

Euro wrap-up

Overview

- Bunds were little changed as business surveys pointed to ongoing recovery in German manufacturing but a broad-based deterioration in sentiment in France.
- While a UK retail survey flagged a deterioration in sales volumes, hiring and investment intentions, shorter-dated Gilts fell after the new US global tariff reverted to 10%.
- Wednesday will bring February results of German and French consumer confidence, euro area inflation detail and updated German national accounts data for Q4.

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Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.036	+0.006
OBL 2½ 04/31	2.306	+0.002
DBR 2.9 02/36	2.706	-0.003
UKT 3¼ 03/27	3.566	+0.021
UKT 4¾ 03/30	3.750	+0.005
UKT 4½ 03/35	4.308	-0.005

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

Euro area

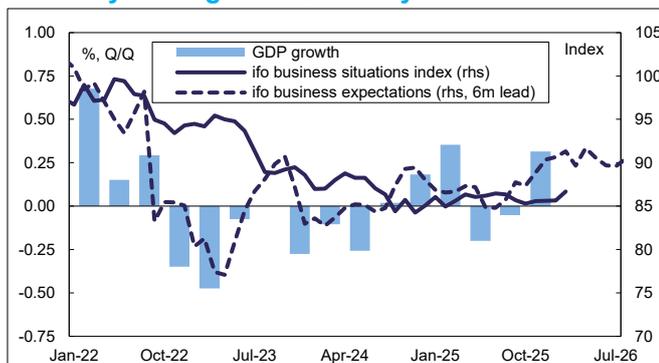
Business surveys point to German recovery in Q1, but deteriorating sentiment in France

Similar to Friday's [flash PMIs](#), this week's more comprehensive German and French national business surveys suggest that the divergence in momentum between the two member states in Q425 – acceleration in Germany and softening in France – might have continued into 2026. Certainly, yesterday's ifo institute indices showed further signs of underlying recovery in Germany in February, with the headline business climate index rising 1pt – the most in 11 months – to 88.6, a six-month high. Encouragingly, the current conditions index rose for a third month in four to a 19-month high (86.7). Admittedly, this remained no stronger than the average in 2024 and still some 9% below the long-run average. But it was nevertheless tracking 0.7pt above the Q4 average when GDP rose 0.3%Q/Q. And with expectations for the coming six months close to the top of the range of the past four years, this survey raises cautious optimism that, notwithstanding a weather-associated hit to activity at the start of the year and renewed tariff uncertainties, German GDP growth will remain in positive territory in the first half of 2026. In contrast, today's INSEE survey suggested that the French business climate “darkened” in February, with the headline index falling 2pts to 97, a four-month low, some 3% below the long-run average. But having reached a 19-month high in January, it was still tracking some 0.7pt above the Q4 average, arguably suggestive of another quarter of modest growth in Q1. This notwithstanding, French firms were notably more downbeat about the hiring intentions, with the respective index declining to the lowest in almost five years, some 7% below the long-run average.

German manufacturing and construction benefitting from rising government spending

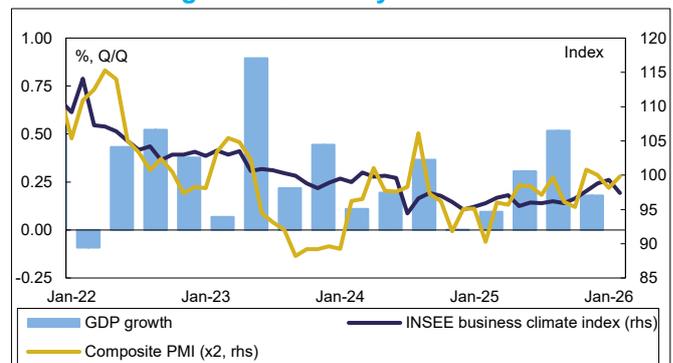
The improvement in the German ifo indices was again driven by positive momentum in manufacturing, where firms judged current conditions to be the most favourable since June 2024 amid a recent surge in new orders. Perhaps inevitably, sub-sectors benefitting from fiscal spending commitments – i.e. metals, machinery for construction and other transport – continued to lead the recovery. But automakers also reported a turn for the better in February, with foreign orders starting to stabilise. Although constructors flagged the softest growth in eight months, they were the most upbeat about the business climate since the ECB's rate-hiking cycle started in July 2022, reporting rising demand for residential and civil engineering work. German services firms were also more upbeat, particularly in logistics. But despite the reduction in the VAT rate on restaurant and catering services from 1 January, sentiment in hospitality reportedly deteriorated sharply. And notwithstanding the recent pickup in household purchase intentions, rising real incomes and a stabilisation in the labour market, German retailers were the most downbeat for five years.

