

Euro wrap-up

Overview

- Bunds followed USTs higher after the release of US CPI data to close the day little changed on a relatively quiet day for euro area economic news.
- Gilts made modest losses while a UK retail survey suggested that demand remained subdued in the run up to Christmas.
- The coming few days will bring November data for euro area industrial production and trade, and UK monthly GDP, as well as a first estimate of German GDP in Q4.

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	2.090	-0.001
OBL 2.2 10/30	2.396	-0.002
DBR 2.9 08/36	2.844	+0.005
UKT 3½ 03/27	3.648	+0.003
UKT 4½ 03/30	3.853	+0.012
UKT 4½ 03/35	4.392	+0.020

*Change from close as at 4:00pm GMT.
Source: Bloomberg

Euro area

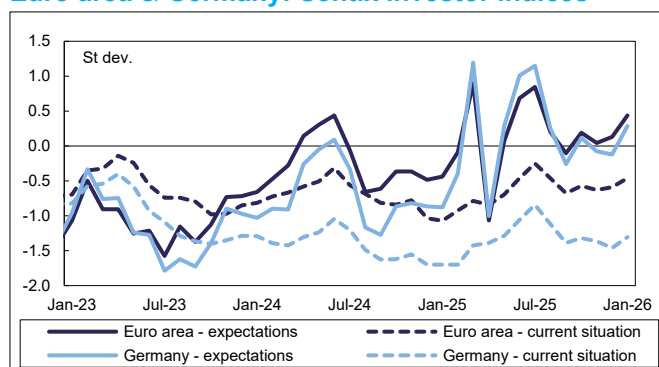
Investor sentiment in the euro area rises to a six-month high

While geopolitical uncertainty has persisted into 2026, and domestic political risks are here to stay, the euro area economic outlook appears somewhat brighter than it was twelve months ago. Indeed, having weathered the main brunt of last year's trade shocks, economic activity should gather momentum in 2026 as less monetary policy restriction and additional fiscal support feeds through. As a result, January's Sentix indicators – which provided a forward-looking assessment of investor sentiment for the first time in 2026 – were cautiously optimistic. The headline euro area index rose to -1.8, up a little more than 3pts, and back in line with its long-run average. Crucially, expectations for the coming six months (up more than 5pts to 10.0) were the most upbeat since July. And in the case of Germany, the improvement in expectations (up almost 7pts to 5.5) was tied to less pessimism among retail investors, for whom the improvement in sentiment has recently lagged behind that of institutional investors. Admittedly, assessments of current economic conditions remained subdued (-13), and particularly so in Germany (-36), to be broadly consistent with business survey indicators and tally with the minimal GDP growth over the past year. Nonetheless, in both instances, assessments of current conditions were the least downbeat in five months, and somewhat better than a year ago. And with tentative signals that greater infrastructure and military spending is beginning to feed through to activity, we expect conditions to continue to exhibit gradual improvement over the coming months.

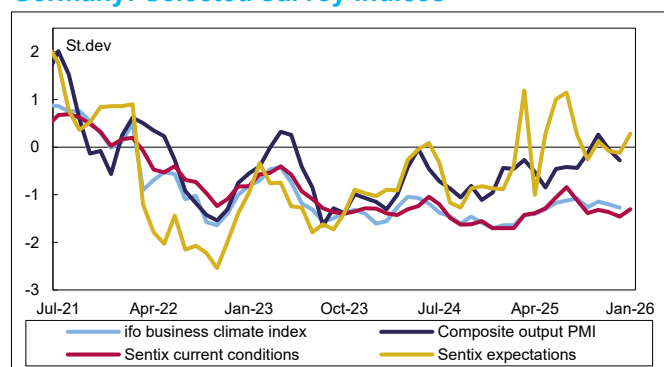
The coming two days in the euro area

Wednesday will bring a brief pause to the euro area economic dataflow. On Thursday, euro area industrial production and goods trade data for November will be of most interest. With solid IP growth across Germany (1.1%M/M), Spain (1%M/M) and Ireland (1.4%M/M) – collectively a little more than half of aggregate industrial output in the single currency area – euro area production looks set for another month of solid expansion in November. We expect growth of at least ½%M/M, to leave industrial output in the first two months of Q4 trending ¾-1% above its level in Q3. On the other hand, goods trade data from the member states seem likely to imply a slightly narrower trade surplus in November, principally reflecting the higher value of imports following a dip in October. Meanwhile, Thursday will also bring a first full-year estimate of German GDP growth in 2025. Following a contraction of ½%Y/Y in 2024, we expect growth to have been modestly positive last year (0.2%Y/Y). Crucially, the release will also give a preliminary view of GDP growth in Q4 – which was likely positive for a first quarter since Q125 – ahead of a first official estimate later this month. Finally, with respect to inflation, Thursday will also bring final readings for French (0.7%Y/Y) and Spanish (3%Y/Y) inflation in December. The accompanying detail is likely to attribute most of the downwards pressure in those member states to lower fuel price inflation.

