

Euro wrap-up

Overview

- Bunds ended the day little changed while German exports in December rose the most in eleven months despite a slump manufacturing output to the lowest level since the first Covid lockdown.
- Gilts were little changed on a quiet day for UK economic news.
- The coming week will bring estimates of Q4 GDP which are likely to confirm zero growth in the euro area and a modest contraction in the UK; December industrial production figures from both regions are also due.

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Daily bond market movements

Bond	Yield	Change
BKO 2.2 03/27	2.044	-0.005
OBL 2.4 04/30	2.157	-0.003
DBR 2½ 02/35	2.376	+0.001
UKT 4½ 01/27	4.158	-0.001
UKT 4½ 07/29	4.172	+0.001
UKT 4½ 07/34	4.479	-0.005

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

Source: Bloomberg

Euro area

German manufacturing slumps at end-2024 amid a sharp decline in car production

Today's German industrial figures once again illustrated the ongoing challenges facing manufacturers in the largest member state. Indeed, manufacturing production declined a striking 3.3%M/M in December – the most in seven months – to drop to the lowest level since May 2020 and, outside of the first Covid-19 lockdown, the global financial crisis. This left factory output down 1.3%Q/Q, marking the sixth quarterly contraction out of seven. The weakness at the end of last year was driven by autos, where production fell for a fourth successive month and by a whopping 10%M/M to the lowest level since April 2022. So, over 2024 as whole, car production fell more than 7%Y/Y hampered by weak demand and increased competition in the sector. A steady decline in demand, particularly from China, has also weighed on German machinery production, which fell in December to the lowest level since 2010 outside of the initial pandemic slump to be down more than 8%Y/Y in 2024. Production in energy-intensive industries – including chemicals, basic metals and paper – also fell to a 12-month low amid an unwelcome rise in wholesale gas prices due to unfavourable winter weather. And so, it was largely thanks to a sizeable jump in pharmaceuticals output to a nine-month high that the drop in overall manufacturing production wasn't larger.

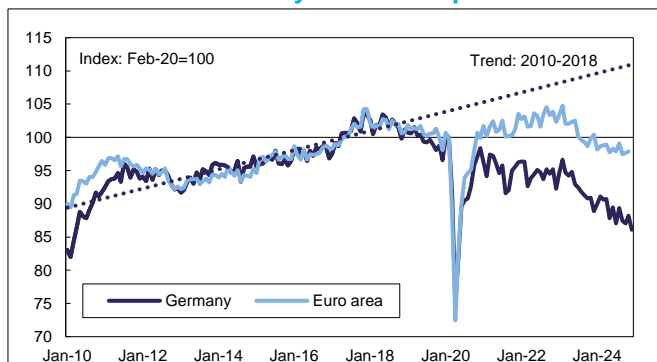
German construction output continues to stabilise

Today's data were not all doom and gloom however. Energy production rose for a second successive month in December (1.1%M/M) to leave it broadly unchanged over the fourth quarter as whole. And while construction activity moved sideways at year-end and offered no support to GDP growth in Q4, this was improved from the sizeable drag that it provided in the previous two quarters. Moreover, recent surveys point to somewhat more favourable momentum in the construction sector supported by a turnaround in the housing sector and lower borrowing costs. It is also worth noting that the first estimates of German industrial production are more heavily revised in December than in other months of the year. So, the more modest decline in manufacturing turnover (-0.1%M/M) and increase in truck toll mileage (0.5%M/M) that month raise hopes of an eventual upwards revision. The slight pickup in core factory orders over recent months might also raise cautious optimism that the relentless manufacturing downturn of recent years might finally be bottoming out. Certainly, while risks to the outlook remain firmly skewed to the downside, surveys suggest a small improvement in business conditions at the start of the year, with the latest VDA car production numbers also pointing to renewed growth in January.

