

# Euro wrap-up

## Overview

- Bunds made losses as the flash euro area PMIs beat expectations in January, despite still signalling ongoing stagnation in economic output at the start of 2025.
- Gilts ended the day little changed as the UK flash PMIs were also better than expected but signalled further declines in employment, while other surveys reported weak consumer sentiment and retail sales at the start of the year.
- The ECB seems bound to cut rates by 25bps on Thursday, while the first estimates of euro area Q4 GDP and January inflation from the Germany and France, and bank lending figures from the euro area and UK are due.

**Chris Scicluna**  
+44 20 7597 8326

**Emily Nicol**  
+44 20 7597 8331

### Daily bond market movements

Bond	Yield	Change
BKO 2 12/26	2.283	+0.045
OBL 2.4 04/30	2.378	+0.033
DBR 2½ 02/35	2.567	+0.021
UKT 4½ 01/27	4.316	+0.006
UKT 4½ 07/29	4.333	+0.003
UKT 4½ 07/34	4.627	-0.006

\*Change from close as at 5:00pm GMT.  
Source: Bloomberg

## Euro area

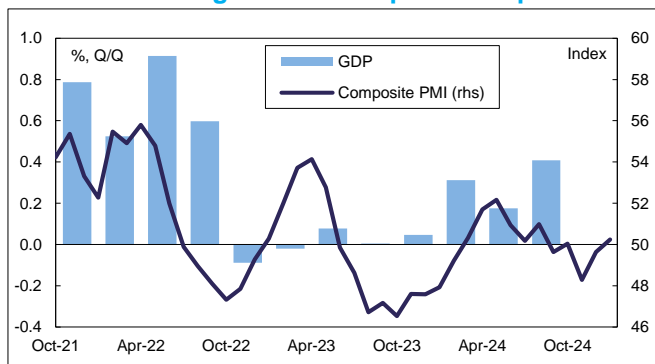
### Flash PMIs hint at tentative turn for the better while signalling ongoing stagnation

Having pointed to a significant loss of momentum in the fourth quarter of last year, today's flash PMIs for January provided somewhat better news, with the headline euro area composite index beating expectations to rise 0.6pt to a five-month high. At 50.2, however, that level was still suggestive of stagnation in economic output at the start of the year rather than any meaningful growth. Moreover, the source of the improvement was a somewhat diminished pace of retrenchment in manufacturing, for which the output PMI rose 2.5pts to 46.8, a level still suggestive of significant contraction despite being an eight-month high. In contrast, in line with expectations, the services activity PMI edged down 0.2pt to 51.4, matching the subdued average since August, to suggest minimal growth in the sector. Among the member states, Germany posted a particularly surprising and welcome improvement, with the output indices for both services (52.5) and manufacturing (45.2) at seven-month highs. That pushed the respective composite PMI to the highest since June (50.1) albeit still consistent with German GDP moving merely sideways at the start of the year. While the survey was consistent with contraction in French services and manufacturing alike, the respective composite PMI (48.3) was the best in four months. But the composite PMI for the remainder of the euro area fell almost 1pt to 51.4, below the Q4 average, to be suggestive of a loss of momentum and only subdued growth in Southern Europe.

