

Euro wrap-up

Overview

- Bunds were little changed as euro area consumer confidence edged up to a 12-month high while data confirmed a firm end to 2025 for construction output in the region.
- Gilts were also little changed as a UK manufacturing survey suggested that output and orders in the sector were slightly improved this month albeit still subdued.
- Friday will bring February's flash PMIs as well as UK retail sales data.

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Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.043	+0.002
OBL 2½ 04/31	2.335	+0.003
DBR 2.9 02/36	2.743	+0.006
UKT 3¾ 03/27	3.559	-0.008
UKT 4¾ 03/30	3.785	-0.012
UKT 4½ 03/35	4.369	-0.003

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

Euro area

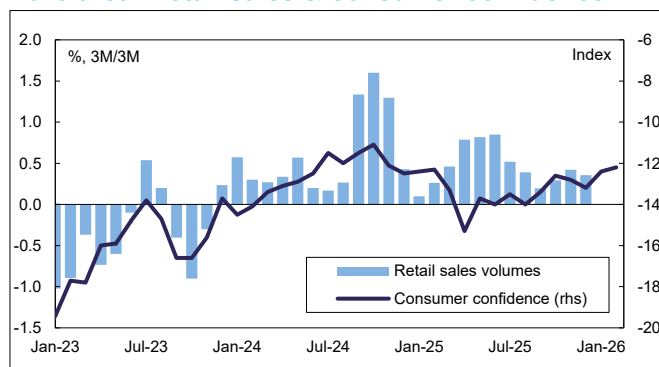
Euro area consumer confidence edges up to 12-month high

According to today's flash Commission estimate, euro area consumer confidence rose slightly further in February to the highest level in a year, suggesting that household consumption should continue to provide modest support to GDP growth for a tenth successive quarter in Q1. The index edged up 0.2pt to -12.2 to be trending some 0.6pt above the Q4 average, albeit still some 2pts below the long-run average. With today's national surveys from Belgium and the Netherlands deteriorating slightly in February, the improvement looks set to have been led by the larger member states, which appear to be benefitting from a stabilisation in the jobs market. Indeed, while other data released today showed that the euro area job vacancy rate moved sideways at 2.2% in Q4 for a third quarter, there was a modest increase in Germany for the first time in 3½ years. And job vacancies appear to have risen further in both Germany and France at the start of this year. With slightly firmer sentiment, consumer spending over the near term could also be supported by a slight easing in the household savings ratio from a high level. And real income growth looks set to remain firm. Indeed, today's flash estimate of euro area labour cost growth in Q4 moderated only slightly, by 0.1ppt to 3.4%Y/Y.

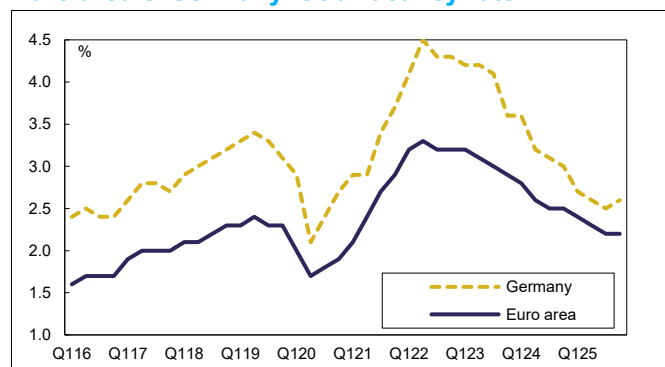
Construction output returns to growth in Q4 led by civil engineering