German and French goods exports more positive heading into year-end

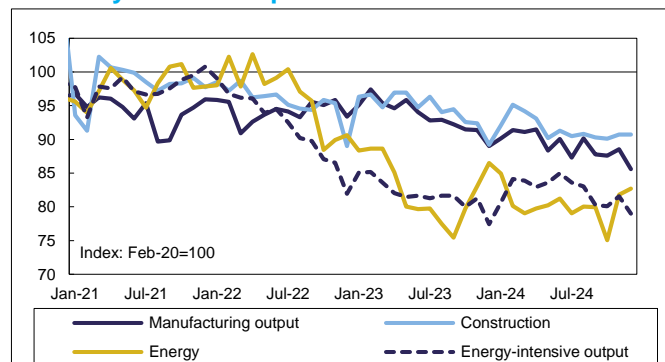
While Destatis noted that net trade was a drag on German GDP growth in Q4, today's monthly goods trade report was also arguably more encouraging about conditions heading to year-end. Indeed, despite declining over the fourth quarter as a

Euro area and Germany: Industrial production



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Industrial production



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

whole, export values rose in December for a second successive month, by 2.9%M/M – the most in 11 months – suggesting positive carryover into 2025. This notwithstanding, there was an ongoing downtrend in shipments to China (-6½%3M/3M). And despite a drop in exports to the US (-2.0%3M/3M), the bilateral trade surplus with that country remained historically high, raising concerns about manufacturers’ exposure to potential higher tariffs in due course. Today’s French goods trade figures for the end of 2024 were also more positive. Export values rose for a third consecutive month in December to the highest level in 17 months, in part due to a sizeable shipment from the aerospace industry. So, with imports down for a third month in four, the goods trade deficit narrowed significantly by €2½bn to €3.9bn, the smallest since November 2020.

The week ahead in the euro area

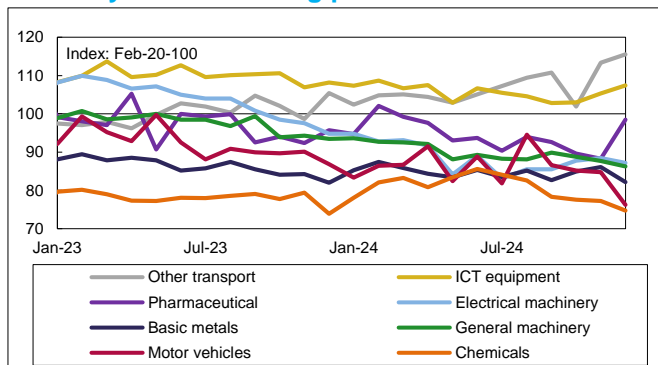
Looking to the coming week, euro area industrial production data for December (due Thursday) will provide further insight into the causes of the flatlining of GDP in Q4, for which the second estimate is due to be published on Friday. Alongside the marked decline in Germany reported today, the national data published so far suggest that IP also fell in France (-0.4%M/M) and Portugal (-4.4%M/M). But a notable rise in Ireland – for which figures today reported a rise of more than 8.0%M/M to leave output up almost 2%Q/Q – will provide some offset. So, in the absence of a significant fall in Italy (Wednesday), we expect euro area industrial production to have declined ¼%M/M in December, to leave it down around ½%Q/Q in Q4. While today’s Irish IP numbers raise the possibility of an upwards revision to that country’s GDP in Q4 (-1.3%Q/Q) in due course, we expect the updated euro area GDP figure to merely align with the initial estimate of zero growth. This release will be accompanied by employment figures for Q4, which are similarly likely to show little growth in the final quarter of last year. In addition, the coming week will bring the Sentix investor survey for February (Monday), as well as final January inflation estimates from Germany and Spain (Thursday and Friday respectively). The preliminary release saw the German HICP rate hold steady at 2.8%Y/Y, while the Spanish HICP rate edged slightly higher by 0.1ppt to 2.9%Y/Y.

UK

The week ahead in the UK

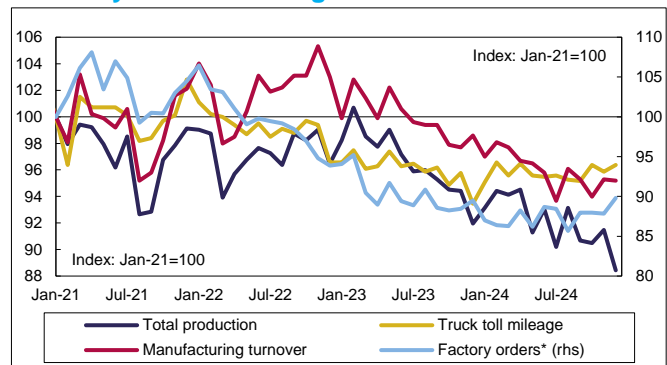
After the BoE [yesterday](#) significantly revised down its GDP projection, the coming week will bring the first estimates of growth in Q4 and December (Thursday). The Bank now thinks that the economy contracted by 0.1%Q/Q last quarter, down from its projection of growth of 0.3%Q/Q in November. We agree with the BoE. The monthly series has broadly flatlined since the spring, and reported a stagnant economy (with growth of 0.0%3M/3M) in the three months to November. And while a marked rebound in economic activity in December would be required to achieve positive growth in the final quarter, retail sales disappointed that month, to be down 0.8%Q/Q, in part owing to the effects of disruptive weather, seasonal illness and

