Euro wrap-up

Overview

- Despite a significant upside surprise to German industrial production and modest growth in euro area retail sales, Bunds ended the day little changed.
- Gilts made moderate gains on a quiet end to the week for UK economic news.
- The coming week will bring November data for euro area industrial production and trade, and UK monthly GDP, as well as a first estimate of German GDP in Q4.

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	2.098	+0.007
OBL 2.2 10/30	2.412	+0.003
DBR 2.6 08/35	2.861	-0.001
UKT 3¾ 03/27	3.639	-0.006
UKT 4⅜ 03/30	3.837	-0.014
UKT 4½ 03/35	4.378	-0.025

*Change from close as at 4:15pm GMT.
Source: Bloomberg

Euro area

Retail sales on track for firmer growth in Q4 with strength in Spain & France

Today's euro area retail sales data strongly suggest a pickup in spending momentum in Q4. Sales volumes rose 0.2%M/M in November, marking a third successive month of expansion as growth in October was revised up to 0.3%M/M. That left volumes up in November by a respectable 2.3%Y/Y and trending 0.5% above the Q3 average level. So, sales likely accelerated in Q4 after growing 0.2%Q/Q in Q3. Among the member states, German sales took a step back in November but still appear on track for modest expansion over Q4. And retail growth in the other large member states has been firm, trending 1.0% above the Q3 level in Spain, close to that pace in France, and 0.4% higher on the same basis in Italy. Euro area sales of both food and fuel fell in November leaving core goods as the source of growth, up for a third month and by 0.4%M/M to be trending 0.5% above the Q3 average. The drivers of retail sales and broader consumer spending appear broadly favourable. While it softened towards year-end, consumer confidence in Q4 was the firmest in three quarters, and perhaps sufficiently strong to allow for an easing in the elevated savings rate. Moreover, with the euro area unemployment rate close to the series low and job growth modestly positive, real disposable incomes continue to rise, benefiting from continued strong but moderating pay growth as well as slowing inflation. Given also rising auto sales and increased spending on services, euro area private consumption growth in Q4 likely doubled the 0.2%Q/Q rate recorded in Q3. And in the absence of shocks, it should grow at or above 1¼%Y/Y in 2026 for a third successive year.

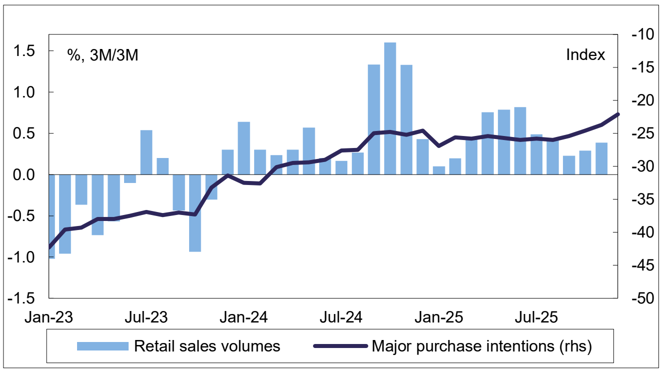
German IP beat expectations in November, suggesting a non-negligible boost to GDP growth in Q4

After yesterday's figures reported a surge in new factory orders in November, today's German industrial production data also significantly beat expectations, providing further tentative evidence that the manufacturing sector is finally turning for the better. Industrial output rose for a third month in November – the longest run of growth for 3½ years – by a stronger-than-expected 0.8%M/M to the highest level since March. The extent of the pickup was restrained by a marked drop in energy production (-7.8%M/M) and moderate decline in construction activity (-0.8%M/M). But given solid growth in prior months, energy output was still tracking sideways compared with the Q3 level, while construction was more than 2% higher on the same basis. Most importantly, a third monthly increase in manufacturing output, by 2.1%M/M, the most in eight months, similarly left it tracking 2% higher in Q4.