The construction sector ended 2025 on a firmer footing. Improved consumer confidence, lower mortgage rates and rising real incomes seem to have boosted demand for housing investment, while government initiatives to increase spending on infrastructure – not least in Germany – appear to be feeding through to civil engineering activity. Today's figures showed that euro area construction output rose 0.9%M/M in December, failing to fully reverse the 1.6%M/M decline in November but nevertheless leaving it up 0.3%Q/Q in Q4 to mark the first quarter of growth in three. The increase in December would have been stronger still in the absence of a marked decline in Austria (-9.2%M/M). Admittedly, the strength in Germany (3.0%M/M) and France (2.2%M/M) was likely flattered in part by favourable weather conditions for the time of year. But the euro area detail showed a broad-based pickup at the end of last year led by civil engineering (2.3%M/M), which recorded the fastest growth in nine months taking the level to the highest since 2009. And led by a surge in the largest two member states, house-building rose for a second month in three (0.9%M/M) albeit remaining broadly flat over the fourth quarter as a whole. As illustrated by the recent construction PMI survey, we expect some payback in January due to inclement weather. But overall, the near-term construction outlook remains broadly positive. Certainly, building permits continue to rise in Germany and France. And the Commission survey suggested that new orders were the highest since early 2024. Surveys have also flagged a steady improvement in constructor sentiment over recent quarters, with the Commission index signalling that conditions at the turn of the year were the most favourable since mid-2023. Indeed, despite a likely temporary pause in house building in January, the German civil engineering PMI registered solid growth for a third successive month.

Euro area: Retail sales & consumer confidence



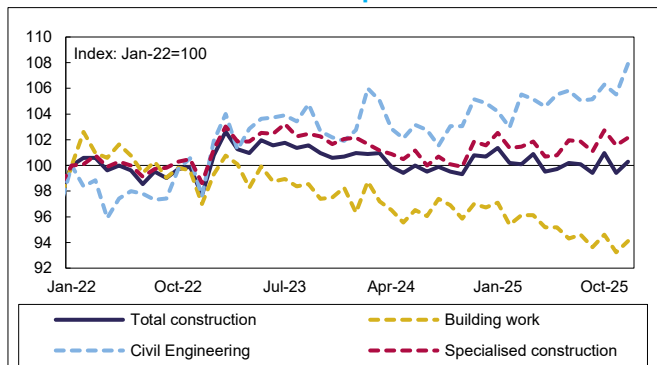
Euro area & Germany: Job vacancy rate



The day ahead in the euro area

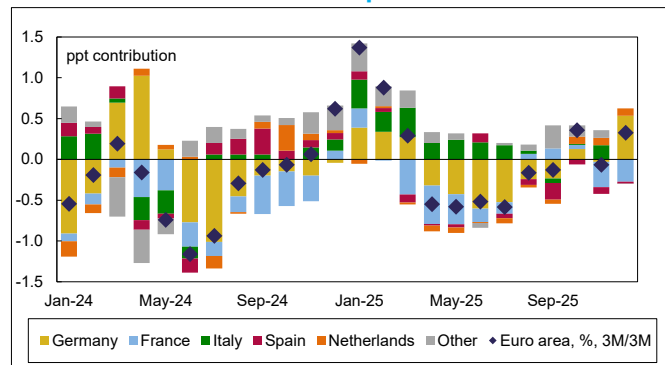
February's flash euro area PMIs will be the highlight of Friday's economic dataflow. Having dropped at the end of last year on weaker manufacturing output, the euro area composite PMI softened a touch further in January, down 0.2pt to 51.3 and trending some 1pt below its Q4 average. That level, however, was still consistent with modest expansion in private sector activity, with manufacturing output rebounding back into expansion and Germany showing encouraging resilience. And while activity reportedly softened in Spain, the underwhelming PMI reading was also seemingly affected by a weaker French services reading, which has been disproportionately downbeat over recent years. Indeed, the PMIs contrasted with the improvement flagged by the Commission's ESI last month. So, while little material change is expected from tomorrow's release, we see the risks skewed slightly to the upside. Elsewhere, the ECB's negotiated wage data for Q4 will follow on from today's quarterly labour market indicators. Having benefitted from a fortuitous base effect in Q325 (down 2.1ppts to a 15-month low of 1.9%Y/Y), the risks to Q4's figure should be to the upside. Indeed, the Bundesbank today reported that the passing of those base effects meant that growth in negotiated wages (including bonuses) picked up to 3.4%Y/Y in Q4, up 3½ppts from Q3. But so long as the reading remains compatible with the ECB's wage tracker series – which points towards a levelling off in growth in pay settlements below 3%Y/Y come the end of 2026 – we do not expect it to be of much concern to Governing Council members either. German PPI data for January are also due tomorrow.