Germany: GDP growth & survey indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: GDP growth & survey indices

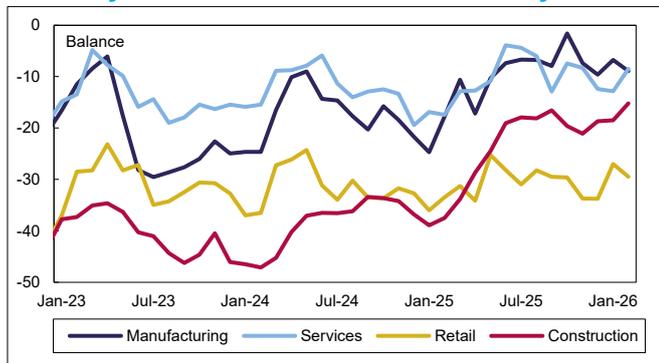


Source: S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Broad-based deterioration in French sentiment, with employment intentions declining sharply

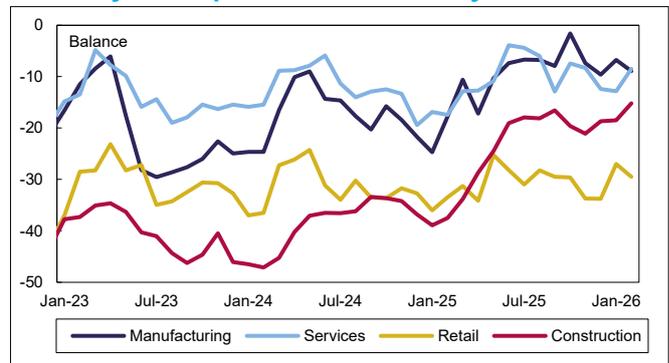
While the deterioration in French business sentiment was broad based in February, it was led by the services sector, where the business climate index fell a striking 3pts to a four-month low of 95. That left it firmly at the bottom of the range since Spring 2021 and 5% below the long-run average. And weaker demand prospects led to a further sharp cut in headcount in the sector. The deterioration in the French tertiary sector was reportedly broad-based with softening in sentiment in information and communication services, hospitality, logistics and professional activities among others. Retailers similarly reported subdued sales since the start of the year. And sentiment among constructors remained below the long-run average as new orders were largely absent. But while the business climate in manufacturing also fell back in February, this was down from a 4½-year high in January, therefore leaving the respective index (102) comfortably above the long-run average, tracking more than 3pts above the Q4 level. The worsening this month reflected a deterioration in food, chemicals, basic metals and autos. But sentiment among manufacturers of other transport equipment (such as aerospace) were judged still to be very favourable, with the business climate in the ICT goods subsector similarly judged to be much more favourable than the long-run average.

Germany: ifo current conditions indices by sector



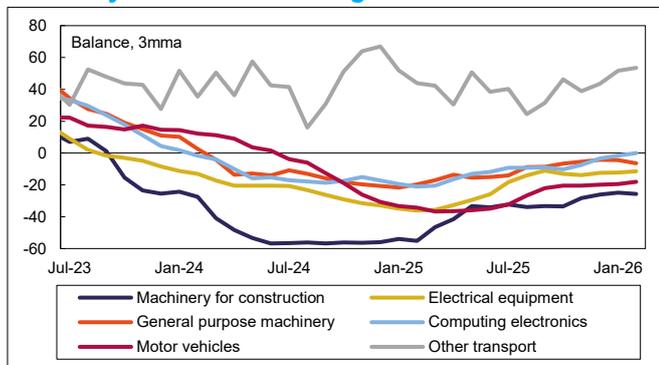
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo expectations indices by sector



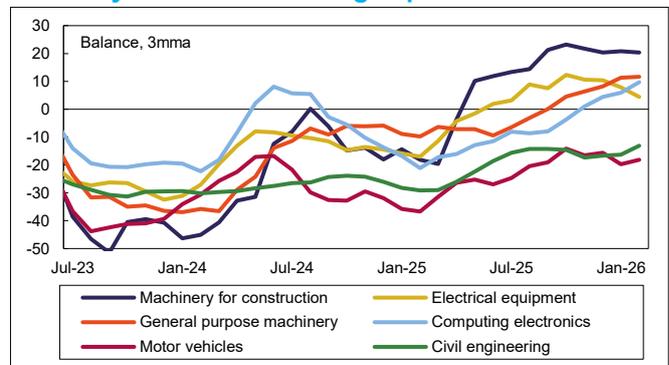
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo manufacturing conditions indices