Manufacturing growth in November driven by autos & machinery, but broad-based rise so far in Q4

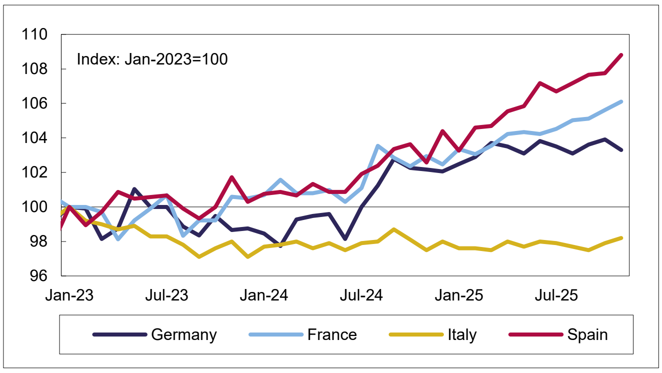
Manufacturing growth in November was principally driven by a rebound in the autos sector (7.8%M/M). Positively too, today's data reported solid growth in production of machinery equipment and metals, suggesting support from government

Euro area: Retail sales & consumer confidence



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

Euro area member states: Retail sales volumes



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

plans to increase infrastructure and other capex. Perhaps inevitably, signals from business surveys such as the ifo indices and PMIs suggest some payback to production in December. But truck toll mileage – often a useful guide to manufacturing output – rose sharply in December. And overall, we expect industry to provide a boost to the economy in Q4, further supporting our expectation of a return to modestly positive growth in German GDP. While supply constraints might remain a challenge in certain subsectors, including autos, data processing and electrical equipment, the recovery in new factory orders points to continued manufacturing growth into the new year too.

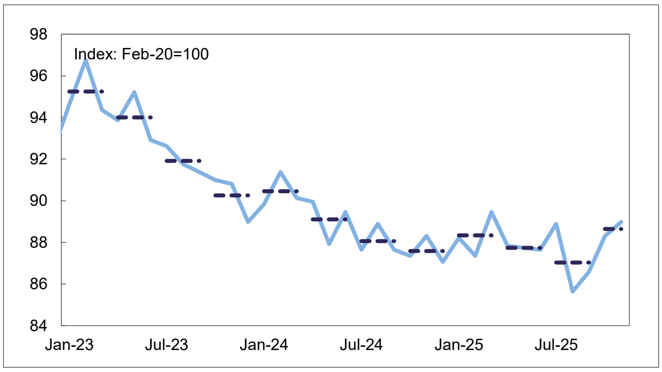
German trade surplus narrowed sharply in November as exports fell the most in 18 months

Today's German goods trade data, however, disappointed, illustrating persistent downside risks from diminished German competitiveness, increased competition from China and higher global tariff barriers. Most notably, the value of exports fell a sharp 2.5%M/M in November, the most in 18 months, to the lowest level since October 2024. The weakness in November was principally led by a drop in shipments to the rest of Europe (-3.8%M/M) to a three-month low. But there was also an ongoing downtrend in shipments to the US (-4.2%M/M) to a four-year low, tracking more than 3% below the Q3 average and a whopping 25% below the pre-tariff hike peak in March. Unusually, exports to China provided some relief (3.4%M/M), while shipments to Japan rose to a six-month high. But Chinese exports were still down more than a quarter from the pre-pandemic peak in Q419. And with imports from that country rising to a three-year high in November, Germany's bilateral trade deficit with China widened to one of the largest on record. Overall, with total goods import values rising 0.8%M/M in November, Germany's total goods trade surplus fell more than €4bn to €13.1bn, the lowest since end-2022. So, notwithstanding significant monthly volatility in the series, today's figures suggest that net trade was likely a modest drag on German GDP growth in Q4 for a seventh quarter out of the past eight.

