

# Euro wrap-up

## Overview

- Bunds followed USTs higher while the ECB's wage tracker pointed to a marked slowdown in pay growth this year, euro area PPI inflation came in at zero and the final euro area PMIs signalled an ongoing absence of economic momentum at the start of 2025.
- Gilts also made gains as the final January PMIs were consistent with continued weakness in UK economic activity.
- On Thursday, the BoE should cut rates by 25bps as it downgrades its growth projection while revising up its near-term inflation outlook. December figures for euro area retail sales and German factory orders are also due.

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### Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.041	-
OBL 2.4 04/30	2.147	-0.002
DBR 2½ 02/35	2.357	-0.038
UKT 4½ 01/27	4.133	-0.036
UKT 4½ 07/29	4.115	-0.069
UKT 4½ 07/34	4.430	-0.090

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

## Euro area

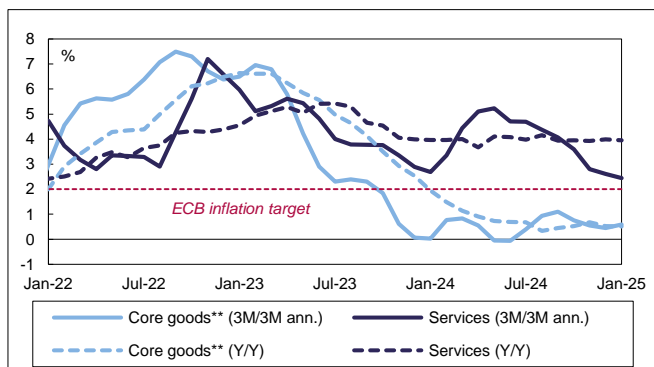
### Surveys & wage trackers remain consistent with moderation in services inflation in 2025

While euro area [inflation](#) ticked up in January to a six-month high of 2.5%Y/Y, and might rise further over the near term due to energy prices, the ECB still expects it to return to target over the course of the year. Most notably, although the all-important services component remained elevated at 3.9%Y/Y in January, it is expected to decelerate significantly. On a seasonally-adjusted basis, momentum in services prices already slowed to a more than three-year low of 2.4%3M/3M annualised in January, giving an indication of the likely direction of travel over coming quarters. Admittedly, today's final services PMIs reported a non-negligible increase in input costs in the sector in January, by the most in nine months, which we associate with higher energy prices. However, the prices charged component fell back in line with the average of the past nine months, suggesting that underlying disinflation likely continues as firms absorb cost pressures within their margins due to weak demand. The final PMIs also suggested that the labour market remains soft, with a sixth successive sub-50 composite employment index. So, with employees' bargaining positions having weakened, wage growth is expected to moderate. Pay growth in Indeed's advertised job postings moderated at end-2024 to 3.3%Y/Y, back close to the bottom of the range of the past three years. And the ECB's updated wage trackers – which aggregate information from thousands of agreements between unions and employer associations – today suggested that negotiated pay growth is on track to moderate by end-2025 to just 1.3%Y/Y, or 2.8%Y/Y excluding one-off payments.

### Underlying goods pipeline pressures remain absent amid subdued demand

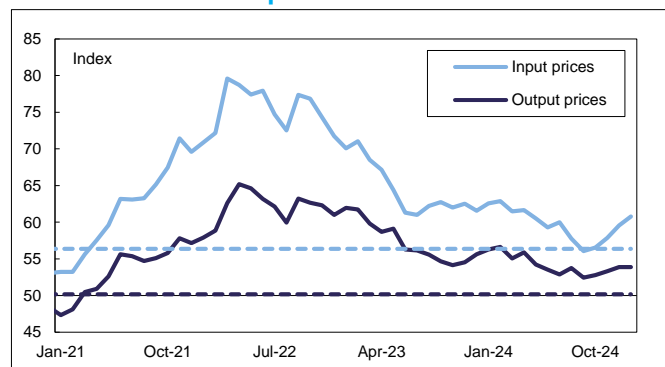
Higher energy costs have also added to factory pipeline pressures over recent months, with producer prices rising for a sixth month out of the past seven to a 12-month high in December. This took goods PPI inflation up 1.2ppts to a 14-month high, albeit at just 0.0%Y/Y. But when excluding energy prices – which rose a chunky 1.4%M/M – producer prices moved sideways for a fourth month out of five, to leave core PPI inflation steady at 0.9%Y/Y. A modest rise in intermediate goods prices (0.1%M/M) for the first month in six took the annual rate up 0.4ppt to just 0.1%Y/Y. And although durable consumer goods PPI inflation edged up to an eight-month high, at 0.8%Y/Y it remained very subdued, more than 2ppts below the rate a year earlier and more than 9ppts below the peak in August 2022. While the manufacturing PMIs suggested that input costs rose the most in five months in January, they also suggested that output prices charged were unchanged, as a persistent lack of demand continued to constrain manufacturers' pricing power.

