	44	-6
Japan	1,71	-117	-1	2,94	-33	4
UK	4,36	148	-3	5,03	176	-4
Switzerland	0,10	-278	-3	0,40	-288	-2

* 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
01.09.2026	Japan	JGB	10Y		JPY 2.6 tn.	
01.09.2026	Germany	OBL	10/31	2.90%	€ 5.5 bn.	Tap
03.09.2026	Japan	JGB	30Y		JPY 700 bn.	
03.09.2026	France	OAT	11/36	3.70%	€ 6 bn.	Tap
03.09.2026	France	OAT	15Y - 30Y		€ 6 bn.	Tap
03.09.2026	Spain	SPGB	3Y - 30Y		€ 5.5 bn.	Tap
03.09.2026	Spain	SGB€i			€ 0.5 bn.	Tap
03.09.2026	Ireland	IRISH			€ 1 bn.	Tap
03.09.2026	UK	UKTI	23Y		GBP 700 mn.	Tap

CW 36: Italy might place a new 30-year benchmark bond via banking syndication.

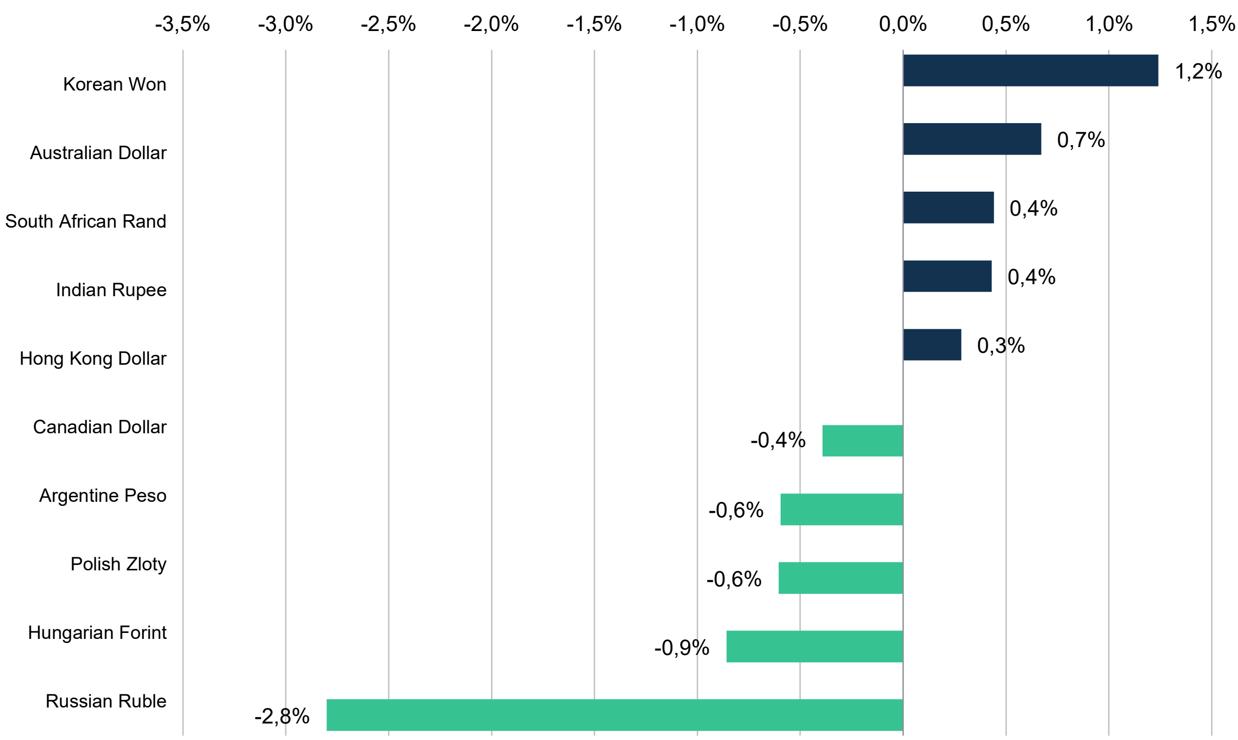
Sources: Bloomberg, LBBW Research

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	10.09.26	2,25%	11.06.26	2,00%	2,9%	↑			
United States	16.09.26	3,75%	10.12.25	4,00%	3,4%	↑	0,4%	1,1646	1,1725
United Kingdom	17.09.26	3,75%	18.12.25	4,00%	2,9%	·	1,7%	0,8570	0,8629
Japan	18.09.26	1,00%	16.06.26	0,75%	1,9%	↗	-1,0%	185,75	184,42
China	***	2,00%	25.09.24	2,30%	0,5%	·	3,2%	7,83	7,75
Switzerland	24.09.26	0,00%	19.06.25	0,25%	0,4%	↗	-2,8%	0,9376	0,9249
Argentina	***	29,00%	31.01.25	32,00%	33,2%	↘	-6,2%	1.761,66	1.969,00
Australia	29.09.26	4,35%	05.05.26	4,10%	3,2%	↗	1,9%	1,62	1,63
Brazil	16.09.26	14,00%	05.08.26	14,25%	4,4%	·	0,7%	6,01	6,28