French IP underwhelms in November, but on track for modest growth in Q4

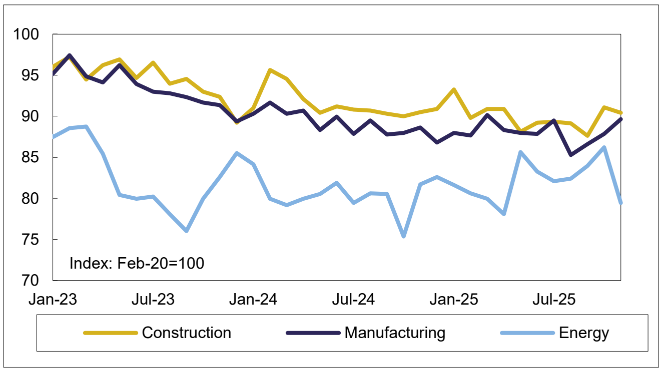
In contrast to the improvement in Germany, today's industrial production data from France underwhelmed, with output edging slightly lower in November, by 0.1%M/M. But while the rise in October was similarly lacklustre, the level of output was still in line with the average of the previous six months and close to the top of the post-pandemic range. More encouragingly, manufacturing production rose (0.3%M/M) for a second month out of three. While this was driven by a partial rebound in autos and a further jump in 'other transport equipment' to the highest level in 5½ years, manufacturing of machinery equipment partially bounced back too. There were also increases in industrial production in November in Spain (1.0%M/M) for a third month and Ireland (1.5%M/M) for a second month. Overall, therefore, figures published so far by the member states suggest that aggregate euro area industrial production – data due for release on Thursday – rose for a fourth month out of five in November, by a little more than ½%M/M. And this would leave IP tracking between ½-1% above the Q3 average, suggestive of a further modest boost to euro area GDP growth from the factory sector in Q4.

Germany: Industrial output*



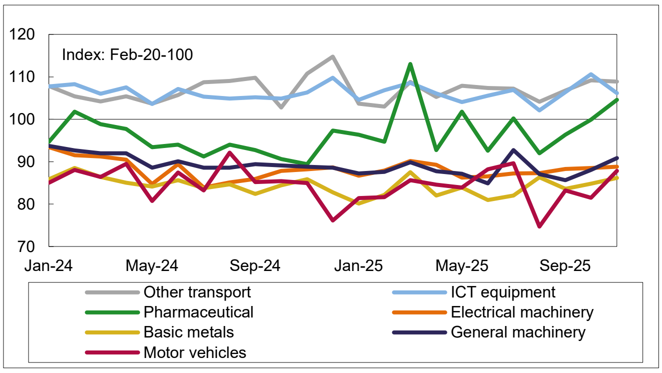
*Dashed dark blue lines represent quarterly average.
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Industrial output, by sector



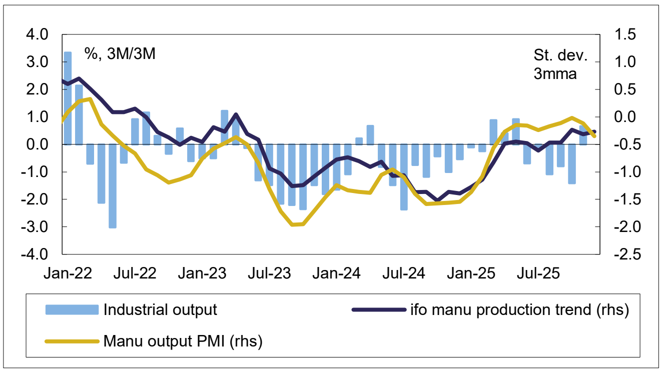
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing output, by sector



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Industrial output & survey indices



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

The week ahead in the euro area

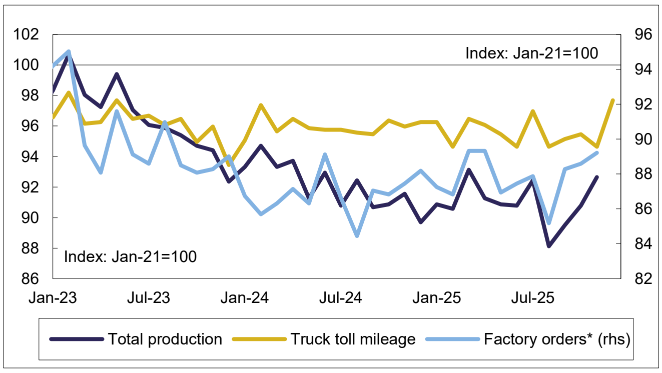
Thursday's IP data for November (discussed above) will be accompanied by euro area goods trade figures for the same month. Member state data thus far – most notably from Germany (see above) and France, but so far in the absence of Ireland which has had a marked impact in recent months – imply that the goods surplus narrowed a touch in November. Though the value of extra-euro area exports appears to have edged slightly lower, the smaller surplus should principally reflect a rise in imports following a dip in October. Also notable on Thursday will be the release of the first full-year estimate of German GDP growth in 2025, which will include a preliminary view of Q4 growth. German GDP likely rose by 0.2%Y/Y in 2025 following the contraction of 0.5%Y/Y in 2024. And it likely expanded in Q4 for the first time since Q1 and by 0.2%Q/Q following a flat third quarter.

