

Euro wrap-up

Overview

- While the ifo survey suggested that the German business climate stabilised at the start of the year, Bunds made gains as the outlook for the coming six months was judged to have worsened.
- Gilts followed USTs higher on a quiet day for UK economic news.
- Tuesday will bring the results from the latest surveys on euro area bank lending, French consumer confidence and UK shop price inflation, as well as Q4 GDP figures from Ireland.

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	2.242	-0.041
OBL 2.4 04/30	2.337	-0.041
DBR 2½ 02/35	2.529	-0.037
UKT 4½ 01/27	4.276	-0.040
UKT 4½ 07/29	4.278	-0.055
UKT 4½ 07/34	4.584	-0.043

*Change from close as at 5.00pm GMT.

Source: Bloomberg

Euro area

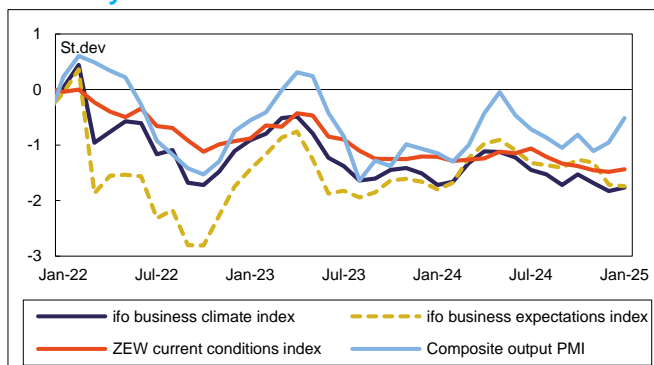
German ifo business climate index stabilises in January, but outlook remains gloomy

Like last week's [flash PMIs](#) and [ZEW investor](#) survey, Germany's ifo survey today suggested that business conditions in the euro area's largest member state improved slightly at the start of 2025. In particular, the headline ifo business climate index rose for just the second month out of the past nine, by 0.4pt to 85.1, with the current assessment index up for a second successive month to a six-month high of 86.1. But contrasting a more marked pickup in the composite PMI, these indices remained below the average of the past year and well below the long-run average to suggest stabilisation at the bottom of the recent downtrend. Moreover, given significant uncertainties – related not least to the outcome of the federal election next month, persisting weak demand and competitiveness challenges, and potential US trade barriers – firms were still extremely gloomy about the coming six months. Indeed, the respective index fell to a 12-month low of 84.2, some 2% below the average of the past two years and 12% below the long-run trend. Overall, the survey indicators remain consistent with an absence of growth in German GDP in the first half of 2025, with risks to the outlook further ahead clearly skewed to the downside too.

Services firms more upbeat, but conditions in manufacturing continue to deteriorate

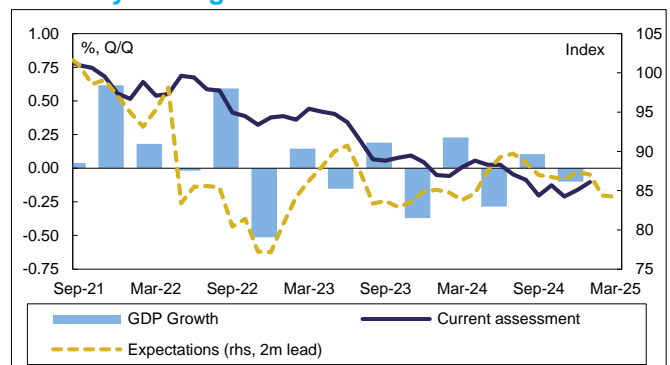
Tallying with the PMIs, the modest improvement in the business climate was led by services, where current conditions were judged to be the best in seven months. Firms in the sector – particularly IT service providers – were also less downbeat about the outlook, raising some tentative hopes that Germany will avoid a technical recession at the turn of the year. This notwithstanding, retailers expect the business situation to worsen significantly over the coming six months, seemingly doubting that they will see the hoped-for consumption-led recovery this year. While constructors were the least pessimistic about the current situation since July 2023 – with recent demand perhaps benefiting from a turnaround in house prices and decline in mortgage interest rates – they remained relatively gloomy about the outlook. And contrasting the improvement signalled by the manufacturing PMIs, today's ifo survey suggested that the current business situation in the sector remains extremely weak by historical standards and consistent with a non-negligible drag on GDP growth. Moreover, with orders continuing to decline and concerns persisting that higher US tariffs will hit production, manufacturers were increasingly gloomy about the outlook, with the respective expectations index dropping to a 13-month low and well below the long-run average.

Germany: Business sentiment indices



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

Germany: GDP growth & ifo sentiment indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