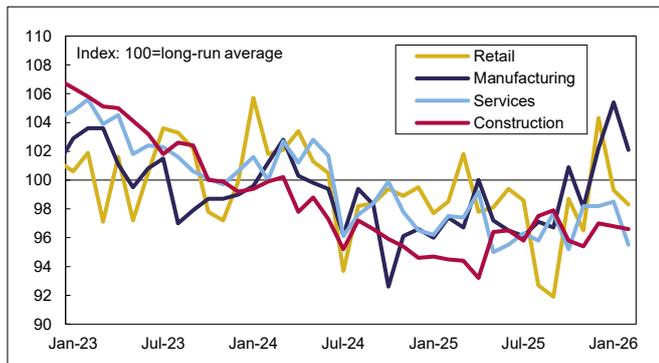
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo manufacturing expectations indices



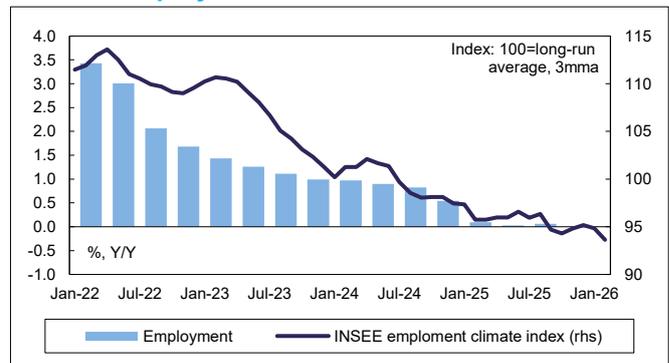
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: INSEE business climate indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Employment



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

A handful of notable data releases are scheduled for the euro area on Wednesday, from which January's final euro inflation release is most notable. The [flash estimates](#) showed headline inflation slowing to 1.7%Y/Y, a downside surprise and 0.3ppt below December's target-consistent print. Core inflation was also nudged down, albeit by just 0.1ppt to 2.2%Y/Y, its weakest since October 2021. We don't expect any revisions. The detail should attribute most of the moderation to a larger drag from energy inflation, stemming from favourable base effects after a steeper rise in electricity and fuel prices last year. In the core components, weakness in clothing and imported goods was the most likely source of subdued core goods inflation. The detail will also give a more precise picture of the sources of services disinflation at the aggregate euro level.

Meanwhile, national consumer confidence surveys from Germany and France will provide additional context around February's improvement in sentiment at the wider euro area level (ahead of the Commission survey's full release on Thursday). Following an uptick at the beginning of the year, we see Germany as the most likely source of that continued uptrend. And though not barred from any upside, sentiment in France looks relatively more likely to have sidestepped at best, akin to the divergence in this month's business surveys. Final Q4 GDP estimates from Germany will also be in focus. Crucially, those will be accompanied by a breakdown of expenditure components, which should affirm that domestic activity led the return to German growth in Q4 (0.3%Q/Q). Supported by rising real wages, we expect private consumption to have edged up, while government expenditure and investment likely continued to outperform. Net trade probably weighed modestly. Finally, confirmation of Croatian Governor Vujčić as the next ECB Vice-President (from June) is also expected following his hearing before EU Parliament members in Brussels.

UK

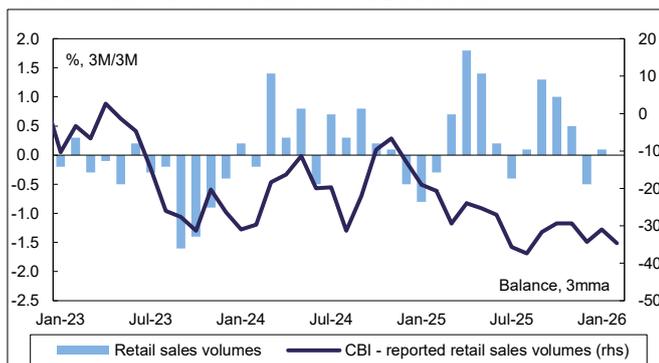
CBI survey suggestive of a weak outlook for the retail sector

While January's UK [retail sales](#) figures brought an upside surprise (1.8%M/M) following a brief spell of stagnation, we caveated that some of the strength was flattered by particularly aggressive seasonal discounting and jewellery sales boosted by the extraordinary rally in precious metals prices. As such, payback in February seemed probable. And, at face value, February's CBI distributive trades survey appears to support that. The balance of retail firms' assessments of sales volumes reverted to a familiarly pessimistic reading (-43%), contrasting with last month's nine-month high (-17%). Of course, the relationship between the CBI survey and the ONS's official series is contentious. And other elements of the survey – expectations of sales for the time of year and orders one month ahead, which were the best for 21 and 32 months respectively – were more optimistic. However, we think that policymakers might take greater insights from the CBI's quarterly survey results. These suggested that hiring intentions in the retail sector were their poorest since mid-2023, with a little more than half of retailers expecting to cut headcount versus just 9% recruiting. Investment intentions (-46%) remained subdued, with no evidence of a post-Budget improvement. Those findings are also consistent with the latest sector-level signals from the BoE's DMP survey, albeit those being in reference to Q325. And while firms were marginally less pessimistic about the overall business situation in Q126 (-34%), they remained close to their weakest since the Global Financial Crisis.