Activity aside, final inflation estimates for Germany and Italy (Friday), preceded the day before by those from France and Spain, will also be of interest. Barring Italy, inflation eased in each of those member states last month and surprised to the downside in Germany (2.0%Y/Y, down 0.6ppt). As such, December's flash euro area reading only narrowly rounded to match the ECB's inflation target (1.96%Y/Y to 2dp). So, slight downwards revisions to the final national measures could lead the aggregate euro figure to be adjusted down 0.2ppt on the month in December to a below-target 1.9%Y/Y. And while lower fuel price inflation was predictably the key driver in that decline, focus will be given to the details to account for signs of softness in prices of core components and food. Otherwise, January's Sentix indicator (Monday) marks the lone data release for the euro area in the first half of the week, providing a first view of investor sentiment at the start of 2026.

The week ahead in the UK

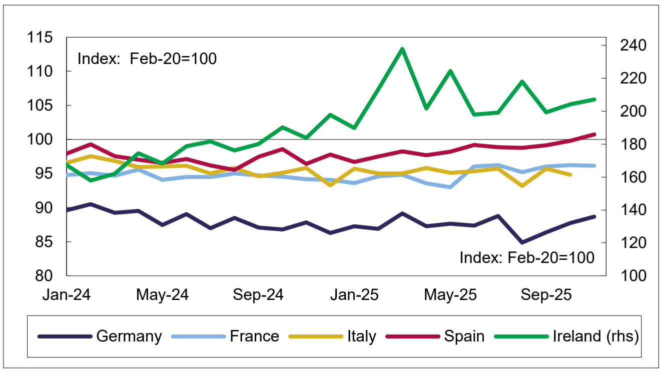
The coming week's UK economic highlight will be November's monthly GDP report (Thursday). Despite an upwards impulse from manufacturing (0.5%M/M) – reflecting a first rebound from the previous month's shutdown at JLR – pullback in the much larger services sector (-0.3%M/M) meant that GDP disappointed in October, edging down 0.1%M/M for a second consecutive month. Since JLR reported that factory production had returned to normal levels by mid-November, it's likely that manufacturing will continue to claw back its losses. Services, such as in communications and the professional subsectors, might also receive some payback for weakness in October. But there is good reason to expect growth in services to be modest. Indeed, despite a pickup in consumer credit and hopes of a Black Friday boost, retail sales volumes continued to edge lower in November. Moreover, the PMIs suggest that Budget uncertainty continued to weigh on business activity, with construction reporting its steepest contraction since the first COVID-lockdown and GFC before that. Wetter weather and an earlier flu season might have also dampened consumer-facing services. As a result, we expect GDP growth to have been only slightly positive, with GDP growth on a three-month basis likely edging slightly further into negative territory to -0.2%3M/3M, consistent with our forecast of a slight contraction over Q4 as a whole.

Germany: Selected factory sector indicators



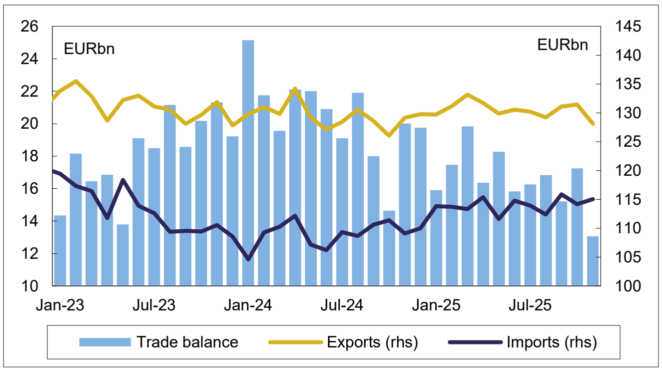
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: Industrial production