Euro area & Germany: Sentix investor indices



Germany: Selected survey indices



UK

Retail survey flags weak Christmas sales as demand remained subdued into year-end

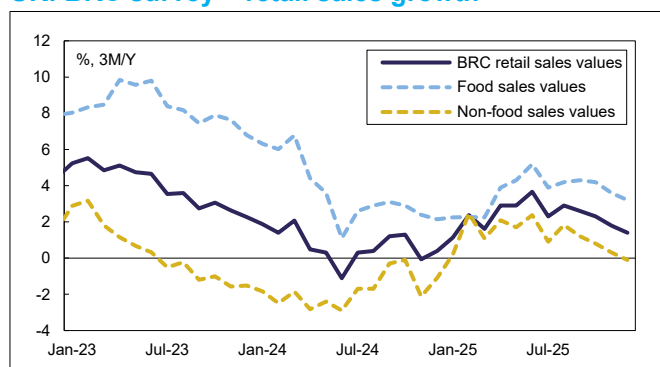
After solid growth over the summer, UK retail sales disappointed in early Q4, falling in October and November by a cumulative 1% as consumer confidence was knocked by Budget-related uncertainties. Surveys suggest that the hoped-for pre-Christmas bounce in December was largely absent too, and with a boost to sales from Boxing Day bargains not enough to offset prior weakness. According to the BRC's retail monitor, growth in the value of sales slowed last month for a fourth consecutive month to 1.2%Y/Y, the softest since May and well below the average in 2025 (2.3%Y/Y). The weakening in part reflects a high base a year earlier when the Black Friday discounting period was included in the December 2024 survey, as well as persisting deflation on the High Street. But there also remained an absence of demand, with sales of common gifting items reportedly faring worse than expected. Indeed, adjusting for price effects, growth in non-food sales volumes in December (0.4%3M/Y) was the softest in 13 months. And while growth in the value of food sales remained solid (3.2%3M/Y), this merely reflected the impact of higher prices. In volumes terms, food sales growth slipped into negative territory for the first time since July 2024. Overall, total retail sales volumes in December moderated to just 0.6%3M/Y, similarly the softest growth in 17 months, down from growth of 1.6%3M/Y in Q325 and almost 3%3M/Y in the first half of 2025. This broadly tallies with the CBI distributive trades survey that suggested annual sales volumes growth was the weakest in six months, with the ratio of inventories to sales the highest since the first Covid-19 lockdown. While survey results and official retail sales growth have diverged somewhat over recent months, today's report supports our view that household consumption remained very subdued and that GDP growth contracted slightly in Q4.

The coming two days in the UK

In the absence of economic data, the day ahead will at least bring a further smattering of BoE speak. But with Deputy Governor Ramsden likely to focus on the BoE's bank resolution regime, and the monetary policy views of the more-dovish Taylor currently among the less decisive for upcoming policy decisions, Wednesday should still be a relatively quiet day ahead for UK economic news.