### Euro area: Core inflation momentum\*



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

### Euro area: Services price PMIs\*

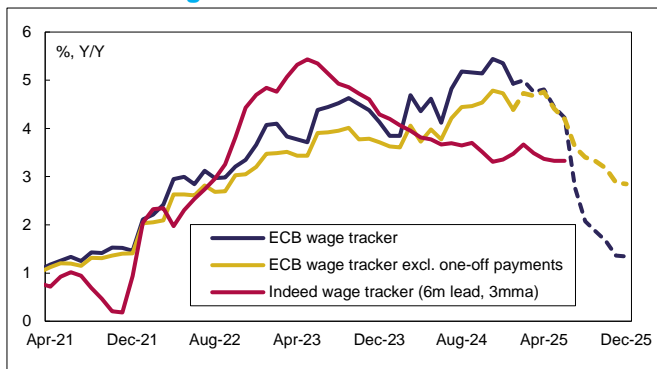


\*Dashed lines represent pre-pandemic long-run average.  
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

### Composite PMIs point to ongoing strength in Spain, but stagnation elsewhere in the region

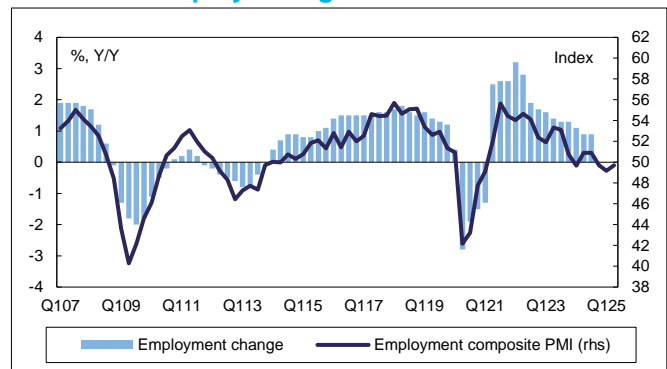
In terms of activity, there were no major surprises from today's final euro area PMIs, which broadly aligned with the flash release in January. Admittedly, the headline composite output index (50.2) was the highest in five months and almost 1pt above the Q4 average, albeit pointing to ongoing stagnation at the start of the year. Despite a marked improvement last month, the manufacturing output (47.1) and new factory orders PMIs (45.4) remained consistent with significant contraction in the sector. But while the services activity PMI (51.3) was a touch softer than the January flash and December readings, it too was marginally firmer than the Q4 average, at a level consistent with ongoing moderate growth in the sector. Services firms also signalled the strongest demand for new business in five months. Among the member states, today's survey suggested that services activity was again strongest in Spain (54.9), with the new business component (59.2) the highest since April 2023. So, despite slipping back in January, the Spanish composite PMI (54.0) suggested that the country will remain the principal engine of euro area GDP growth in Q1 after expanding at a rate of 0.8%Q/Q in each of the previous three quarters. More surprisingly, the final PMIs pointed to a recovery in German services activity to a six-month high (52.5). However, given persisting challenges in the factory sector, Germany's composite PMI (50.5) still suggested no growth in GDP at the start of the year. Moreover, reflecting subdued activity in both manufacturing and services, the Italian composite PMI (49.7) signalled ongoing stagnation, while the equivalent French index implied continued contraction (48.2).