### ECB should worry more about weakness in activity flagged by PMIs than pickup in input costs

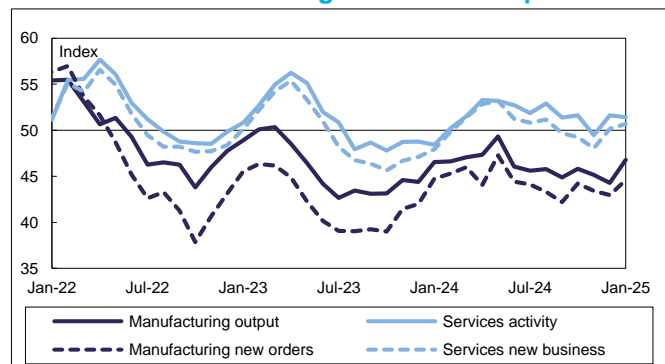
While the headline flash PMIs were better than expected and suggest that the pace of deterioration has slowed, we do not think policymakers or investors should get carried away. This was still a soft set of data, which suggest that economic activity in the euro area remains more subdued than the ECB had been expecting, even when it met last month. Indeed, with respect to forward-looking PMIs, new orders (49.1) reportedly fell for an eighth successive month, albeit by the least since August, with external demand (46.1) still particularly soft. In manufacturing, inventories remained high relative to orders, while firms continued to reduce purchases of inputs. The employment indices suggested that firms still have no intention to add to headcount. And while some policymakers might be alarmed at a rise in the composite input cost PMI to the highest since April 2023 (58.4), we attribute that to the recent pickup in oil and natural gas prices. We also note that the equivalent index for output prices merely rose to a five-month high (52.7), still near the bottom of the range of the past four years. So, the soft demand environment means that firms are still having to absorb cost pressures largely within their margins. And the survey certainly does not change our view that the disinflation process continues.

### Euro area: GDP growth & composite output PMI



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

### Euro area: Manufacturing & services output PMIs



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

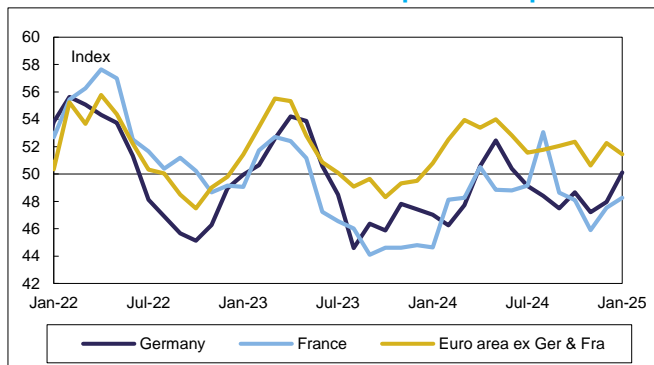
## ECB bound to cut rates again on Thursday as it continues its journey back to a neutral stance

When it last met to set monetary policy on 12 December, the ECB's Governing Council also concluded that the disinflation process remained well on track. The policy statement noted for the first time this cycle that "most" underlying measures suggest that inflation will settle at around the Governing Council's 2% medium-term target on a sustained basis. That justified a shift towards more dovish forward guidance. So, it dropped a commitment to keep policy "restrictive for as long as necessary". And that signalled a desire to shift policy to a neutral stance, which past ECB studies implied a deposit rate somewhere in the range of 1.75-2.50%. Since that meeting, there is no reason for the Governing Council to change its mind that it needs to get policy to neutral. The ECB's own wage trackers have pointed to the likelihood of a notable slowdown in pay growth this year. The final December HICP inflation data suggested that price-setting behaviour remains well-behaved with underlying inflation momentum continuing to cool. So, despite the recent pickup in oil and natural gas prices, there remains a good chance of a return of inflation to target by mid-year. Meanwhile, the first estimates of Q4 GDP, due on Thursday, seem likely to report a slowing of euro area growth to just 0.1%Q/Q, 0.1ppt below the rate projected by the ECB last month. With today's flash PMIs suggesting that GDP growth in Q1 will come in below the 0.3%Q/Q rate projected by Bank, the risks that the ECB might undershoot its inflation target over the medium term – flagged last month by ECB Chief Economist Lane – continue to rise. So, the Governing Council seems bound to cut the deposit rate by a further 25bps to 2.75% when its next policy meeting concludes on Thursday. And its updated forward guidance is likely to signal its readiness to cut rates again, to neutral if not necessarily beyond.