Canada	02.09.26	2,25%	29.10.25	2,50%	3,0%	↗	-0,9%	1,61	1,61
Czech Republic	17.09.26	3,75%	18.06.26	3,50%	1,7%	·	0,5%	24,16	24,27
Denmark	***	2,00%	12.06.26	1,75%	1,7%	↗	-0,1%	7,47	7,46
Hong Kong	***	4,00%	08.11.24	4,25%	1,7%	↗	0,1%	9,13	9,15
Hungary	22.09.26	5,50%	25.08.26	5,75%	1,2%	↘	3,8%	365,82	370,27
India	07.10.26	5,25%	06.02.25	5,50%	4,5%	↑	-3,6%	111,29	113,81
Indonesia	23.09.26	5,75%	18.06.26	5,50%	2,9%	↘	-4,1%	20.615,26	21.036,27
Mexico	24.09.26	6,50%	07.05.26	6,75%	3,1%	↘	2,4%	19,77	20,20
New Zealand	02.09.26	2,50%	08.07.26	2,25%	4,1%	↑	0,6%	1,95	1,96
Norway	24.09.26	4,25%	07.05.26	4,00%	3,0%	↘	3,1%	10,86	10,96
Poland	09.09.26	3,75%	04.03.26	4,00%	3,0%	↗	-2,3%	4,34	4,37
Romania	08.10.26	6,50%	07.08.24	6,75%	8,2%	↓	-3,1%	5,26	5,34
Russia	11.09.26	14,00%	24.07.26	14,25%	6,0%	·	-9,0%	99,59	106,04
Singapore	***	1,96%	n.a.	1,89%	2,2%	↗	0,6%	1,48	1,47
South Africa	23.09.26	7,00%	28.05.26	6,75%	4,3%	↗	1,0%	18,63	19,01
South Korea	22.10.26	3,00%	27.08.26	2,75%	2,8%	↗	7,4%	1.598,57	1.605,21
Sweden	24.09.26	1,75%	23.09.25	2,00%	0,2%	↘	-3,5%	11,09	11,06
Turkey	10.09.26	37,00%	22.01.26	38,00%	31,8%	·	-8,6%	56,23	65,24

Sources: Bloomberg, LBBW Research

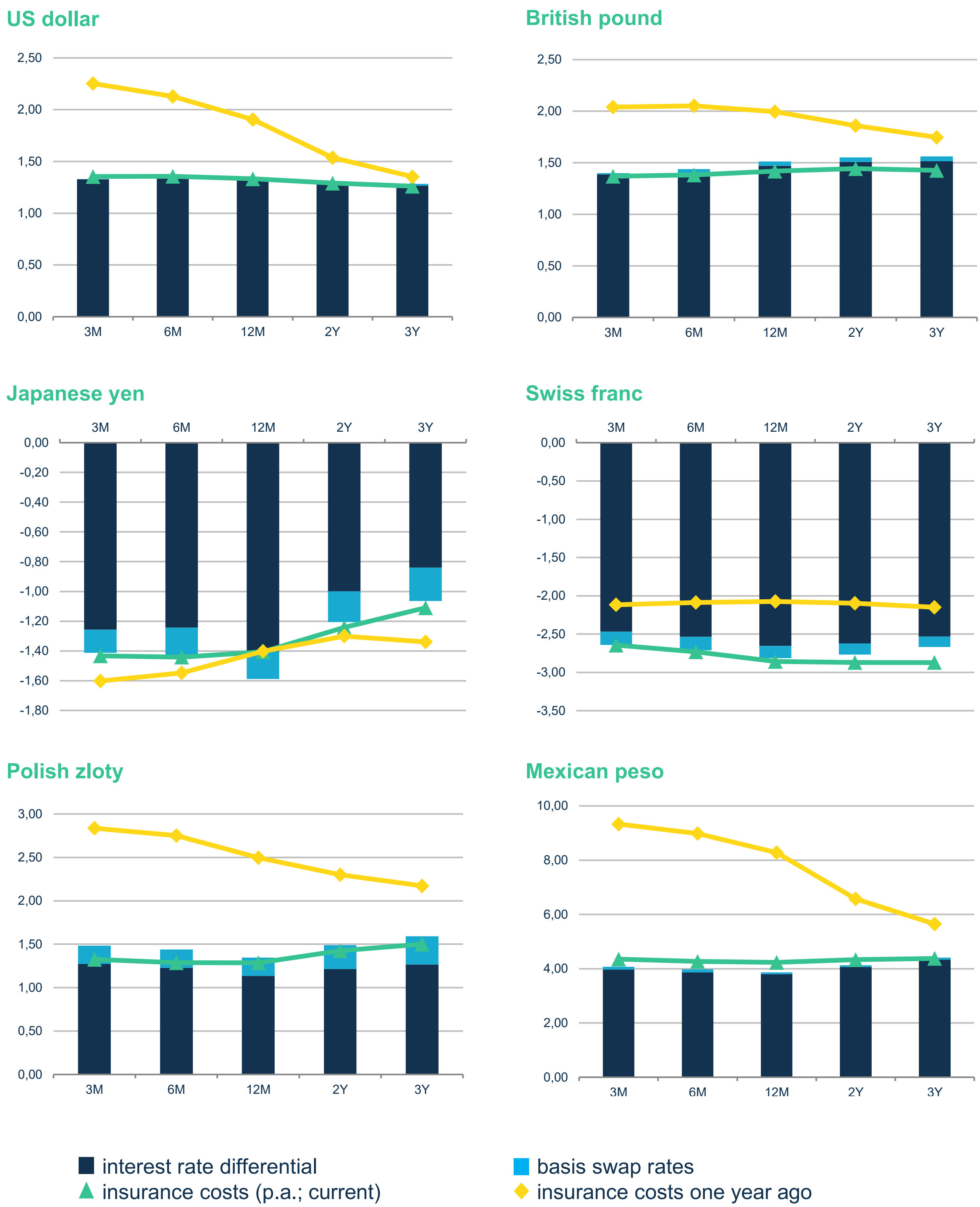
The Strongest Currency Appreciations and Depreciations Against the Euro This Week