The day ahead in the UK

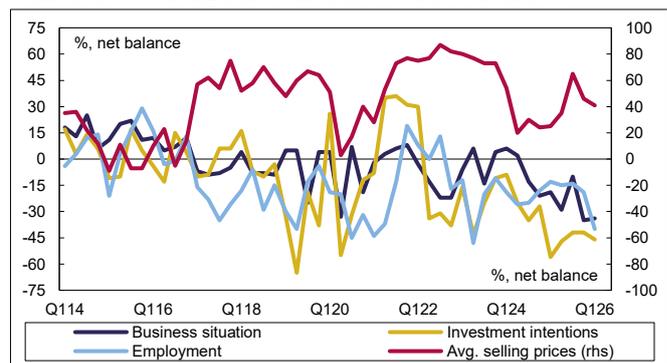
In terms of typical UK economic dataflow, it should be a quiet day ahead. Nonetheless, Ofgem's energy price cap announcement for Q2 will be particularly notable, given its significant bearing on the near-term inflation outlook. The BoE expects the price cap to be cut considerably, by around 8%Q/Q, down £142 to £1,616 for the typical family. That predominantly reflects the removal of £150 worth of policy costs, as announced at Budget 2025. Based on the language in February's MPR, the BoE also expects a slight contribution from lower wholesale gas prices too, despite the potential upside risk posed by the temporary spike in wholesale gas markets in January. But the policy intervention itself likely assures a notable reduction in energy inflation next quarter, potentially worth as much as ½ppt off headline CPI in April. Such a moderation would bring inflation considerably closer to the 2% inflation target. Taken alongside the persisting weakness of the labour market data, that should firm up expectations for further easing by the BoE before the summer.

UK: Retail sales volumes & CBI index



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Selected CBI distributive trades indices



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
Euro area	New car registrations Y/Y%	Jan	-2.3	-	3.9	-
France	INSEE business (manufacturing) confidence indicator	Feb	97 (102)	99 (104)	99 (105)	-
	INSEE production outlook (own company) indicator	Feb	-6 (10)	-4 (14)	-4 (17)	-(18)
UK	CBI distributive trades survey – retailing reported sales net balance %	Feb	-43	-27	-17	-

Auctions

Country	Auction
Italy	sold €2.5bn of 2.2% 2028 bonds at an average yield of 2.16%
	sold €1bn of 1.1% 2031 inflation-linked bonds at an average yield of 0.84%
	sold €1bn of 1.8% 2036 inflation-linked bonds at an average yield of 1.51%
UK	sold £3bn of 4.125% 2033 bonds at an average yield of 4.075%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Monday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	ifo current assessment (expectations) indicator	Feb	86.7 (90.5)	86.2 (90.0)	85.7 (89.5)	-(89.6)
	ifo business climate indicator	Feb	88.6	88.3	87.6	-
Italy	Final HICP (CPI) Y/Y%	Jan	1.0 (1.0)	<u>1.0 (1.0)</u>	1.2 (1.2)	-

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
Euro area	10.00	Final headline (core) HICP Y/Y%	Jan	<u>1.7 (2.2)</u>	2.0 (2.3)
Germany	07.00	GDP – final estimate Q/Q% (Y/Y%)	Q4	<u>0.3 (0.6)</u>	0.0 (0.3)
	07.00	GDP – private consumption Q/Q%	Q4	0.3	-0.3
	07.00	GDP – government spending Q/Q%	Q4	0.7	0.8
	07.00	GDP – capital investment Q/Q%	Q4	0.7	0.3
	07.00	GfK consumer confidence indicator	Mar	-23.0	-24.1
France	07.45	INSEE consumer confidence indicator	Feb	90	90
Spain	08.00	PPI Y/Y%	Jan	-	-3.0

Auctions and events

Euro area	10.00	Governing Council member Vujcic attends EU Parliament ECON hearing ahead of appointment as ECB Vice-President
Germany	10.30	Auction: to sell up to €1bn of 1% 2038 bonds
	10.30	Auction: to sell up to €1bn of 2.6% 2041 bonds
UK	07.00	Ofgem to announce UK energy price cap level for Q226

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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