#### Euro area: Wage trackers



Source: ECB, Indeed, Macrobond and Daiwa Capital Markets Europe Ltd.

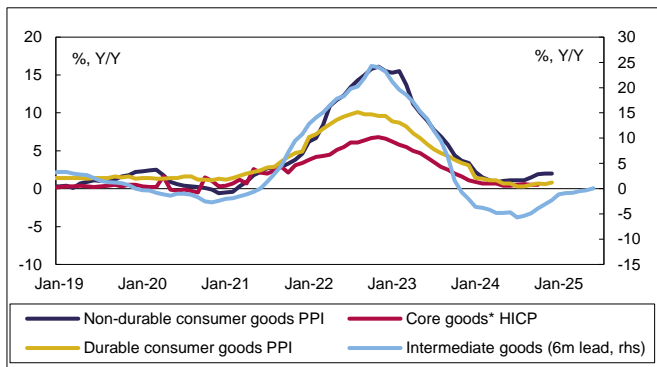
#### Euro area: Employment growth & PMI\*



\*January PMI figure for Q124.

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

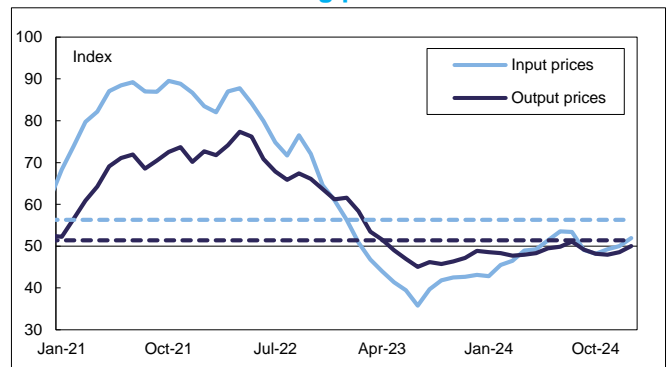
#### Euro area: Goods PPI inflation



\*Non-energy industrial goods.

Source: Macrobond and Daiwa Capital Markets Europe Ltd.

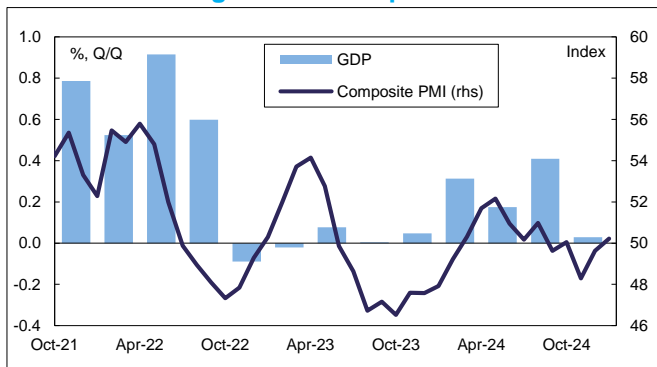
#### Euro area: Manufacturing price PMIs\*



\*Dashed lines represent pre-pandemic long-run average.

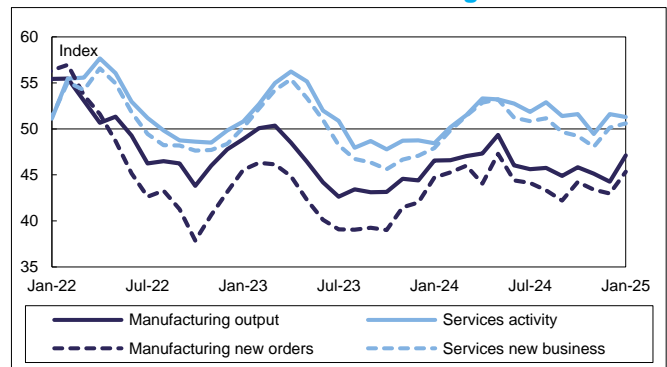
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

