

Euro wrap-up

Overview

- Bunds were little changed as a return to positive German IP growth in Q4 was confirmed despite a drop in December.
- Having underperformed earlier in the week, Gilts outperformed on a quiet day for UK economic news.
- The coming week will bring updated GDP data from the euro area and UK.

Chris Scicluna
 +44 20 7597 8326

Edward Maling
 +44 20 7597 8030

Daily bond market movements		
Bond	Yield	Change
BKO 2.1 03/28	2.081	-0.006
OBL 2½ 04/31	2.414	-0.005
DBR 2.9 02/36	2.843	+0.003
UKT 3¾ 03/27	3.618	-0.026
UKT 4% 03/30	3.905	-0.033
UKT 4½ 03/35	4.525	-0.033

*Change from close as at 4:00pm GMT.
 Source: Bloomberg

Euro area

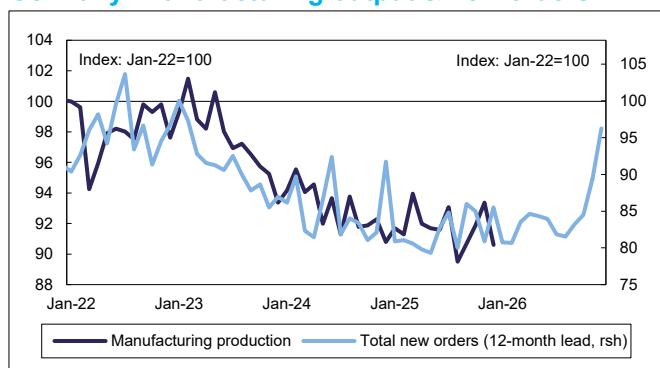
German IP rose in Q4 by the most in 11 quarters despite December dip

Despite the surge in [new factory orders](#) across the final months of last year, it was no surprise that German industrial production fell back in December. Today's data revealed that the decline in IP was larger than expected at 1.9%M/M, the most in four months, which left it down 0.6%Y/Y. However, given the strength in prior months, production still rose 0.9%Q/Q in Q4 marking the strongest quarterly growth in the industrial sector since Q123. Despite falling 3.0%M/M in December, manufacturing output also rose 0.9%Q/Q in Q4 to more than fully reverse the drop in Q3. Strong growth in production of capital and consumer goods more than offset continued softness in intermediate and energy-intensive items such as chemicals, coke and petroleum. Among the various subsectors, production of autos rose an underwhelming 0.7%Q/Q in Q4 after a drop of 3.1%Q/Q the prior quarter. But buoyed by aerospace and shipbuilders, growth in other transport items was very strong, at 6.2%Q/Q. Increased military spending was also reflected in a similarly vigorous rise in output of weapons and ammunition (6.3%Q/Q). Other stronger subsectors included computer and electronics (3.8%Q/Q) and electrical machinery (2.3%Q/Q). And pharmaceuticals (6.6%Q/Q) accelerated following prolonged weakness after Liberation Day. Beyond the manufacturing sector, energy production ended the year on a particularly soft note. Indeed, the decline of 1.8%M/M in December left it down 1.3%Q/Q in Q4 to mark its weakest quarter in a year. But construction provided significant offset, rising 3.0%M/M in December and 1.9%Q/Q in Q4 to post its best quarter since Q124. Building work and civil engineering, as well as specialised activities, all contributed to the expansion in construction Q4.

Goods exports up in Q4 on December surge but trade deficit with China continues to rise