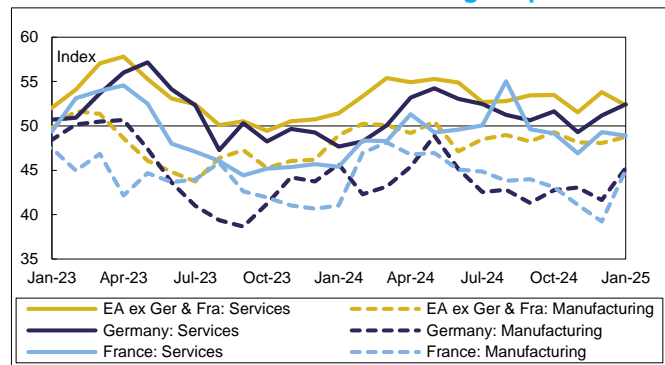
## The week ahead in the euro area

In addition to Thursday's Governing Council announcement, the coming week brings a swathe of top-tier data releases, of which the aforementioned first estimates of Q4 GDP (Thursday) represent the highlight. The upside surprise to euro area growth in Q3 (0.4%Q/Q) owed in particular to temporary boosts from one-off factors. So, some payback is in order in Q4. More subdued growth would also be consistent with the recent economic data, including sentiment surveys such as the PMIs. So, we expect euro area GDP growth of just 0.1%Q/Q in Q4, with a mixed performance across the member states. Having narrowly avoided a quarter of negative growth in Q3, we expect German GDP to have contracted 0.1%Q/Q in Q4 as the ongoing recovery in consumer spending failed fully to compensate for another decline in industrial output. A similar contraction is also possible in France, where the Olympic games previously inflated quarterly GDP (0.4%Q/Q in Q324), while see only marginal growth in Italy (0.1%Q/Q). By contrast to the slowdown in the euro area core, however, Spanish GDP growth (due Wednesday) likely remained strong, moderating just 0.2ppt from Q3 to 0.6%Q/Q. Aside from the estimates from the big four, Irish GDP (due Tuesday), which often skews the aggregate euro area data one way or the other, will also warrant close attention, with growth in Q4 likely to be markedly softer than in Q3 (3.5%Q/Q).

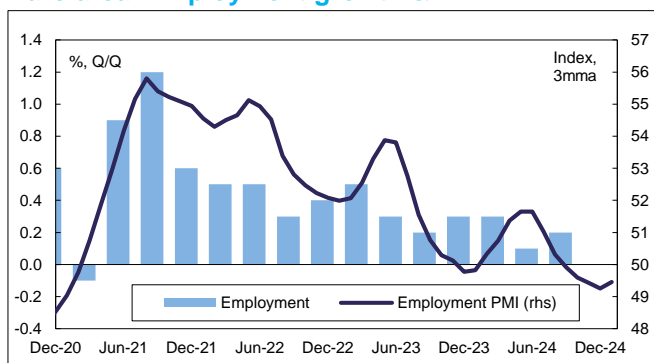
### Euro area member states: Composite output PMIs



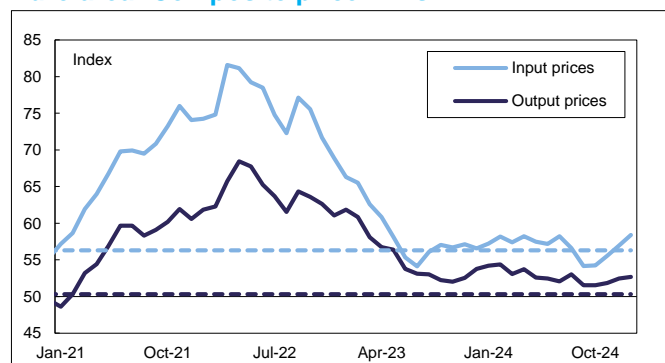
### Euro area: Services & manufacturing output PMIs



### Euro area: Employment growth & PMI



### Euro area: Composite price PMIs\*



While Q4 GDP prints look likely to disappoint, policymakers will also be paying close attention to the coming week's timely sentiment surveys, including the German ifo indices (Monday) and the Commission's economic sentiment indices (Thursday), which will provide a cross-check on today's better-than-expected flash PMIs. Policymakers will expect the withdrawal of monetary policy restrictiveness to transmit into somewhat more favourable lending conditions, which might be reflected in the ECB's Bank Lending Survey for Q4 (Tuesday) and December's monetary aggregates (Wednesday). Last but not least, January's flash HICP inflation estimates for Germany, France (Friday) and Spain (Thursday) are also due. The consensus is for German and Spanish HICP inflation to be steady (2.8%Y/Y), but the equivalent rate in France to tick up (1.9%Y/Y). Prices of petrol and household energy represent significant upside risks everywhere.