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



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

#### Euro area: Services & manufacturing PMIs



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

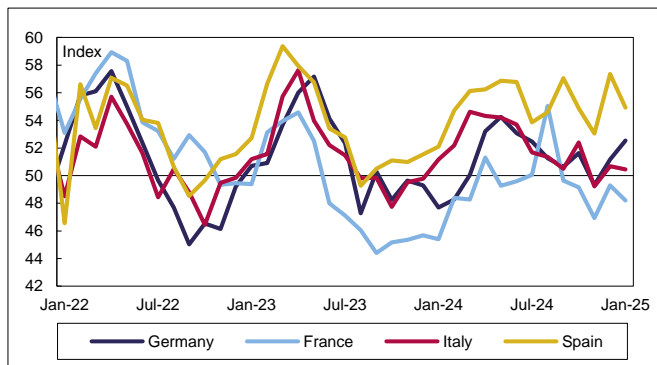
## French IP declined further at end-2024 with near-term production outlook uncertain

While the decline in [French GDP](#) in Q4 in part reflected pay back for the boost from the summer Olympic games, today's industrial figures flagged that production weakened heading into year-end, as heightened political and economic uncertainties weighed on confidence. In particular, industrial output fell in December for a third month out of four, by 0.4%M/M. This took output to its second-lowest level in 20 months, down 0.6%Q/Q and 6% below the pre-pandemic benchmark in February 2020. The weakness in December was more acute in manufacturing, where output fell 0.7%M/M to a seven-month low, driven by a marked reversal in car production, which was the lowest since April 2022 to be down more than 3½%Q/Q in Q4. Production of machinery and equipment fell to a six-month low, while pharmaceuticals output also fell sharply, albeit from an elevated level. This was partly offset by a rebound in the food and ICT subsectors. And although construction was a notable drag on GDP in Q4 (-1.0%Q/Q), activity increased for a second-successive month in December (1.3%M/M) to provide a positive carryover into Q1. While construction demand should be supported by declining borrowing costs, the near-term outlook for manufacturing remains highly uncertain. Certainly, while the recent INSEE survey suggested that manufacturers were notably less downbeat about their production plans at the start of 2025 – due particularly to optimism in the 'other transport equipment' and ICT subsectors – new orders were reportedly the weakest since the second Covid-19 wave.

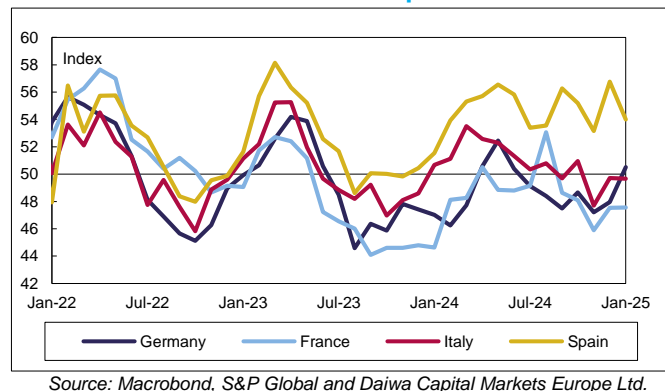
## The day ahead in the euro area

Tomorrow will bring euro area retail sales figures for December. Notwithstanding significant weakness in Germany (-1.6%M/M) and fragile consumer confidence, euro area retail sales likely declined only modestly at the end of last year (-0.3%M/M), supported by growth in Italy and Spain. And due to a positive carryover from Q3, they should therefore confirm a fifth consecutive quarter of positive growth in Q4. Thursday will also bring German factory orders data for December, which are likely to report a modest bounce back at the end of last year after a notable drop in major orders in November. But with surveys signalling a significant weakening in demand, we suspect that core orders will remain very subdued and consistent with contraction in manufacturing turnover. Finally, the construction PMIs for January will likely point to ongoing challenges in Germany and France, offsetting a recent recovery in Italy.