Euro area: Construction output



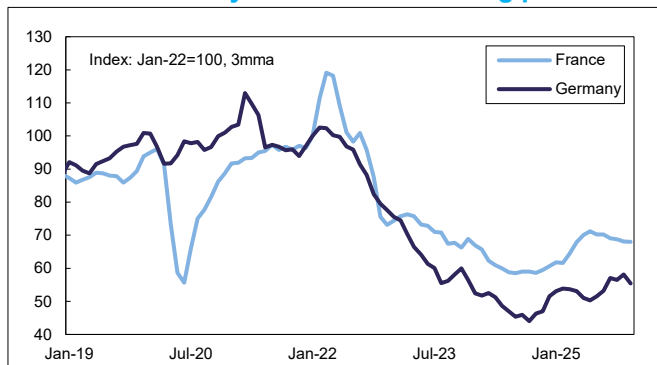
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Construction output



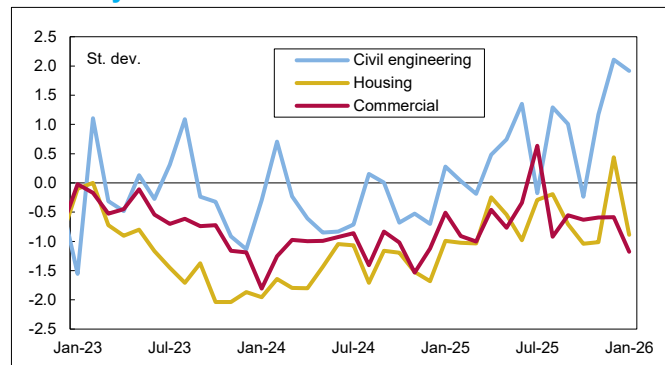
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France & Germany: Residential building permits