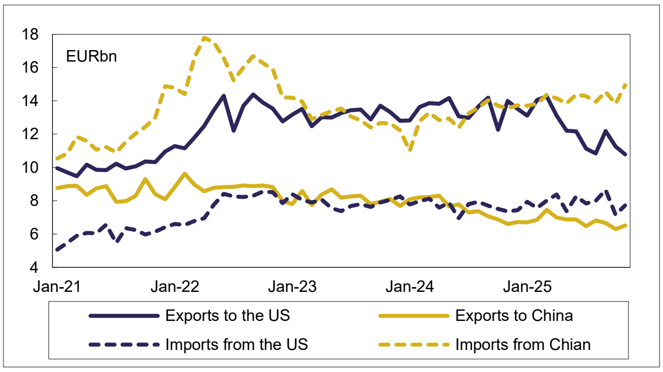
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Goods trade balance, exports & imports*



**Seasonally adjusted values.*
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Exports to & imports from the US & China



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Thursday's GDP release will be accompanied by a couple of surveys. The BoE's quarterly Bank Liabilities and Credit Conditions surveys will provide an update on banks' assessments of credit availability and loan demand expectations for the current quarter. December's RICS survey will provide insights to whether housing market fortunes improved in the aftermath of November's Budget announcements. Earlier in the week, the BRC's retail monitor (Tuesday) will give an indication of the strength of sales over the festive period. Given the prior weakness in consumer spending, receding political uncertainty and uptick in consumer confidence last month, we expect a modest improvement supported by ongoing discounting. Besides the data, the week ahead will also bring a resumption of BoE-speak, with BoE Governor Bailey (Tuesday), Deputy Governor Ramsden and dovish external MPC member Taylor due to give speeches (both on Wednesday). However, Ramsden's focus will be the BoE's bank resolution regime, so he might be expected to refrain from comments on monetary policy.

Daiwa economic forecast

	2025			2026			2025	2026	2027
	Q2	Q3	Q4	Q1	Q2	Q3			
GDP	%, Q/Q						%, Y/Y		
Euro area	0.1	0.3	0.3	0.3	0.3	0.3	1.4	1.1	1.3
UK	0.3	0.1	-0.1	0.3	0.3	0.3	1.3	0.8	1.3
Inflation, %, Y/Y									
Euro area									
Headline HICP	2.0	2.1	2.1	1.7	1.8	1.6	2.1	1.7	1.7
Core HICP	2.4	2.3	2.4	2.3	1.8	1.6	2.4	1.8	1.6
UK									
Headline CPI	3.5	3.8	3.4	3.1	2.1	2.2	3.4	2.4	2.0
Core CPI	3.7	3.6	3.3	3.2	2.5	2.5	3.5	2.6	1.8
Monetary policy, %									
ECB									
Deposit Rate	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Refi Rate	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
BoE									
Bank Rate	4.25	4.00	3.75	3.75	3.50	3.25	3.75	3.25	3.00