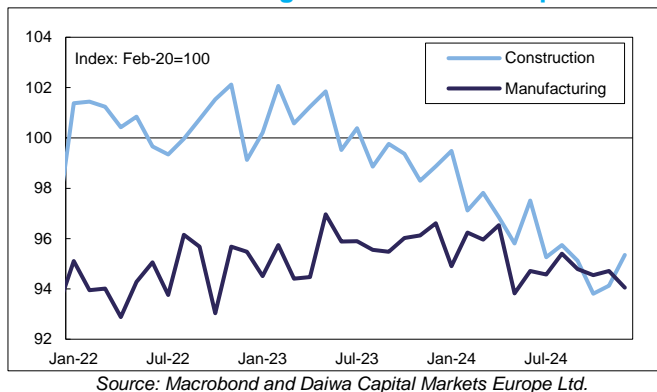
### Euro area member states: Services PMIs



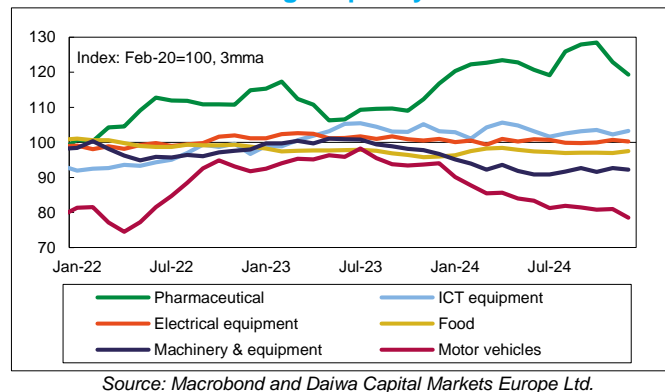
### Euro area member states: Composite PMIs



### France: Manufacturing & construction output



### France: Manufacturing output by selected subsector

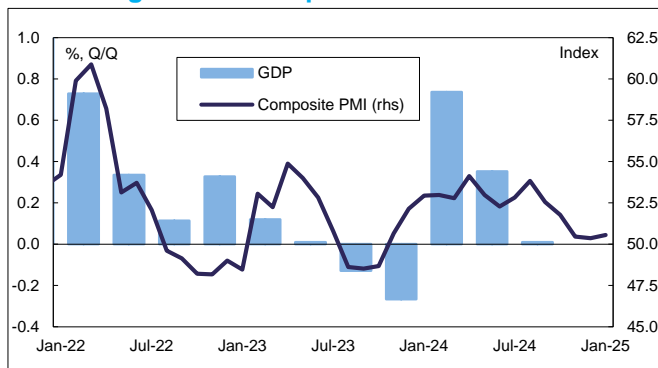


# UK

## The day ahead in the UK

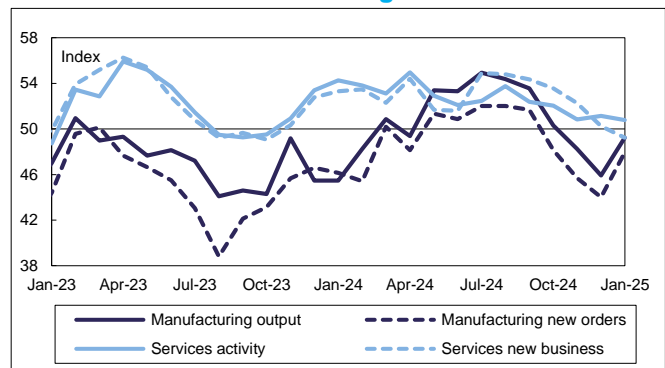
The BoE's policy announcement will bring a further cut of 25bps – the third so far this cycle – taking Bank Rate to a 20-month low of 4.50%. As in November, we expect eight of the nine MPC members to vote for the cut, with only the external hawk Mann preferring no change. The rate cut will be justified by the BoE's updated projections, which will significantly downgrade the GDP growth outlook to reflect the recent flatlining of economic output well below the path previously projected, as well as a significant tightening of financial conditions. Indeed, today's final PMIs for January reported a rise of just 0.2pt from December in the headline composite index to 50.6, marking a third month at a level that before the pandemic would have signalled a drop in GDP. In addition, despite recent downside surprises in the services component, the inflation outlook for this year will be revised up in part due to weaker sterling and higher energy prices, as well as stronger-than-expected private sector pay. However, given rising slack, we expect the inflation projection also to suggest increasing risks of undershooting the 2% target over the medium term, meriting further easing of a policy stance which we consider to be excessively tight. Given the significant increase in two-sided risks to the inflation outlook posed not least by political developments in the US, the MPC's updated forward guidance and Governor Bailey's press conference should continue to point to ongoing 'gradual' monetary easing this year – which we interpret as representing one 25bps rate cut per quarter – but also perhaps a terminal rate that is likely to be lower than currently priced by the OIS markets. (See last [Friday's daily wrap-up](#) for more background on the BoE's decision.)

