

Euro wrap-up

Overview

- Bunds followed USTs lower while German retail sales data confirmed a return to growth in Q4.
- While the final UK manufacturing PMI survey pointed to ongoing recovery in the sector with the orders index up to a four-year high, Gilts made very modest gains.
- Tuesday will bring the flash January inflation estimate for France as well as the latest ECB Bank Lending Survey.

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Daily bond market movements		
Bond	Yield	Change
BKO 2.1 03/28	2.106	+0.026
OBL 2% 04/31	2.442	+0.027
DBR 2.9 02/36	2.862	+0.021
UKT 3% 03/27	3.693	-0.008
UKT 4% 03/30	3.937	-0.008
UKT 4½ 03/35	4.510	-0.010

*Change from close as at 4:30pm GMT.
Source: Bloomberg

Euro area

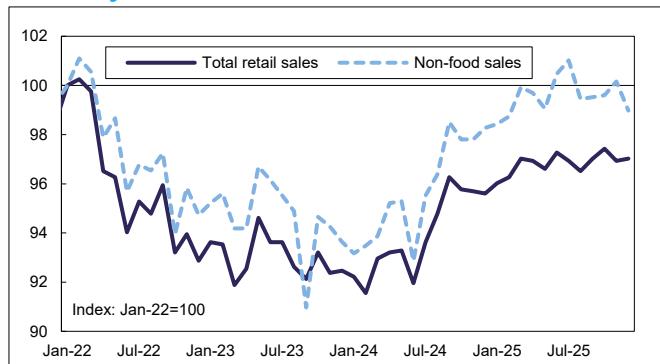
German retail sales return to growth in Q4, with surveys suggesting further recovery ahead

After Friday's [German GDP](#) data showed that economic activity grew in Q4 for the first time since Q1 and by a stronger-than-expected 0.3%Q/Q, at face value today's retail sales figures looked relatively soft. Sales volumes increased just 0.1%M/M in December after declining 0.5%M/M in November. But thanks to solid growth at the start of the quarter and positive carryover from Q3, sales were still up 0.3%Q/Q in Q4 and so more than reversed the modest contraction in Q3 (-0.1%Q/Q). Admittedly, growth was dependant on food sales, which rebounded 1.5%M/M in December and 1.1%Q/Q in Q4, matching the strongest quarterly pace since Q122. In contrast, consistent with survey reports of weak spending in the run up to Christmas, non-food sales fell a sharp 1.2%M/M in December and 0.4%Q/Q in Q4, marking the first quarterly decline in seven. According to the ifo survey, retailers reported stronger sales at the start of the year and judged the outlook for the coming six months to be the most favourable since July. And with real income growth strong and the labour market stabilising, the GfK survey implied that household purchase intentions in January were the strongest in almost four years, so we expect retail sales and household consumption to grow steadily over coming quarters too.

Euro area manufacturing PMIs point to tepid stabilisation at the start of the year

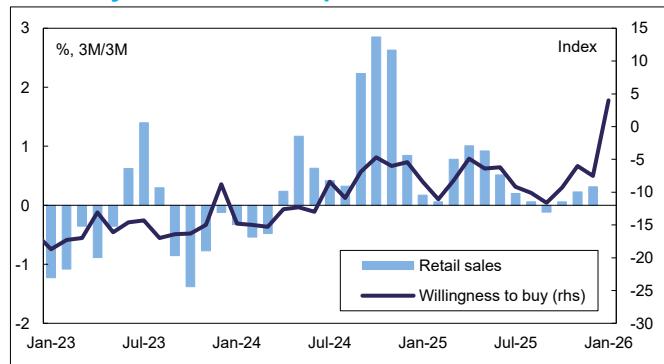
After falling sharply at the end of 2025, today's final January manufacturing PMIs suggested some stabilisation in the sector at the start of the year. In particular, the euro area output index was revised up a touch from the flash estimate, by 0.3pt to 50.5, a three-month high, while manufacturers were more optimistic about the coming 12 months than at any time in the past three years. Consistent with positive signals from the ifo survey, the respective German output PMI was revised higher from the flash by a larger 0.9pt to 51.4, similarly a three-month high. And the rise to a near-four-year high in the French index (52.1) was confirmed. But the additional detail provided in today's survey suggested that, with the exception of Greece, manufacturing elsewhere in the region remained relatively lacklustre at the start to the year. Indeed, while the respective indices from Italy, Spain and the Netherlands rose in January, they remained well below their Q4 averages. And although there was a marked jump in the respective German index (up 4½pts to 50.4), today's survey suggested that new orders in the region remained subdued. More positively, the PMIs suggested that firms' purchases of inputs were stabilising, perhaps reflecting the recent easing in material shortages in Germany as flagged by the ifo survey. However, they also pointed to an ongoing desire among firms to reduce headcount in the sector. In part, that probably reflects rising cost pressures, including those from energy, transport and metals, which drove the input price PMI to a three-year high. At the same time, the survey's output price index implied that pricing power remained constrained by soft demand, suggesting that underlying goods inflation is likely to remain absent for a while to come.