## UK

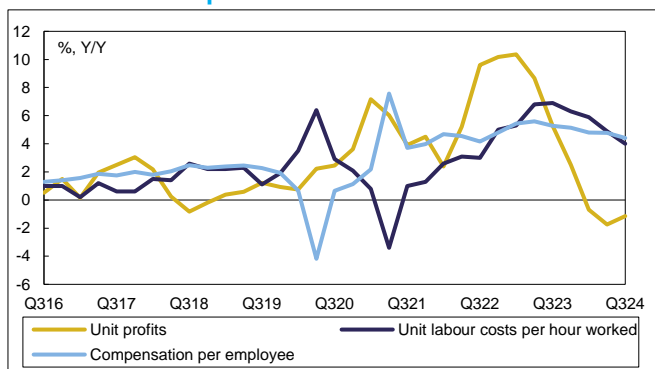
### Downbeat business and consumer surveys bolster the case for BoE rate cuts

While the flash UK PMIs came in a touch firmer than expected in January, like in the euro area, today's survey had little to celebrate, pointing to ongoing stagnation in economic activity, weakening underlying demand and a significant deterioration in the labour market. So, notwithstanding a further rise in business inflation expectations, taken together with increasing pessimism among consumers and retailers at the start of the year, today's results strengthen further the case for the BoE to cut Bank Rate by 25bps at its next policy meeting in February. And while we currently forecast one 25bps cut in each quarter through to Q226 – with a terminal rate of 3.25% – the recent data-flow arguably make a case for a faster pace of easing.

### Flash PMIs signal an absence of economic momentum and further declines in employment

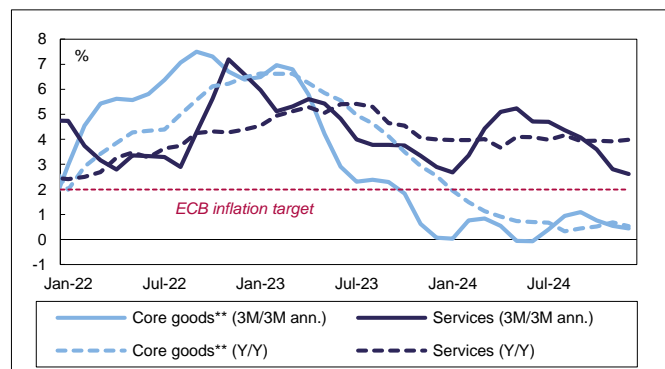
In terms of the PMIs, the headline composite output index unexpectedly rose in January for the first month in five, by 0.5pt to 50.9, a three-month high. But this left the index merely in line with the Q4 average, when GDP likely flatlined for a second successive quarter, and a level that before the pandemic would have been consistent with a slight contraction in economic output. The services survey signalled little improvement in activity at the start of the year (up 0.1pt to 51.2). And while the respective manufacturing output index rose the most since May, this followed five consecutive declines to leave it in contractionary territory (49.3) for a third consecutive month. Survey respondents generally attributed the improvement to the completion of unfinished projects, rather than renewed momentum in new orders. Indeed, given heightened uncertainties related to US trade policy, higher longer-term interest rates and subdued consumer spending, new factory orders fell for a

#### Euro area: Unit profits & labour costs



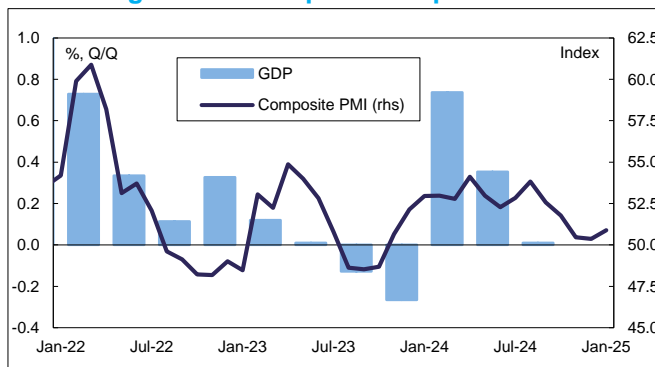
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### Euro area: Core inflation momentum\*