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Construction PMIs

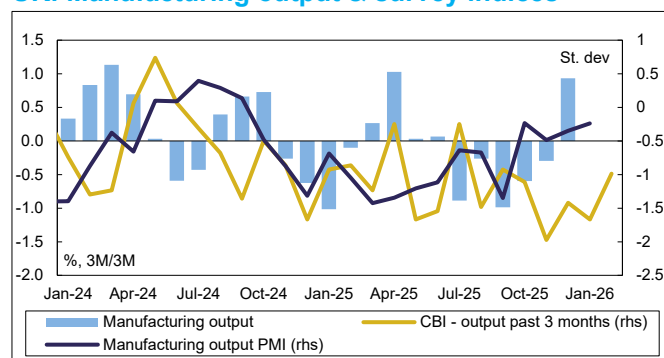


Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

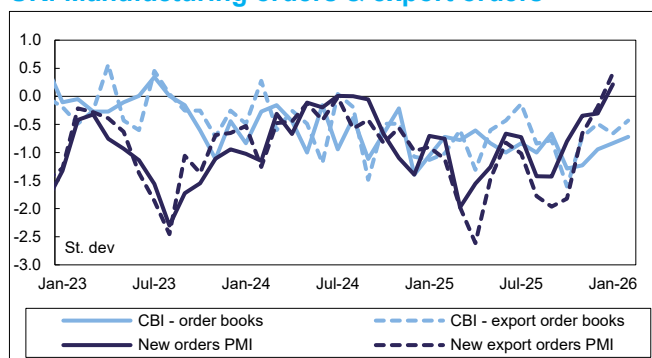
The day ahead in the UK

It's set to be a busy end to the week for UK economic news too, with the flash PMIs for February out alongside January's retail sales and public sector finance statistics. The former will perhaps be of most interest, courtesy of a surprisingly firm pickup last month. The UK composite output PMI rose 2.3pts in January to 53.7, a full 2pts above the Q4 average and consistent with the strongest monthly expansion in business activity for 17 months. Today's CBI industrial trends survey suggested that, on balance, factory output and orders this month were the least downbeat since Q325. That might point towards another supportive manufacturing PMI reading tomorrow. But whether services activity will replicate January's acceleration is perhaps the bigger question. Notwithstanding the likelihood of a slightly weaker expansion in that important sector, we still expect the PMIs to lend further support to expectations of a rebound in GDP growth this quarter. Similarly, after pre-Budget uncertainty weighed on volumes in Q4 (-0.3%Q/Q), January's retail sales data could point towards a return to positive sales growth this quarter. Retail and consumer confidence surveys imply a likely increase in January, following a gain of 0.4%M/M in December. However, inclement weather risks dampened footfall and seasonal price rises also pose downside risks. Finally, Friday's public sector finance statistics will also be of interest. January is typically a surplus month owing to the influx of tax receipts from self-assessments and thus will bear significance for the broader net borrowing picture this fiscal year.

UK: Manufacturing output & survey indices



UK: Manufacturing orders & export orders



European calendar

Today's results

Economic data














Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Euro area	Preliminary Commission consumer confidence indicator	Feb	-12.2	-12.0	-12.4	-
	Construction output M/M% (Y/Y)	Dec	0.9 (-0.9)	-	-1.1 (-0.8)	-1.5 (-1.4)
	Preliminary labour costs Y/Y%	Q4	3.4	-	3.3	3.5
	Preliminary job vacancy rate %	Q4	2.2	-	2.2	-
	ECB current account balance €bn	Dec	14.6	-	8.6	8.9
UK	CBI industrial trends survey – total orders (selling prices) net balance %	Feb	-28 (26)	-28 (23)	-30 (29)	-

Auctions

Country	Auction
France	sold €6.294bn of 2.4% 2029 bonds at an average yield of 2.40%
	sold €4.173bn of 2.7% 2031 bonds at an average yield of 2.63%
	sold €3.03bn of 2% 2032 bonds at an average yield of 2.89%
	sold €670mn of 3.15% 2032 inflation-linked bonds at an average yield of 0.86%
	sold €525mn of 0.6% 2034 inflation-linked bonds at an average yield of 1.18%
	sold €300mn of 1.8% 2040 inflation-linked bonds at an average yield of 1.64%
Spain	sold €1.2bn of 3.5% 2029 bonds at an average yield of 2.273%
	sold €2.6bn of 2.6% 2031 bonds at an average yield of 2.577%
	sold €1.63bn of 3.3% 2036 bonds at an average yield of 3.167%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases
Economic data

Country		GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area		09.00	Preliminary services (manufacturing) PMI	Feb	51.9 (50.0)	51.6 (49.5)
		09.00	Preliminary composite PMI	Feb	51.5	51.3
		10.00	Negotiated wages Y/Y%	Q4	2.90	1.87
Germany		07.00	PPI Y/Y%	Jan	-2.1	-2.5
		08.30	Preliminary services (manufacturing) PMI	Feb	52.4 (49.5)	52.4 (49.1)
		08.30	Preliminary composite PMI	Feb	52.3	52.1
France		08.15	Preliminary services (manufacturing) PMI	Feb	49.2 (50.9)	48.4 (51.2)
		08.15	Preliminary composite PMI	Feb	49.6	49.1
UK		07.00	Retail sales – incl. auto fuels M/M% (Y/Y%)	Jan	0.2 (2.8)	0.4 (2.5)
		07.00	Retail sales – excl. auto fuels M/M% (Y/Y%)	Jan	0.3 (3.6)	0.3 (3.1)
		07.00	Public sector net borrowing £bn	Jan	-24.0	11.6
		09.30	Preliminary services (manufacturing) PMI	Feb	53.5 (51.5)	54.0 (51.8)
		09.30	Preliminary composite PMI	Feb	53.2	53.7

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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