Germany: Retail sales volumes



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Retail sales & purchase intentions



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

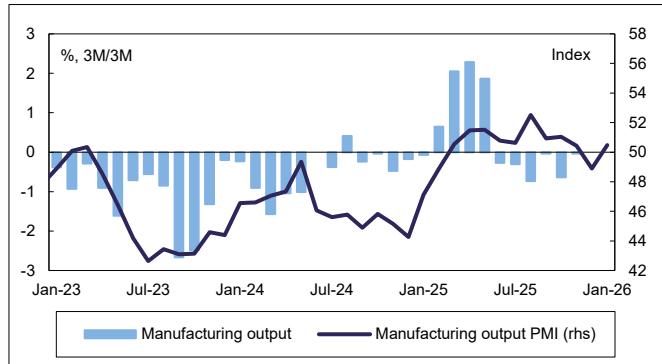
With January's flash euro area inflation estimates scheduled for release on Wednesday, the highlight of Tuesday's economic dataflow will be the equivalent preliminary data from France. Notwithstanding a slight increase in the German headline rate, the flash estimates from the member states released so far have mostly pointed towards a weaker euro area print, reflecting favourable base effects in the energy component following a sharp price increase a year earlier. As in Spain, those energy-related effects are likely to precipitate a decline in French inflation, albeit whilst being more modest and only temporary in nature. Indeed, while energy base effects could see headline inflation fall closer to 1½%Y/Y in January, they should then lead a rebound in February, to around 1%Y/Y. Meanwhile, as the unemployment rate in the euro area fell back to the series low in December, Tuesday will also provide an indication as to whether robust jobs growth in Spain carried over into the start of this year. And just before the Governing Council convenes for this week's monetary policy meeting, the ECB's quarterly Bank Lending Survey will provide insights into credit conditions in Q4 and expectations for the demand and supply of bank loans in the current quarter.

UK

UK manufacturing PMI joint-strongest since September 2024, with orders up to a near-4-year high

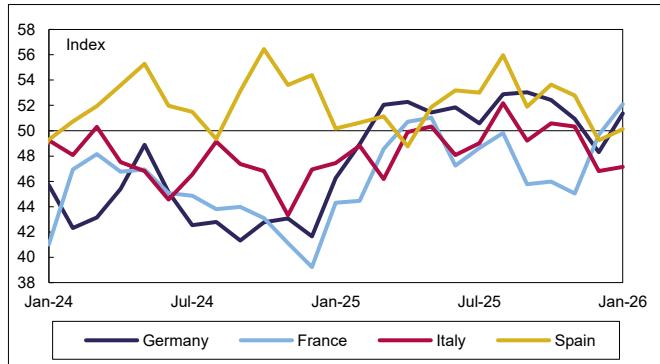
According to the PMIs, there was a more convincing recovery in the factory sector in the UK than in the euro area at the start of the year. In particular, the modest upwards revision to the UK output component in January, to 51.6, matched October's 13-month high and marked the fourth successive 'expansionary' reading. While the improvement in October was flattered by the resumption of operations at Jaguar Land Rover after September's cyberattack, today's survey suggested an encouraging recovery in demand, with the new orders PMI jumping 3pts to 53.2, a near-four-year high. The survey reported growth across the consumer, intermediate and investment subsectors. And overseas orders were the firmest since August 2021 amid reports of stronger demand from Europe, China and the US. With stocks of finished goods down, the orders-to-inventory ratio rose to the highest since August 2024 pointing to the likelihood of an ongoing recovery in production over coming months. Certainly, business optimism in the sector rose again in January, with almost 60% of respondent manufacturers expecting to increase output in the 12 months ahead. As such, while firms signalled their intention to keep cutting headcount at the start of the year, the pace of job-shedding was the slowest in 15 months, while staffing levels reportedly rose at investment goods producers. In terms of inflation, costs in January rose the most in six months due to higher prices of energy, food, freight, packaging and plastics. But these pressures remained relatively subdued by historical trends. And while today's survey implied that firms were able to pass on some of these higher costs to customers, increases