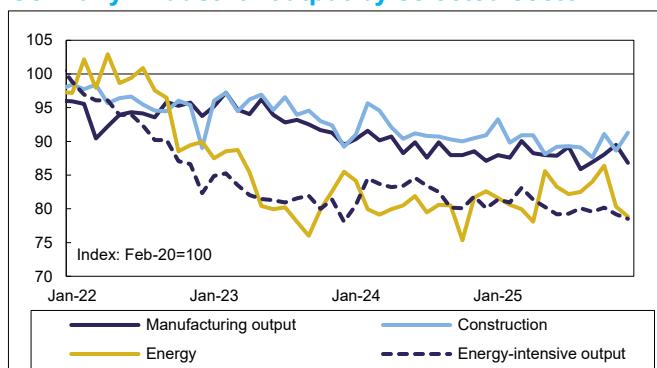
In marked contrast to manufacturing output, goods exports leapt at the end of last year. Export values rose 4.0%M/M, the most in more than four years to a 20-month high. That left them up 0.6%Q/Q, marking the best quarter for shipments since US tariff front-running in Q125. Export growth in Q4 came from data processors, optical instruments, machinery and metals, which offset weakness in shipments of cars and chemicals among other items. And by destination, the pickup was led by shipments to other euro area and EU member states (both categories up 1.6%Q/Q). Export growth to China was modest (0.4%Q/Q) while shipments to the US (-1.0%Q/Q) and UK (-4.4%Q/Q) fell. While goods import values (1.4%M/M) were outpaced by exports in December, the opposite was true over Q4 as a whole (1.0%Q/Q), adding to evidence that net goods trade likely subtracted from German GDP growth. Growth in imports from China was again strong (3.4%Q/Q). As a result, Germany's bilateral goods trade deficit with China rose above €24bn in Q4 to mark the second highest on the series after the surge in Q222. Growth in imports from the rest of the euro area was also firm again (1.9%Q/Q) to point to positive spillovers for the region from German stimulus. But imports from the UK and US fell. So, Germany's bilateral surplus with the US rose almost €1½bn in Q4 to €11.1bn, having dipped in the prior quarter to the smallest in almost five years.

Germany: Manufacturing output & new orders



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Industrial output by selected sector

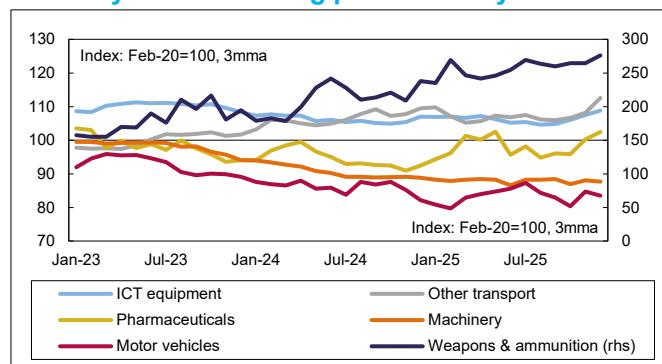


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Q1 likely to be softer for IP but growth in the sector should be firm by the second half of the year

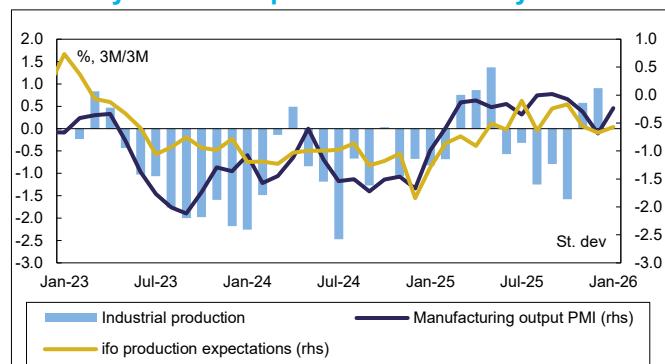
The drop in output in December and bouts of adverse winter weather point to the likelihood of a much softer first quarter for industrial production in Q1. But while the external demand outlook remains challenging and competition from abroad (not least China) intense, leading indicators suggest that growth in the manufacturing sector should rediscover traction by the spring before accelerating in the second half of the year on the back of stimulus-related domestic demand. Indeed, having dropped to an 11-month low in December (48.3), the German manufacturing output PMI quickly rose back into expansionary territory in January (51.4). While there remain pockets of disenchantment, the ifo survey suggests that firms are upbeat about the outlook in several subsectors such as construction machinery, general machinery, computers and electronics. Although the headline new factory orders figures have been flattered by bulk items related not least to defence spending, core orders were still up in Q4 by a vigorous 2.5%Q/Q, the most in more than four years. And with the steady rise in domestic demand, factory order backlogs have risen to their highest level in almost two years. In construction too, surveys point to optimism in civil engineering. Towards the end of last year, new construction orders were trending at the highest level in 2½ years. And buoyed by a turn-around in the housing market, new orders for housebuilding were similarly the best since the summer 2022.