Germany: Manufacturing production



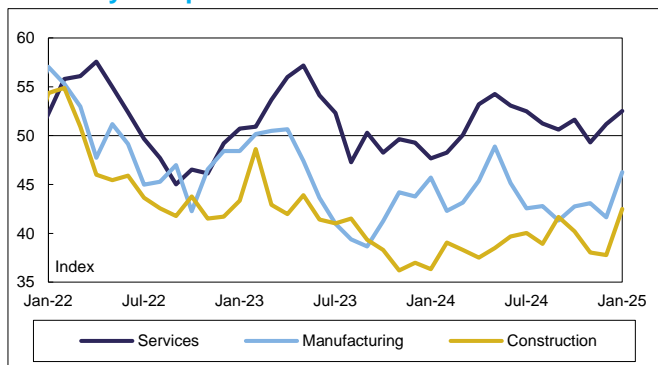
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Manufacturing indicators



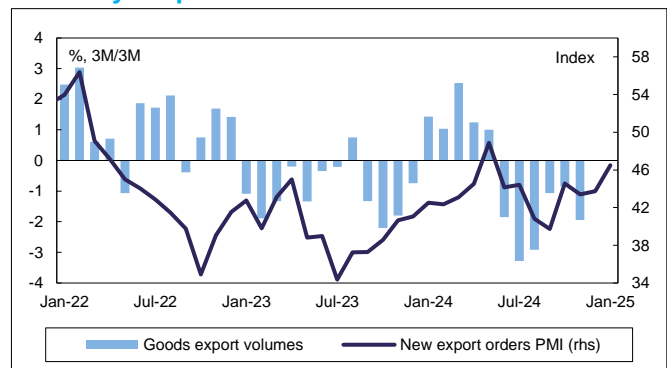
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Output PMIs



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

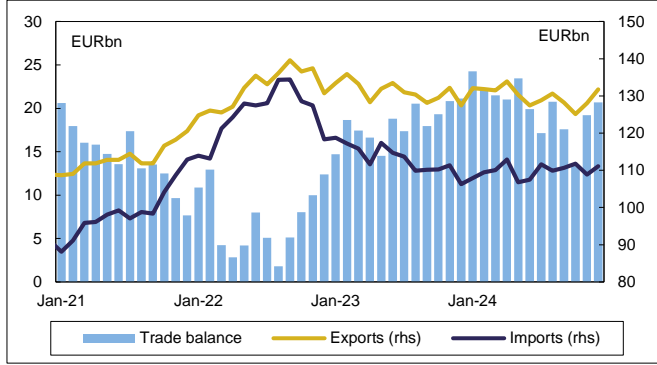
Germany: Export volumes & orders



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

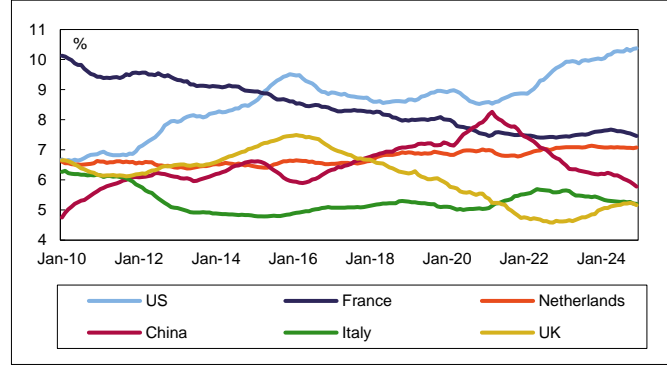
heightened uncertainty. With these factors also likely to have disrupted the consumer-facing services and construction sectors, GDP is likely to have increased only minimally in December to be down slightly over Q4 as a whole. Among other data, a BRC survey (Tuesday) will provide further insight into retail conditions after the [CBI survey](#) suggested that sales remained weak for the time of the year, while policymakers will also take interest in January's KPMG/REC jobs report (Monday) to further inform their view of labour market conditions. The RICS survey of property surveyors (Thursday) will also provide an update on housing market conditions in January.