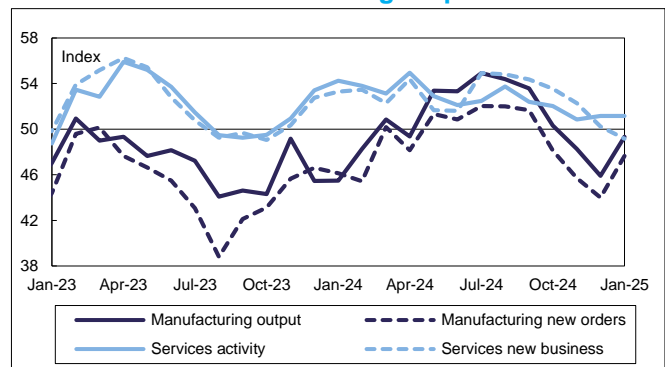
\*Seasonally adjusted data. \*\*Non-energy industrial goods. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: GDP growth & composite output PMI



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

#### UK: Services & manufacturing output PMIs



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

fourth consecutive month, while new business in the services sector contracted for the first time in 15 months. And with business activity expectations for the year ahead having weakened for a sixth consecutive month to a more-than-two-year low, the composite employment index (45.7) continued to signal a sharp cut to firms' headcount, adding to evidence that the current monetary stance is excessively tight.

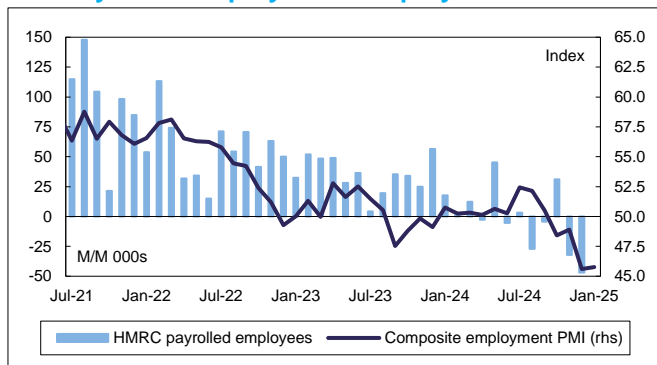
### Consumer confidence worsens to a 13-month low, while retail sales fall at the start of the year

A further worsening in consumer confidence reinforced the impression of weakness in underlying demand at the start of the year. The GfK headline sentiment indicator fell sharply in January, by 5pts to -22, the lowest for 13 months. While the deterioration was broad-based, households were the most downbeat about the economic outlook since April 2023. And given renewed pessimism about income expectations and concerns about rising unemployment, households again signalled a preference to add to savings as a precaution. So, while the survey's purchase intentions component remained above the lows seen over recent years, it nevertheless slipped back for the first time in four months and was still well below the long-run average. Meanwhile, the headline retail sales balance on the CBI's distributive trades survey declined to a five-month low in January (-24). While this might reflect a post-Christmas slump in spending, retailers reported that sales were weak for the time of year, with a further decline anticipated in February too.