Euro area: Manufacturing output & PMI



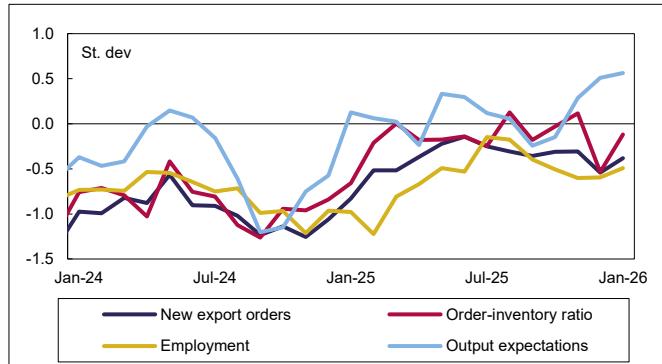
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing output PMIs



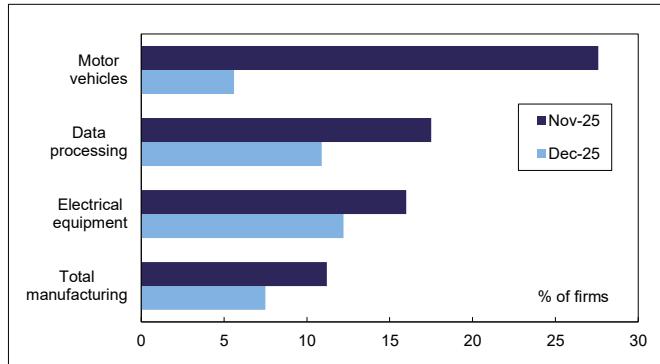
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing PMI components



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

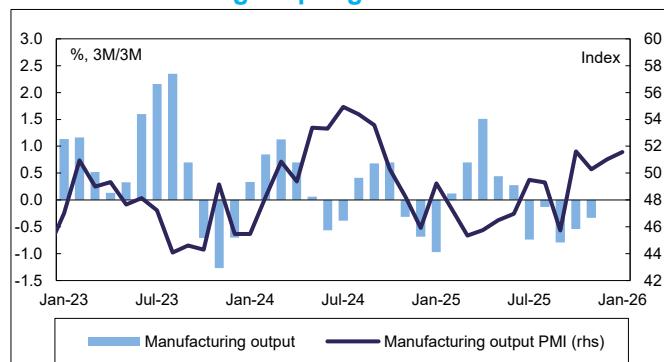
Germany: Firms reporting material shortages



Source: ifo institute, Macrobond and Daiwa Capital Markets Europe Ltd.

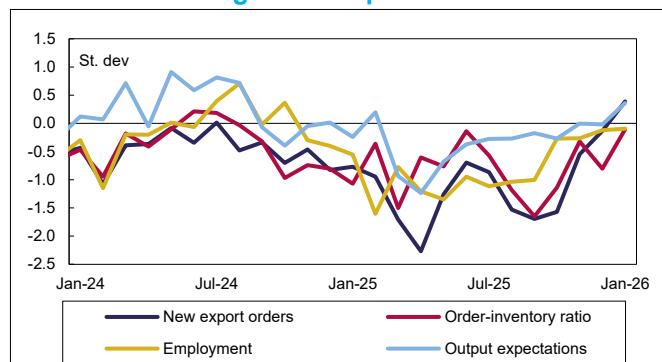
in output prices remained well below the long-run average. Like in the euro area, core goods inflation in the UK should remain relatively subdued over the near term.