Germany: Goods trade balance, exports & imports*



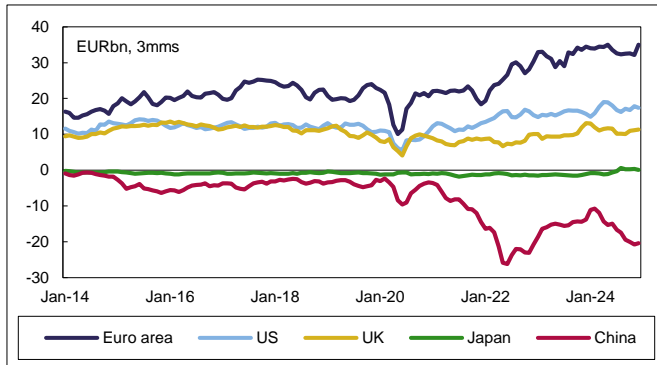
*Values. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Share of exports by destination



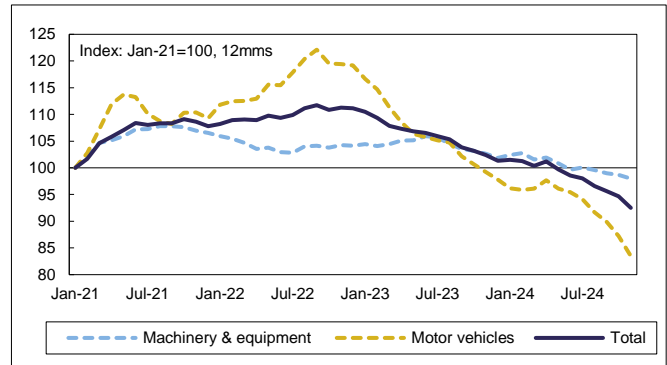
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Bilateral trade balances*



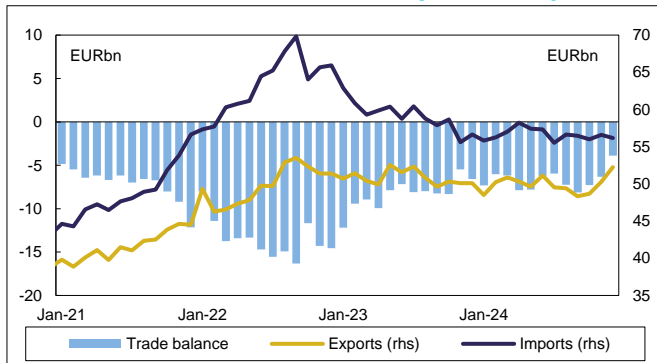
*Values. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Exports to China*



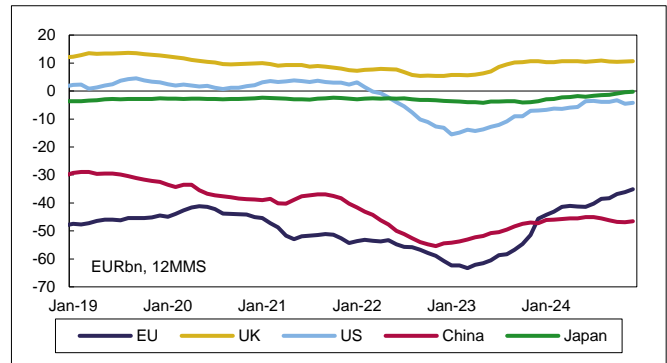
*Values. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Goods trade balance, exports & imports*












*Values. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

France: Bilateral trade balances*









*Values. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Daiwa economic forecasts

	2024		2025				2024	2025	2026
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP	%, Q/Q						%, Y/Y		
Euro area 	0.4	0.0	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
Inflation, %, Y/Y									
Euro area									
Headline HICP 	2.2	2.2	2.4	2.1	2.1	2.5	2.4	2.3	1.9
Core HICP 	2.8	2.7	2.5	2.0	1.8	2.2	2.8	2.1	1.8
UK									
Headline CPI 	2.0	2.5	2.7	2.9	3.5	3.3	2.5	3.1	2.3
Core CPI 	3.3	3.3	3.5	3.0	3.1	3.1	3.7	3.2	2.2
Monetary policy, %									
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.

