Germany: Manufacturing production by subsector



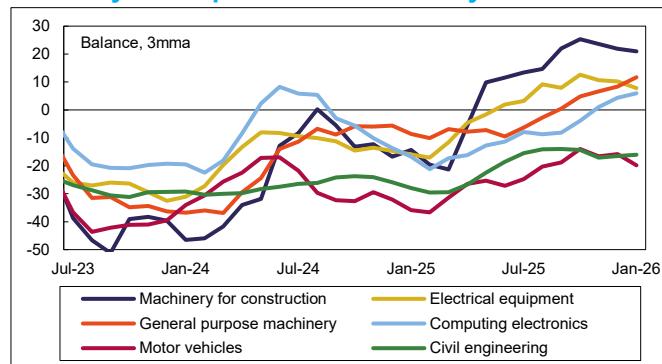
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Industrial production & survey indices



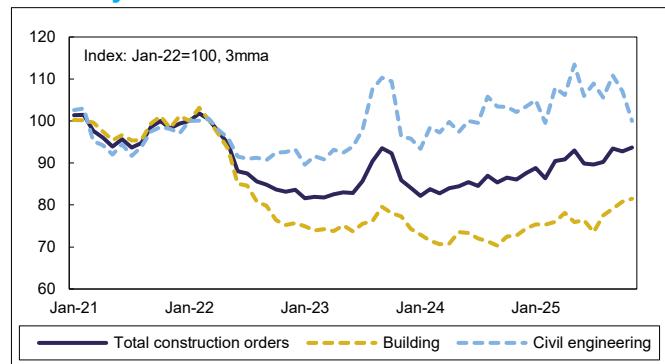
Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo expectations indices by subsector



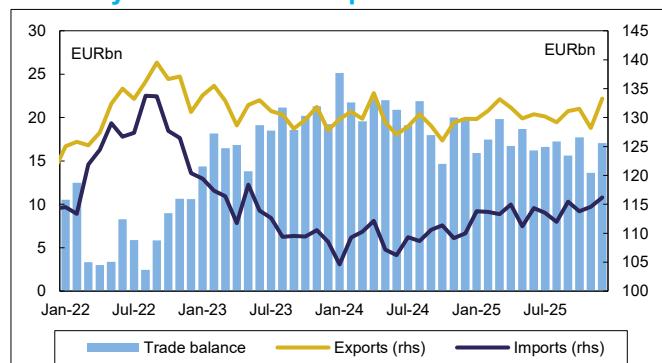
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Construction new orders



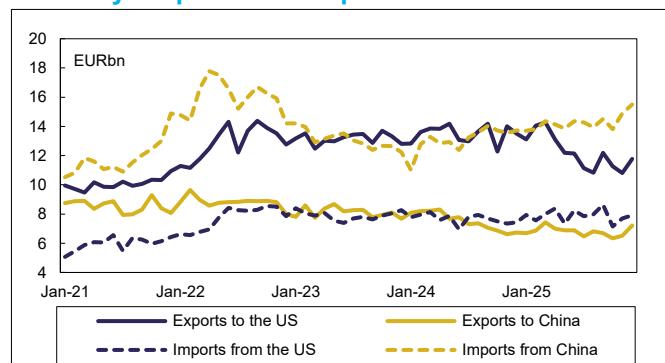
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Goods trade surplus



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Exports to & imports from US & China



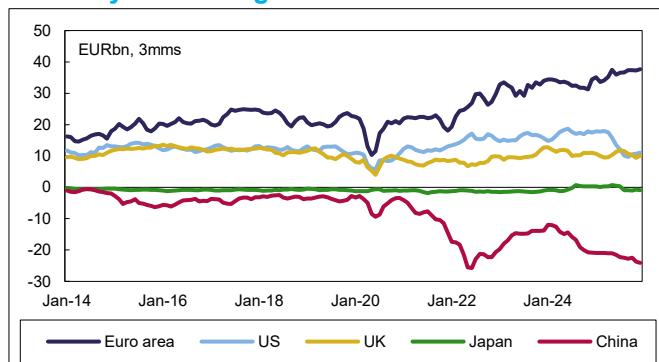
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the euro area

The week ahead should be a relatively quieter one for European economic news. Friday will be the busiest day for the euro area dataflow and will bring the second estimate of Q4 euro area GDP growth. In line with our expectation, but slightly above the ECB's projection and Bloomberg survey consensus, the first release suggested that GDP growth sustained a steady 0.3%Q/Q expansion in Q4. The second estimate will factor in December's IP and goods trade figures, but we do not expect them to precipitate any headline revision to the GDP growth number. Given today's German (and Spanish) figures, a decline in euro area IP that month now seems inevitable. Further releases from Italy (Wednesday) and preliminary data from Ireland (Monday) will provide additional insights ahead of the following week's aggregate euro area release. But we still expect the industrial sector to have contributed to the firm GDP growth momentum over Q4 as a whole. And while net trade probably, at best, made a negligible contribution, December's euro area goods trade figures – also due Friday – should at least show some improvement given the rebound in German (and French) exports flagged today.