### UK: GDP growth & composite PMI



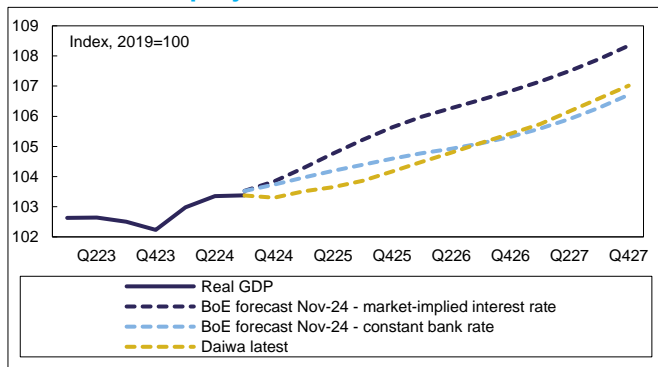
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

### UK: Services & manufacturing PMIs



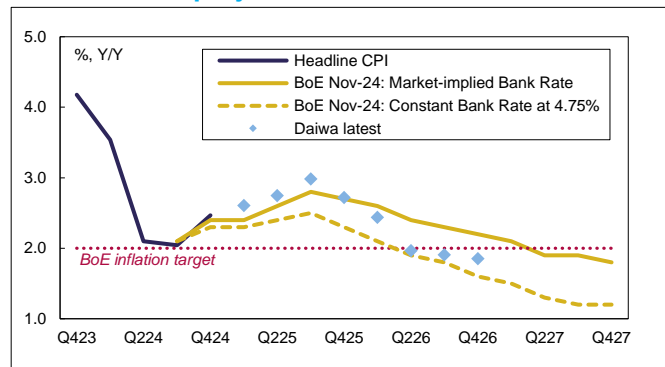
Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

### UK: BoE MPR projections – Real GDP



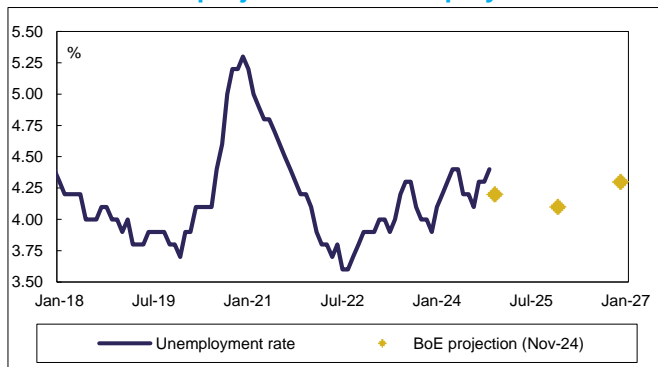
Source: Macrobond, BoE and Daiwa Capital Markets Europe Ltd.