UK: Manufacturing output growth & PMI



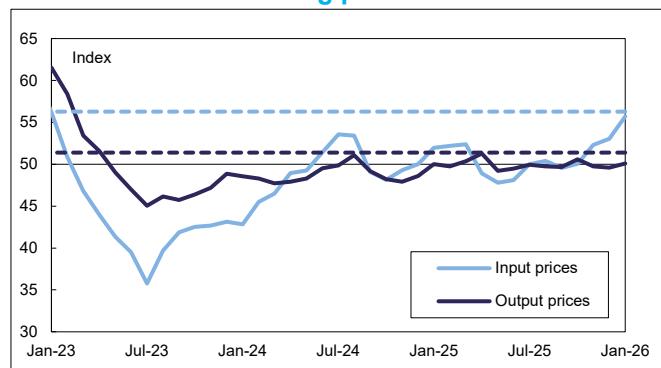
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Manufacturing PMI components



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

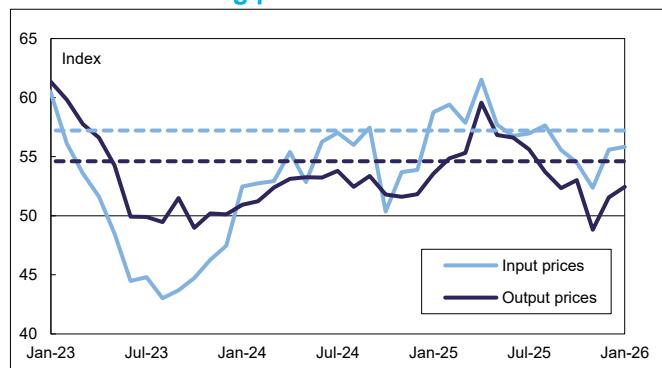
Euro area: Manufacturing price PMIs*



*Dashed lines represent pre-pandemic averages.

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

UK: Manufacturing price PMIs*



*Dashed lines represent pre-pandemic averages.

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

The day ahead in the UK

There are no UK data scheduled for release on Tuesday, so it should be another quiet day ahead of Thursday's BoE monetary policy decision.

European calendar

Today's results

Economic data						
Country	Release	Period	Actual	Market consensus/ <u>Daiwa forecast</u>	Previous	Revised
Euro area	Final manufacturing PMI	Jan	49.5	<u>49.4</u>	48.8	-
Germany	Retail sales M/M% (Y/Y%)	Dec	0.1 (3.2)	0.1 (2.0)	-0.6 (-1.8)	-0.5 (-1.6)
	Final manufacturing PMI	Jan	49.1	<u>48.7</u>	47.0	-
France	Final manufacturing PMI	Jan	51.2	<u>51.0</u>	50.7	-
Italy	Manufacturing PMI	Jan	48.1	48.5	47.9	-
Spain	Manufacturing PMI	Jan	49.2	50.2	49.6	-
UK	Final manufacturing PMI	Jan	51.8	<u>51.6</u>	50.6	-
	Nationwide house prices M/M% (Y/Y%)	Jan	0.3 (1.0)	0.3 (0.7)	-0.4 (0.6)	-
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/ <u>Daiwa forecast</u>	Previous	
France	07.45	Preliminary HICP (CPI) Y/Y%	Jan	0.6 (0.6)	0.7 (0.8)	
Spain	08.00	Unemployment (net employment) change 000s	Jan	-	-16.3 (33.1)	
Auctions and events						
Euro area	09.00	ECB to publish quarterly Bank Lending Survey for Q425/Q126				
Germany	10.30	Auction: to sell up to €1.5bn of 2.5% 2035 green bonds				
UK	10.00	Auction: to sell £4.25bn of 4.75% 2035 bonds				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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