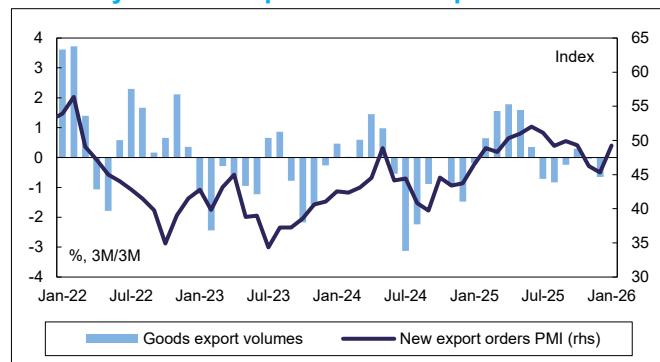
Customarily, Friday's euro area GDP estimate will be accompanied by the first estimates for Q4 employment growth. Employment growth likely rose again at a rate between 0.1-0.2%Q/Q to leave the annual rate no firmer than 0.6%Y/Y. That is somewhat slower than the range in the few years through to mid-2024, but still consistent with a resilient labour market. Member state data suggest predictably that job growth remained concentrated in Spain but was still subdued in the core member states. Indeed, German employment declined for a third consecutive quarter despite some encouraging signs of stabilisation in other labour market indicators. Friday will also bring the first detail of January's inflation data, with the final Spanish print expected to confirm that the ½ppt step down in the HICP rate was driven by energy base effects. Finally, among just a handful releases in the first half of the week, the Sentix survey (Monday) will give an indication as to whether broadly upbeat investor sentiment sustained into February.

Germany: Bilateral goods trade balances



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Goods exports & new export orders PMI*



*Manufacturing new export orders PMI. Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the UK

As in the euro area, GDP data will be the main draw of the coming week's UK calendar. In line with the BoE's updated projections, we expect the first estimates for Q4 GDP (Thursday) to report a marginal pickup in growth momentum at the end of last year, to 0.2%Q/Q. In terms of a preliminary breakdown by expenditure components, we expect private domestic demand to have been subdued, with budget uncertainty having weighed on private consumption and business investment. In contrast, Government spending likely continued to outperform. Net trade likely subtracted from GDP growth despite probable support from services exports. The slight pickup in GDP growth in Q4 should also be affirmed by the December data after surprising strength in November (0.3%M/M). While diminished policy uncertainty should have been of some benefit, the lack of scope for further recovery in car manufacturing and inclement weather points to softer growth towards year-end. Still, among the production sectors, the data should confirm that industry contributed positively to GDP growth in Q4 owing to the rebound in output at JLR. But services likely grew minimally (0.1%3M/3M) due to softer household spending growth and the negative impact of Budget uncertainty on the housing market. And in part due to the weather, construction likely subtracted considerably.

Elsewhere on the data front, the RICS survey of surveyors (also Thursday) will provide an update as to whether housing market activity continued to recover from its pre-Budget lull at the start of the year. The BRC's retail monitor (Tuesday) will perhaps provide another positive signal – alongside the less downbeat CBI survey and improving consumer confidence indicators – about retail sales at the start of this year. And with the PMIs still consistent with weakening labour demand in January, the REC's report on jobs (Monday) will provide another perspective on firms' hiring intentions. Finally, with regards to BoE-speak, BoE Chief Economist Huw Pill might attract attention with a speech on Friday. In light of his current hawkish stance, however, his view is unlikely to be representative of the median MPC rate-setter, nor decisive for policy decisions over the near term. The minutes of February's MPC meeting suggested that external representative Mann and Governor Bailey are the Committee members who are likely to have the greatest influence on whether or not the BoE will cut rates next month. Unfortunately, Mann's appearance on a panel (Monday) is not expected to pertain to monetary policy.