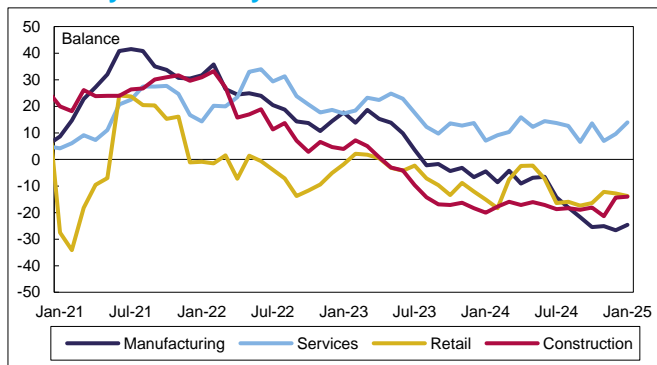
Tomorrow will bring the ECB’s Bank Lending Survey results for Q4. With the Governing Council having been gradually removing policy restrictiveness since the summer, today’s ECB survey on the Access to Finance of Enterprises (SAFE) in the euro area reported a net decrease in the interest rate charged to firms for the first time this cycle in Q4, a welcome sign for policymakers ahead of Thursday’s rate-setting meeting. Admittedly, the share of SMEs reporting a decline was negligible at a net 1%, while a net 7% of large firms again reported a decline. This notwithstanding, respondents noted that firms’ demand for bank loans remained subdued amid a still-restrictive financing environment and, to an increasing extent, the dim economic outlook. So, although policymakers will be hopeful to see banks report expectations for an increase in loan demand and less restrictive credit standards in Q125, tomorrow’s Bank Lending Survey will likely continue to show that business loan demand continued to lag behind the recovery in consumer credit and mortgage lending. Elsewhere, consistent with the marginal improvement in January’s flash Commission consumer confidence index, tomorrow’s INSEE French consumer confidence indicator is expected to improve slightly, although remain close to December’s 12-month low in January. Meanwhile, ahead of the euro area’s Q4 GDP estimate on Thursday, data on Irish GDP will be closely watched, with growth likely to be markedly softer than in Q3 (3.5%Q/Q). Spanish unemployment data for Q4 are also due.

UK

The day ahead in the UK

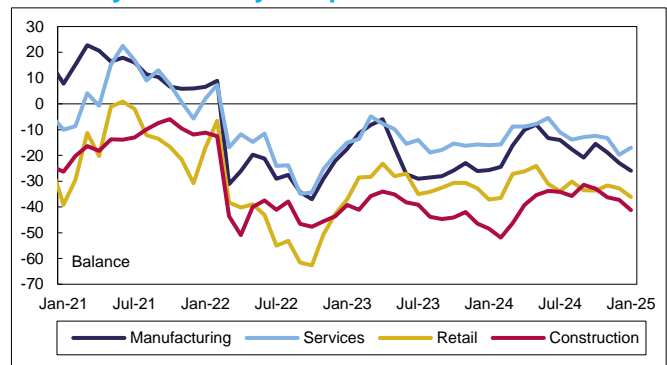
After a quiet start to the week for UK economic news, tomorrow will bring just the BRC shop price index for January. And with ongoing discounting in non-food categories (-2.4%Y/Y in December) having helped to drive an overall deflationary trend on the high street over recent months (-1.0%Y/Y in December), January’s traditional sales period will be expected to lower prices in this category on a month-on-month basis. However, given the large discounts in non-food products in January last year (-1.4%M/M), and particularly for clothing (-5.9%M/M), the pace of decline in the BRC’s headline shop price inflation measure might moderate slightly.

Germany: ifo survey – current situation indices



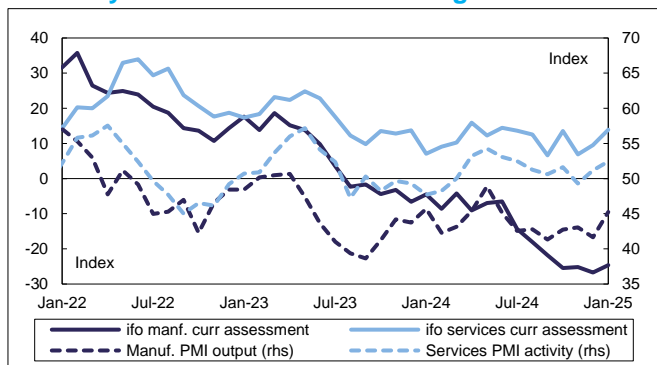
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo survey – expectations indices



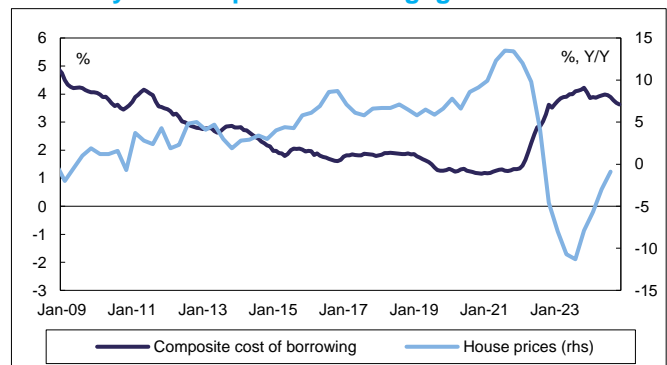
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Services & manufacturing sentiment



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

Germany: House prices & mortgage interest rates






Source: Macrobond and Daiwa Capital Markets Europe Ltd.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 ifo business climate indicator	Jan	85.1	84.8	84.7	-
	 ifo current assessment (expectations) indicator	Jan	86.1 (84.2)	85.4 (85.0)	85.1 (84.4)	-
France	 Total jobseekers mn	Q4	2.93	-	2.81	-




Auctions

Country	Auction
- Nothing to report -	







Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
France	 07.45	INSEE consumer confidence indicator	Jan	90	89
Spain	 08.00	Unemployment rate %	Q4	11.1	11.2
UK	 07.00	BRC shop price index Y/Y%	Jan	-0.7	-1.0

Auctions and events

Euro area	 11.00	ECB to publish quarterly Bank Lending Survey for Q424
Germany	 10.30	Auction: to sell up to €5bn of 2027 bonds
Italy	 10.00	Auction: to sell up to €3bn 2.55% 2027 bonds
	 10.00	Auction: to sell up to €1.25bn of 1.5% 2029 inflation-linked bonds
	 10.00	Auction: to sell up to €1.25bn of 1.8% 2036 inflation-linked bonds
UK	 10.00	Auction: to sell £1.5bn of 1.125% 2035 inflation-linked bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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