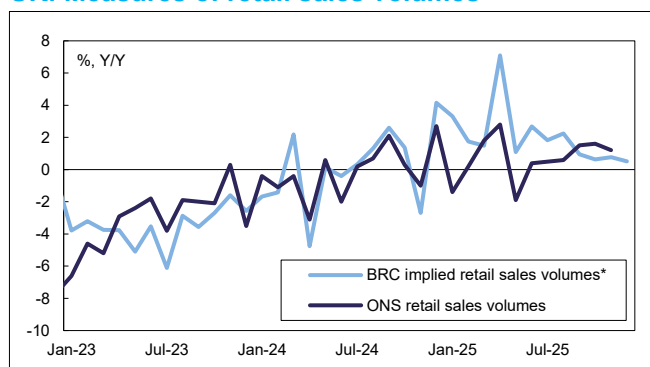
So, attention should be firmly fixed on Thursday's monthly GDP report, which will provide an update on economic activity midway through Q4. Over recent months, the prospects for an acceleration in Q4 have been considerably diminished by consecutive monthly contractions in September and October (of 0.1%M/M). And we expect only slightly positive growth in November, which should see the three-monthly rate slide a touch further into negative territory (-0.2%3M/3M). Manufacturing should continue on its steady recovery, with factory production at JLR reportedly returning to normal levels following September's cyberattack. Certain service subsectors might also receive payback for their weakness in October. But with Black Friday sales failing to offer support to retail sales volumes, and the PMIs burdened by pre-Budget uncertainty, any upside should be modest. Wetter weather and an earlier flu season may pose additional downside risks to consumer-facing services too. Moreover, the construction PMIs signalled a particularly dramatic contraction for the sector in November, only beaten by the first COVID lockdown and GFC. Elsewhere, Thursday will bring the BoE's quarterly Bank Liabilities and Credit Conditions surveys, while December's RICS survey will provide a perspective from surveyors about housing market fortunes post-Budget.

UK: BRC survey – retail sales growth



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: Measures of retail sales volumes



*Adjusted by BRC shop price index.


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The Euro wrap-up will next be published on Thursday 15 January 2026




European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <u>Daiwa forecast</u>	Previous	Revised
UK	 BRC retail monitor – like-for-like sales Y/Y%	Dec	1.0	1.3	1.2	-


Auctions

Country	Auction
Germany	 sold €4.597bn of 2.5% 2031 bonds at an average yield of 2.47%
Italy	 sold €4bn of 2.4% 2029 bonds at an average yield of 2.48%
UK	 sold £900mn of 1.125% 2035 inflation-linked bonds at an average yield of 1.432%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Monday's results

Economic data

Country	Release	Period	Actual	Market consensus/ <u>Daiwa forecast</u>	Previous	Revised
Euro area	 Sentix investor confidence indicator	Jan	-1.8	-5.0	-6.2	-

Auctions

Country	Auction
- Nothing to report -	







Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <u>Daiwa forecast</u>	Previous
- Nothing scheduled -					














Auctions and events

Germany		10.30	Auction: to sell up to €1bn of 3.25% 2042 bonds		
		10.30	Auction: to sell up to €1bn of 0% 2052 bonds		
		10.30	Auction: to sell up to €1bn of 2.9% 2056 bonds		
UK		09.15	MPC external member Taylor to give speech titled 'Driving over the peak – or a false summit' at National University of Singapore		
		10.00	Auction: to sell £4.5bn of 4.75% 2035 bonds		
		15.30	BoE Deputy Governor Ramsden to give speech titled 'The evolution of resolution' at Kings College London		




Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Economic data

Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area		10.00 Industrial production M/M% (Y/Y%)	Nov	<u>0.6 (2.4)</u>	0.8 (2.0)
		10.00 Trade balance €bn	Nov	-	14.0
Germany		09.00 GDP Y/Y%	2025	0.2	-0.5
		09.00 Government fiscal balance % of GDP	2025	-	-2.7
France		07.45 Final HICP (CPI) Y/Y%	Dec	<u>0.7 (0.8)</u>	0.8 (0.9)
Italy		09.00 Industrial production M/M% (Y/Y%)	Nov	0.5 (-0.2)	-1.0 (-0.3)
Spain		08.00 Final HICP (CPI) Y/Y%	Dec	<u>3.0 (2.9)</u>	3.2 (3.0)
UK		00.01 RICS house price balance %	Dec	-17	-16
		07.00 Monthly GDP M/M% (3M/3M%)	Nov	<u>0.1 (-0.2)</u>	-0.1 (-0.1)
		07.00 Services output M/M% (3M/3M%)	Nov	0.1 (0.0)	-0.3 (0.0)
		07.00 Industrial output M/M% (Y/Y%)	Nov	0.2 (-0.4)	1.1 (-0.8)
		07.00 Construction output M/M% (Y/Y%)	Nov	-0.3 (-0.1)	-0.6 (0.9)
		07.00 Trade (goods trade) balance £bn	Nov	-2.5 (-20.4)	-4.8 (-22.5)

Auctions and events

Euro area		09.00 ECB to publish Economic Bulletin	
UK		09.30 BoE to publish quarterly Bank Liabilities & Credit Conditions surveys for Q425	
Spain		09.30 Auction: to sell 2.35% 2029, 3.5% 2041 & 1.45% 2071 bonds	

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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