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	-2.4 (-3.1)	-0.7 (-2.1)	1.5 (-2.8)	1.3 (-)	
	Trade balance €bn	Dec	20.7	17.0	19.7	19.2	
France 	Trade balance €bn	Dec	-3.9	-	-7.1	-6.3	
	Wages – first estimate Q/Q%	Q4	0.4	0.3	0.4	-	
	Private sector payroll employment – first estimate Q/Q%	Q4	-0.2	-0.1	0.1	-	
Spain 	Industrial production M/M% (Y/Y%)	Dec	0.9 (2.1)	0.3 (0.7)	-0.8 (-0.4)	-0.7 (-0.1)	
Auctions							
Country	Auction						
- Nothing to report -							

Source: Bloomberg 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
Monday 10 February 2025					
Euro area 	09.30	Sentix investor confidence index	Feb	-16.5	-17.7
Tuesday 11 February 2025					
France 	06.30	ILO unemployment rate (mainland) %	Q4	7.5 (7.3)	7.4 (7.2)
UK 	00.01	BRC retail sales monitor – like-for-like sales Y/Y%	Jan	1.0	3.1
Wednesday 12 February 2025					
Italy 	09.00	Industrial production M/M% (Y/Y%)	Dec	-0.3 (-2.5)	0.3 (-1.5)
Thursday 13 February 2025					
Euro area 	10.00	Industrial production M/M% (Y/Y%)	Dec	-0.6 (-3.1)	0.2 (-1.9)
Germany 	07.00	Final HICP (CPI) Y/Y%	Jan	<u>2.8 (2.3)</u>	2.8 (2.6)
UK 	00.01	RICS house price balance %	Jan	29	28
	07.00	GDP – first estimate Q/Q% (Y/Y%)	Q4	<u>-0.1 (1.0)</u>	0.0 (0.9)
	07.00	Monthly GDP M/M% (3M/3M%)	Dec	0.1 (-0.1)	0.1 (0.0)
	07.00	Services output M/M% (3M/3M%)	Dec	0.1 (0.1)	0.1 (0.0)
	07.00	Industrial output M/M% (Y/Y%)	Dec	0.3 (2.1)	-0.4 (-1.8)
	07.00	Construction output M/M% (Y/Y%)	Dec	0.3 (1.3)	0.4 (0.2)
	07.00	Trade (goods trade) balance £bn	Dec	-4.0 (-18.4)	-4.8 (-19.3)
Friday 14 February 2025					
Euro area 	10.00	GDP – second estimate Q/Q% (Y/Y%)	Q4	<u>0.0 (0.9)</u>	0.4 (0.9)
	10.00	Preliminary employment Q/Q% (Y/Y%)	Q4	-	0.2 (1.0)
Spain 	08.00	Final HICP (CPI) Y/Y%	Jan	<u>2.9 (3.0)</u>	2.8 (2.8)

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 10 February 2025		
Euro area 	14.00	ECB President Lagarde to speak in plenary debate on the ECB Annual Report at the EU Parliament
UK 	00.01	KPMG/REC UK Report on Jobs for January
Tuesday 11 February 2025		
Euro area 	17.00	ECB Executive Board Member Schnabel to speak on panel, Nuremberg
Germany 	10.30	Auction: to sell up to €5bn of 2.4% 2030 bonds
UK 	08.45	BoE MPC External Member Mann to deliver speech on 'economic prospects', Leeds
	12.15	BoE Governor Bailey to deliver speech on changes in financial markets, London
Wednesday 12 February 2025		
Euro area 	17.00	Bundesbank President and ECB Governing Council member Nagel gives lecture on the natural rate of interest, London.
Germany 	10.30	Auction: to sell up to €1.5bn of 2.5% 2054 bonds
	10.30	Auction: to sell up to €1bn of 0% 2050 bonds
UK 	10.00	Auction: to sell £1bn of 0.625% 2045 inflation-linked bonds
	15.00	BoE MPC External Member Greene to deliver speech, London
Thursday 13 February 2025		
Euro area 	09.00	ECB to publish Economic Bulletin
Italy 	10.00	Auction: to sell bonds*
Friday 14 February 2025		
- Nothing scheduled -		

*Details to follow. Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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