### Increase in services price PMIs likely to prove temporary and won't prevent a rate cut in February

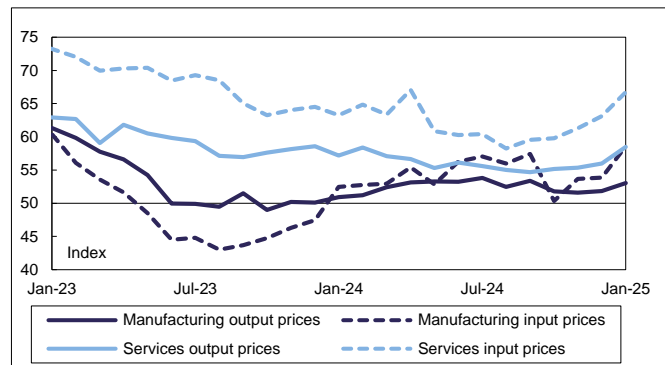
In terms of the indicators most closely related to inflation, today's PMIs suggested a notable pickup in costs at the start of the year. In particular, the composite input price index rose for a fourth consecutive month and by a chunky 3.8pts – the most since October 2021 – to a 20-month high (65.6). But this likely reflected the recent spike in oil prices, rising raw material costs and prospects of higher labour costs ahead of April's increase in employer NICs and the National Living Wage. While the uptick in price pressures was broad-based, policymakers will particularly note recent developments in the services sector, with the respective input price PMI up to a nine-month high in January (66.7). Today's indices also suggested that prices charged in the sector rose the most since December 2023. But the recent uptrend is at odds with developments in [services inflation](#), which fell to a near-three-year low in December to undershoot the BoE's end-2024 projection. While base effects will see a temporary bounce in services inflation in January, we expect a modest disinflationary trend to resume in February. Certainly, we suspect that, as in the manufacturing sector, an absence of meaningful demand will help to limit pass-through to consumers over coming quarters, suggesting that risks to the inflation outlook are perhaps skewed to the downside over coming quarters.

#### UK: Payrolled employees & employment PMI



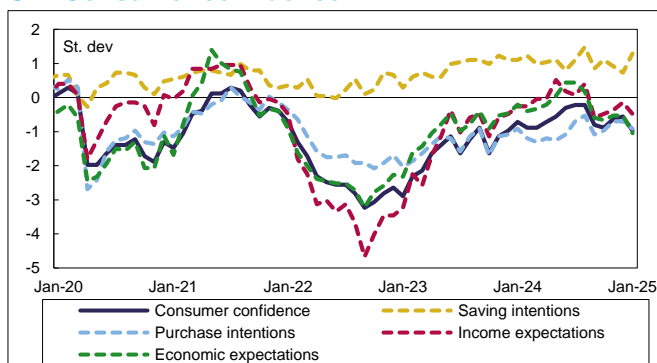
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

#### UK: Price PMIs



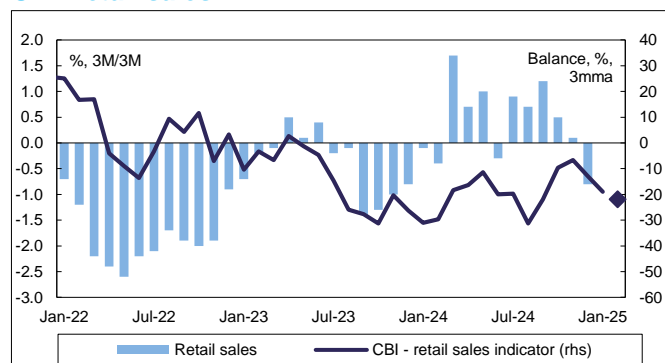
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

#### UK: Consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

#### UK: Retail sales\*












\*Diamond represents survey forecast for February.  
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

## The week ahead in the UK

In an otherwise quiet week ahead for UK economic news, December's credit report will provide the main event on Thursday. Since the MPC set off on a gradual loosening cycle, the report has pointed towards a steady recovery in mortgage lending, which reached a 25-month high in October (£3.4bn), while approvals similarly surpassed the long-run average that month (68.3k). But November's report subsequently showed net mortgage lending slip back to a 6-month low (£2.5bn). With the RICS survey signalling a further slowdown in new buyer enquiries in December and interest rates having risen over the month, we might expect to see minimal improvements in lending last month. Elsewhere, on the survey front, January's BRC shop price index is also due on Tuesday. Discounting in non-food components (-2.4%Y/Y in December) has helped to drive the recent deflationary trend on the high street over recent months (-1.0%Y/Y in December). And, as is usually the case in January, additional sales will be expected to lower prices in this category on a month-on-month basis. But given the large discounts in non-food products in January last year (-1.4%M/M), and particularly for clothing (-5.9%M/M), the pace of decline in headline shop price inflation might moderate slightly.




