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



Sources: Bloomberg, LBBW Research

Credit Spreads

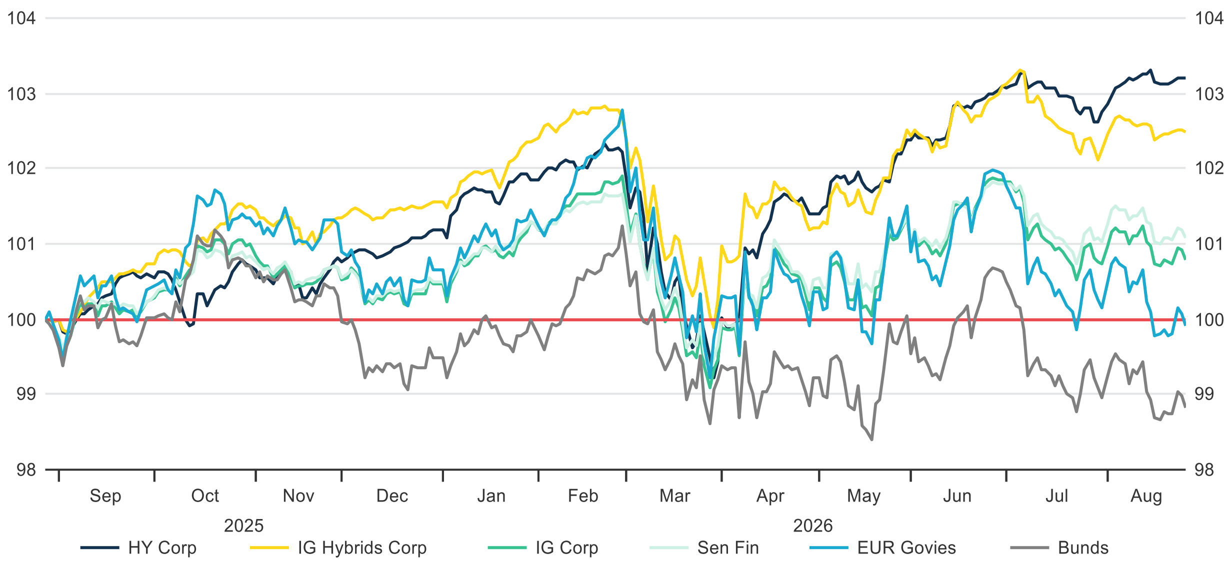
5Y CDS Spreads	Current	Changes 1W	1M	3M	6M	1Y
IG Corporates	51	-1	-3	-2	-5	-4
HY & NR Corporates	247	-4	-13	-15	-13	-17
Senior Financials	54	-1	-2	-2	-6	-7
Sub Financials	87	0	-3	-5	-14	-14

EUR Indices	Current	Changes 1W	1M	3M	6M	1Y
Non-Financials	74	0	-1	-3	-6	-11
Banks Senior Preferred	51	1	0	-4	-8	-13
Banks Senior Bail-in	71	1	1	-3	-10	-13
Banks Subordinated	104	1	0	-7	-13	-29

*time lag of one day, Asset Swap Spreads 28.08.2026

Sources: LSEG, LBBW Research

Performance Credits vs. Bunds (LTM – last twelve months)



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	
Credit	0/+	0/+	Corporate Inv. Grade	0/-	Emerging Markets Debt	
		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

05 | Disclaimer

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