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

The Euro wrap-up will next be published on Tuesday 13 January 2026

The coming week's data calendar

The coming week's key data releases

Country		GMT	Release	Period	Market consensus/ *Daiwa forecast*	Previous
			Monday 12 January 2026			
Euro area		09.30	Sentix investor confidence indicator	Jan	-4.9	-6.2
			Tuesday 13 January 2026			
UK		00.01	BRC retail monitor – like-for-like sales Y/Y%	Dec	-	1.2
			Wednesday 14 January 2026			
			- Nothing scheduled -			
			Thursday 15 January 2026			
Euro area		10.00	Industrial production M/M% (Y/Y%)	Nov	*0.5 (2.3)*	0.8 (2.0)
		10.00	Trade balance €bn	Nov	-	14.0
Germany		09.00	GDP* Y/Y%	2025	0.2	-0.5
		09.00	Government fiscal balance % of GDP	2025	-	-2.7
France		07.45	Final HICP (CPI) Y/Y%	Dec	*0.7 (0.8)*	0.8 (0.9)
Italy		09.00	Industrial production M/M% (Y/Y%)	Nov	0.6 (0.1)	-1.0 (-0.3)
Spain		08.00	Final HICP (CPI) Y/Y%	Dec	*3.0 (2.9)*	3.2 (3.0)
UK		00.01	RICS house price balance %	Dec	-16	-16
		07.00	Monthly GDP M/M% (3M/3M%)	Nov	*0.1 (-0.2)*	-0.1 (-0.1)
		07.00	Services output M/M% (3M/3M%)	Nov	0.1 (0.0)	-0.3 (0.0)
		07.00	Industrial output M/M% (Y/Y%)	Nov	0.1 (-0.4)	1.1 (-0.8)
		07.00	Construction output M/M% (Y/Y%)	Nov	-0.2 (-0.2)	-0.6 (0.9)
		07.00	Trade (goods trade) balance £bn	Nov	-2.4 (-20.4)	-4.8 (-22.5)
			Friday 16 January 2026			
Germany		07.00	Final HICP (CPI) Y/Y%	Dec	*2.0 (1.8)*	2.6 (2.3)
Italy		09.00	Final HICP (CPI) Y/Y%	Dec	*1.2 (1.2)*	1.1 (1.1)

**Non-seasonally adjusted. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.*

The coming week's key events & auctions

Country		GMT	Event / Auction
			Monday 12 January 2026
UK		00.01	REC, KPMG & S&P Global Report on Jobs for January
			Tuesday 13 January 2026
Germany		10.30	Auction: to sell up to €6bn of 2031 bonds
Italy		10.00	Auction: to sell up to €4bn of 2.4% 2029 bonds
UK		10.00	Auction: to sell £900mn of 1.125% 2035 inflation-linked bonds
		09.00	BoE Governor Bailey to give speech at meeting of the Bellagio Group, at BoE
			Wednesday 14 January 2026
Germany		10.30	Auction: to sell up to €1bn of 3.25% 2042 bonds
		10.30	Auction: to sell up to €1bn of 0% 2052 bonds
		10.30	Auction: to sell up to €1bn of 2.9% 2056 bonds
UK		09.15	MPC external member Taylor to give speech titled 'Driving over the peak – or a false summit' at National University of Singapore
		10.00	Auction: to sell £4.5bn of 4.75% 2035 bonds
		15.30	BoE Deputy Governor Ramsden to give speech titled 'The evolution of resolution' at Kings College London
			Thursday 15 January 2026
Euro area		09.00	ECB to publish Economic Bulletin
UK		09.30	BoE to publish quarterly Bank Liabilities & Credit Conditions surveys for Q425
Spain		09.30	Auction: to sell 2.35% 2029, 3.5% 2041 & 1.45% 2071 bonds
			Friday 16 January 2026
			- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Daiwa Capital Markets

Today's results

Economic data							
Country	Release	Period	**Actual**	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area	Retail sales M/M% (Y/Y%)	Nov	**0.2 (2.3)**	*0.0 (1.7)*	0.0 (1.5)	0.3 (1.9)
Germany	Industrial production M/M% (Y/Y%)	Nov	**0.8 (0.8)**	-0.7 (-1.0)	1.8 (0.8)	2.0 (1.0)
	Trade balance €bn	Nov	**13.1**	16.4	16.9	17.2
France	Industrial production M/M% (Y/Y%)	Nov	**-0.1 (2.1)**	-0.2 (1.6)	0.2 (1.7)	- (1.8)
	Consumer spending M/M% (Y/Y%)	Nov	**-0.3 (0.0)**	-0.1 (0.2)	0.4 (0.4)	0.5 (0.6)
Italy	Retail sales M/M% (Y/Y%)	Nov	**0.5 (1.3)**	-	0.5 (1.3)	-
Spain	Industrial production M/M% (Y/Y%)	Nov	**1.0 (4.5)**	-	0.7 (1.2)	0.6 (-)
Auctions						
Country	Auction					
	- Nothing to report -					

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research blog at:
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