Daiwa economic forecast

	2025		2026				2025	2026	2027	
	Q3	Q4	Q1	Q2	Q3	Q4				
GDP	%, Q/Q							%, Y/Y		
Euro area 	0.3	0.3	0.3	0.3	0.3	0.3	1.5	1.1	1.3	
UK 	0.1	0.2	0.3	0.3	0.3	0.3	1.4	1.0	1.3	
Inflation, %, Y/Y										
Euro area										
Headline HICP 	2.1	2.1	1.7	1.8	1.6	1.9	2.1	1.8	1.8	
Core HICP 	2.3	2.4	2.2	1.6	1.4	1.6	2.4	1.7	1.6	
UK										
Headline CPI 	3.8	3.4	3.0	2.1	2.2	2.1	3.4	2.4	2.1	
Core CPI 	3.6	3.3	3.1	2.5	2.4	2.4	3.5	2.6	1.9	
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 	4.00	3.75	3.50	3.25	3.25	3.25	3.75	3.25	3.25	

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

The next Euro wrap-up will be published on Tuesday 10 February 2026

The coming week's data calendar

The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <u>Daiwa forecast</u>	Previous
Monday 9 February 2026					
Euro area 	09.30	Sentix investor confidence indicator	Feb	0.0	-1.8
Tuesday 10 February 2026					
France 	06.30	Unemployment (mainland unemployment) rate %	Q4	7.7 (7.5)	7.7 (7.5)
UK 	00.01	BRC retail monitor - like-for-like sales Y/Y%	Jan	-	1.0
Wednesday 11 February 2026					
Italy 	09.00	Industrial production M/M% (Y/Y%)	Dec	-0.5 (2.8)	1.5 (1.4)
Thursday 12 February 2026					
UK 	00.01	RICS house price balance %	Jan	-10	-14
	07.00	GDP – first estimate Q/Q% (Y/Y%)	Q4	<u>0.2 (1.2)</u>	0.1 (1.3)
	07.00	Monthly GDP M/M% (3M/3M%)	Dec	<u>0.1 (0.2)</u>	0.3 (0.1)
	07.00	Services output M/M% (3M/3M%)	Dec	0.1 (0.2)	0.3 (0.2)
	07.00	Industrial output M/M% (Y/Y%)	Dec	0.0 (1.5)	1.1 (2.3)
	07.00	Construction output M/M% (Y/Y%)	Dec	0.5 (-0.1)	-1.3 (-1.1)
	07.00	Trade (goods trade) balance £bn	Dec	-	-6.1 (-23.7)
Friday 13 February 2026					
Euro area 	10.00	GDP – second estimate Q/Q% (Y/Y%)	Q4	<u>0.3 (1.3)</u>	0.3 (1.4)
	10.00	Employment – first estimate Q/Q% (Y/Y%)	Q4	<u>0.1 (0.6)</u>	0.2 (0.6)
	10.00	Trade balance €bn	Dec	12.0	10.7
Spain 	08.00	Final HICP (CPI) Y/Y%	Jan	<u>2.5 (2.4)</u>	3.0 (2.9)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 9 February 2026		
Euro area	12.00	ECB Chief Economist Lane to give lecture on the ECB's latest monetary policy decision at Maynooth University
UK	16.00	ECB President Lagarde to speak at the European Parliament on the ECB annual report, Strasbourg
Tuesday 10 February 2026		
Germany	10.30	Auction: to sell up to €5bn of 2.5% 2031 bonds
UK	10.00	Auction: to sell £3.75bn of 4.125% 2031 bonds
Wednesday 11 February 2026		
Euro area	09.00	ECB to publish updated wage tracker tool
Germany	17.00	ECB Executive Board member Schnabel to give speech on Europe's economy at the Austrian Academy of Sciences, Vienna
UK	10.30	Auction: to sell up to €1.5bn of 2.5% 2054 bonds
UK	10.30	Auction: to sell up to €1bn of 2.9% 2056 bonds
UK	10.00	Auction: to sell £300mn of 4.25% 2049 bonds
Thursday 12 February 2026		
Italy	10.00	Auction: to sell bonds*
Friday 13 February 2026		
UK	12.00	BoE Chief Economist Pill speaks in fireside chat, London

*Details to be announced. Source: Bloomberg 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	Industrial production M/M% (Y/Y%)	Dec	-1.9 (-0.6)	-0.3 (1.9)	0.8 (0.8)	0.2 (0.5)
Germany	Trade balance €bn	Dec	17.1	14.7	13.1	13.6
France	Trade balance €bn	Dec	-4.8	-	-4.2	-4.0
France	Preliminary wages Q/Q%	Q4	0.2	0.3	0.3	-
Spain	Industrial production M/M% (Y/Y%)	Dec	-2.5 (-0.3)	-0.5 (2.5)	1.0 (4.5)	1.1 (4.6)
Auctions						
Country	Auction	- Nothing to report -				

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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