## Daiwa economic forecasts

	2024		2025				2024	2025	2026
	Q3	Q4	Q1	Q2	Q3	Q4			
<b>GDP</b>	%, Q/Q						%, Y/Y		
Euro area 	0.4	0.1	0.1	0.2	0.2	0.3	0.7	0.8	1.2
UK 	0.0	-0.1	0.2	0.1	0.2	0.3	0.7	0.5	1.1
<b>Inflation, %, Y/Y</b>									
Euro area									
Headline HICP 	2.2	2.2	2.0	1.8	1.8	2.1	2.4	1.9	1.9
Core HICP 	2.8	2.7	2.3	1.7	1.5	1.9	2.8	1.9	1.8
UK									
Headline CPI 	2.0	2.5	2.5	2.6	2.7	2.5	2.5	2.6	2.0
Core CPI 	3.3	3.3	3.3	2.6	2.3	2.2	3.7	2.6	1.8
<b>Monetary policy, %</b>									
ECB									
Deposit Rate 	3.50	3.00	2.50	2.25	2.00	2.00	3.00	2.00	2.00
Refi Rate 	3.65	3.15	2.65	2.40	2.15	2.15	3.15	2.15	2.15
BoE									
Bank Rate 	5.00	4.75	4.50	4.25	4.00	3.75	4.75	3.75	3.25

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



## The coming week's data calendar

### The coming week's key data releases

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
<b>Monday 27 January 2025</b>					
Germany		09.00 ifo business climate indicator	Jan	84.8	84.7
		09.00 ifo current assessment (expectations) indicator	Jan	85.4 (85.0)	85.1 (84.4)
France		11.00 Total jobseekers mn	Q4	-	2.8
<b>Tuesday 28 January 2025</b>					
France		07.45 INSEE consumer confidence indicator	Jan	90	89
Spain		08.00 Unemployment rate %	Q4	11.1	11.2
UK		07.00 BRC shop price index Y/Y%	Jan	-0.7	-1.0
<b>Wednesday 29 January 2025</b>					
Euro area		09.00 M3 money supply Y/Y%	Dec	3.8	3.8
Italy		09.00 ISTAT consumer confidence indicator	Jan	96.6	96.3
		09.00 ISTAT business (manufacturing) confidence indicator	Jan	- (85.4)	95.3 (85.8)
Spain		08.00 GDP – first estimate Q/Q% (Y/Y%)	Q4	<u>0.6 (3.1)</u>	0.8 (3.3)
<b>Thursday 30 January 2025</b>					
Euro area		10.00 GDP – first estimate Q/Q% (Y/Y%)	Q4	<u>0.1 (1.0)</u>	0.4 (0.9)
		10.00 Unemployment rate %	Dec	6.3	6.3
		10.00 Commission economic sentiment indicator	Jan	94.2	93.7
		10.00 Commission industrial (services) confidence indicator	Jan	-13.7 (6.0)	-14.1 (5.9)
		10.00 Final Commission consumer confidence indicator	Jan	<u>-14.2</u>	-14.5
		13.15 ECB Deposit Rate (Refi Rate) %	Jan	<u>2.75 (2.90)</u>	3.00 (3.15)
Germany		07.00 GDP – first estimate Q/Q% (Y/Y%)	Q4	<u>-0.1 (-0.1)</u>	0.1 (-0.3)
France		06.30 GDP – first estimate Q/Q% (Y/Y%)	Q4	<u>-0.1 (0.7)</u>	0.4 (1.2)
		06.30 Consumer spending M/M% (Y/Y%)	Dec	0.2 (0.2)	0.3 (0.3)
Italy		09.00 GDP – first estimate Q/Q% (Y/Y%)	Q4	<u>0.1 (0.6)</u>	0.0 (0.4)
Spain		08.00 Preliminary HICP (CPI) Y/Y%	Jan	2.8 (2.9)	2.8 (2.8)
UK		09.30 Net consumer credit £bn (Y/Y%)	Dec	1.0 (-)	0.9 (6.6)
		09.30 Net mortgage lending £bn (mortgage approvals 000s)	Dec	2.6 (65.1)	2.5 (65.7)
<b>Friday 31 January 2025</b>					
Euro area		09.00 ECB consumer expectations survey – 1Y CPI (3Y CPI) Y/Y%	Dec	2.7 (2.4)	2.6 (2.4)
Germany		07.00 Retail sales M/M% (Y/Y%)	Dec	0.0 (2.6)	-0.1 (2.9)
		08.55 Unemployment rate % (change 000s)	Jan	6.2 (15)	6.1 (10)
		13.00 Preliminary HICP (CPI) Y/Y%	Jan	2.8 (2.6)	2.8 (2.6)
France		07.45 Preliminary HICP (CPI) Y/Y%	Jan	1.9 (1.5)	1.8 (1.3)
		07.45 PPI Y/Y%	Dec	-	-5.2
Italy		09.00 Hourly wages Y/Y%	Dec	-	3.7
		10.00 PPI Y/Y%	Dec	-	-0.7
Spain		08.00 Retail sales Y/Y%	Dec	-	1.0
UK		00.01 Lloyd's business barometer (own price expectations)	Jan	-	39 (62)
		07.00 Nationwide house price index M/M% (Y/Y%)	Jan	0.3 (4.3)	0.7 (4.7)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### The coming week's key events & auctions