### UK: BoE MPR projections – CPI



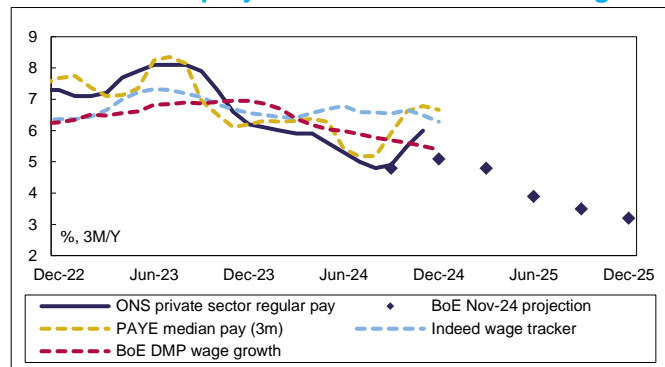
Source: Macrobond, BoE and Daiwa Capital Markets Europe Ltd.

### UK: BoE MPR projections – Unemployment rate



Source: Macrobond, BoE and Daiwa Capital Markets Europe Ltd.

### UK: BoE MPR projections – Private sector wages













Source: Macrobond, BoE 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	 Final composite (services) PMI	Jan	<b>50.2 (51.3)</b>	<u>50.2 (51.4)</u>	49.6 (51.6)	-
	 PPI Y/Y%	Dec	<b>0.0</b>	-0.1	-1.2	-
Germany	 Final composite (services) PMI	Jan	<b>50.5 (52.5)</b>	<u>50.1 (52.5)</u>	48.0 (51.2)	-
France	 Industrial production M/M% (Y/Y%)	Dec	<b>-0.4 (-1.7)</b>	-0.2 (-1.2)	0.2 (-1.1)	0.1 (-)
	 Final composite (services) PMI	Jan	<b>47.6 (48.2)</b>	<u>48.3 (48.9)</u>	47.5 (49.3)	-
Italy	 Composite (services) PMI	Jan	<b>49.7 (50.4)</b>	49.7 (50.4)	49.7 (50.7)	-
	 Retail sales M/M% (Y/Y%)	Dec	<b>0.6 (0.6)</b>	-	-0.4 (1.1)	-
Spain	 Composite (services) PMI	Jan	<b>54.0 (54.9)</b>	55.9 (56.8)	56.8 (57.3)	-
UK	 Final composite (services) PMI	Jan	<b>50.6 (50.8)</b>	<u>50.9 (51.2)</u>	50.4 (51.1)	-
	 New car registrations Y/Y%	Jan	<b>-2.5</b>	-	-0.2	-



#### Auctions

Country	Auction
UK	 sold £2bn of 1.5% 2053 green bonds at an average yield of 4.976%


Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

### Tuesday's results

#### Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
France	 Budget balance YTD €bn	Dec	<b>-156.3</b>	-	-172.5	-
Spain	 Unemployment (net employment) change 000s	Jan	<b>38.7 (35.8)</b>	55.0 (-)	-25.3 (42.7)	- (46.8)










#### Auctions

Country	Auction
UK	 sold £4.25bn of 4.375% 2030 bonds at an average yield of 4.276%





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	 08.30	Construction PMI	Jan	-	42.9
	 10.00	Retail sales M/M% (Y/Y%)	Dec	-0.1 (1.9)	0.1 (1.2)
Germany	 07.00	Factory orders M/M% (Y/Y%)	Dec	2.0 (-10.5)	-5.4 (-1.7)
	 08.30	Construction PMI	Jan	-	37.8
France	 08.30	Construction PMI	Jan	-	42.6
Italy	 08.30	Construction PMI	Jan	-	51.2
UK	 09.30	Construction PMI	Jan	53.5	53.3
	 12.00	BoE Bank Rate %	Feb	<u>4.50</u>	4.75
	 14.00	DMP 3M output price (1Y CPI) expectations %	Jan	3.9 (3.0)	3.8 (3.0)

#### Auctions and events

France	 09.50	Auction: to sell up to €13bn of 3.2% 2035, 1.25% 2036, 1.25% 2038, and 3.25% 2055 bonds
Spain	 09.30	Auction: to sell 2.4% 2028, 3.1% 2031, 1.15% 2036, 4% 2054 bonds
UK	 12.00	BoE monetary policy announcement, minutes and Monetary Policy Report to be published
	 12.30	Governor Bailey to present updated macroeconomic projections in press conference

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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