Country	GMT	Event / Auction
<b>Monday 27 January 2025</b>		
Euro area	 08.00	ECB President Lagarde to deliver lecture at MNB Conference on 'The Age of Geoeconomics', Budapest.
<b>Tuesday 28 January 2025</b>		
Euro area	 11.00	ECB to publish quarterly Bank Lending Survey for Q424
Germany	 10.30	Auction: to sell up to €5bn of 2027 bonds
Italy	 10.00	Auction: to sell up to €3bn 2.55% 2027 bonds
	 10.00	Auction: to sell up to €1.25bn of 1.5% 2029 inflation-linked bonds
	 10.00	Auction: to sell up to €1.25bn of 1.8% 2036 inflation-linked bonds
UK	 10.00	Auction: to sell £1.5bn of 1.125% 2035 inflation-linked bonds
<b>Wednesday 29 January 2025</b>		
Germany	 10.30	Auction: to sell €4.5bn of 2.5% 2035 bonds
UK	 10.00	Auction: to sell £3bn of 0.875% 2033 green bonds
<b>Thursday 30 January 2025</b>		
Euro area	 13.15	ECB monetary policy announcement
	 13.45	ECB President Lagarde holds post Governing Council meeting press conference
<b>Friday 31 January 2025</b>		
Euro area	 09.00	ECB to publish Survey of Professional Forecasters for Q125

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
Euro area	 Preliminary manufacturing (services) PMI	Jan	<b>46.1 (51.4)</b>	45.5 (51.5)	45.1 (51.6)	-
	 Preliminary composite PMI	Jan	<b>50.2</b>	49.7	49.6	-
Germany	 Preliminary manufacturing (services) PMI	Jan	<b>44.1 (52.5)</b>	42.8 (51.0)	42.5 (51.2)	-
	 Preliminary composite PMI	Jan	<b>50.1</b>	48.3	48.0	-
France	 Preliminary manufacturing (services) PMI	Jan	<b>45.3 (48.9)</b>	42.6 (49.5)	41.9 (49.3)	-
	 Preliminary composite PMI	Jan	<b>48.3</b>	47.8	47.5	-
Spain	 PPI Y/Y%	Dec	<b>2.3</b>	-	0.9	1.2
UK	 Preliminary manufacturing (services) PMI	Jan	<b>48.2 (51.2)</b>	47.0 (50.9)	47.0 (51.1)	-
	 Preliminary composite PMI	Jan	<b>50.9</b>	50.1	50.4	-
	 GfK consumer confidence indicator	Jan	<b>-22</b>	-18	-17	-
	 CBI distributive trades survey – reported sales volumes %	Jan	<b>-24</b>	-10	-15	-

#### Auction24s

Country	Auction
- Nothing to report -	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

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