

Euro wrap-up

Overview

- Bunds made gains as the German ifo business survey disappointed, suggesting modest economic momentum at the start of 2026.
- On a quiet day for UK data, Gilts also made gains after Manchester Mayor Burnham was prevented from running in a by-election reducing the probability of a near-term challenge to PM Starmer's leadership.
- The coming two days will bring consumer confidence surveys from Germany, France and Italy, as well as a UK shop price monitor.

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Daily bond market movements

Bond	Yield	Change
BKO 2 12/27	2.101	-0.025
OBL 2½ 04/31	2.462	-0.036
DBR 2.9 02/36	2.861	-0.043
UKT 3¾ 03/27	3.718	+0.006
UKT 4¾ 03/30	3.957	-0.012
UKT 4½ 03/35	4.491	-0.019

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

Source: Bloomberg

Euro area

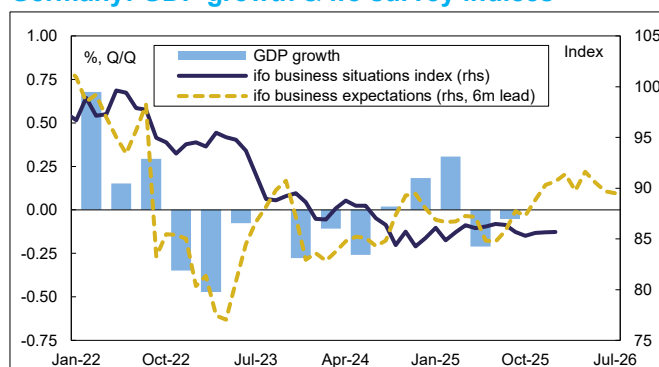
German ifo survey points to modest economic momentum at the start of 2026

Contrasting the recovery signalled by the [flash German PMIs](#), today's ifo business survey disappointed, suggesting little improvement in economic momentum at the start of the year. The headline ifo business climate index merely moved sideways in January at 87.6 to match December's seven-month low. And to two decimal places, the index edged down slightly (-0.1pt) for a fourth month out of the past five, to leave it ½pt below the Q4 average. While the current assessment balance ticked marginally higher in January, up 0.1pt to a four-month high, this was still almost one full standard deviation below the long-run average, maintaining the weak trend of the past 18 months. But the ifo survey's balance for six-months expectations has provided the more reliable guide to German GDP over recent years. This slipped to a seven-month low (89.5), more than 1pt below the Q4 average, suggesting that firms are a little less upbeat about the outlook for the first half of 2026. However, it still pointed to modestly positive GDP growth this quarter and next after the return to expansion in Q4. Moreover, given legislated increases in public infrastructure investment and defence spending, we continue to expect a more meaningful recovery in German economic output in the second half of the year.

Subdued services sentiment contrasts greater optimism in manufacturing & construction

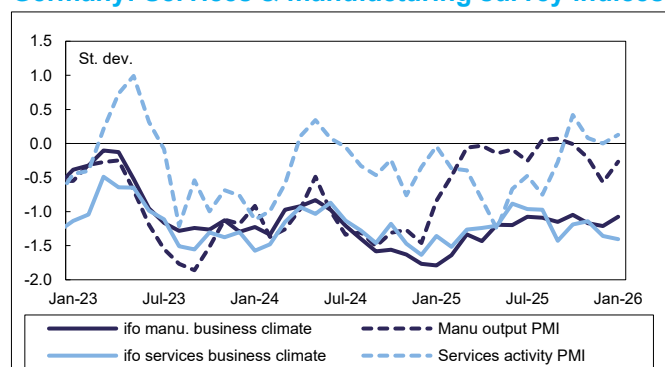
The divergence between the PMIs and ifo indices can be seen in both major sectors. While the services activity PMI in January was the second highest since May 2024, the ifo survey suggested that conditions in the sector were less favourable, particularly in logistics and tourism. Services expectations for the coming six months were also the most pessimistic in almost a year. And after sluggish Christmas sales saw retail sentiment in December deteriorate to the weakest in four years, retailers judged conditions to be only slightly improved at the start of the year. Nevertheless, they were also the most upbeat about the outlook since mid-2024, matching household survey signals of rising purchase intentions. And likely supported by the ongoing recovery in the housing market, a pickup in new construction orders – which in November reached the highest level since mid-2022 – and increased public spending on infrastructure, constructors considered the business climate to be the best since the ECB started hiking interest rates in July 2022. The headline ifo index for manufacturing was admittedly still subdued. But despite renewed uncertainties relating to geopolitics and global trade, it suggested that firms in the sector were the least downbeat in 18 months. This tallies with the recent pickup in new core factory orders, particularly from domestic buyers, as well as large one-off orders for non-auto transport equipment and metals. Indeed, manufacturing order backlogs in November were the highest in almost three years, with domestic order backlogs up almost 7½%Y/Y. So, having likely contributed positively to GDP growth in Q4 for just the second quarter in seven, we expect a recovery in manufacturing production to be sustained over coming quarters.

Germany: GDP growth & ifo survey indices



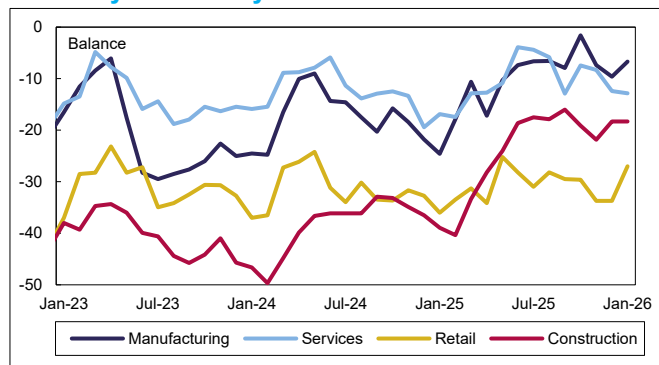
Source: ifo, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Services & manufacturing survey indices



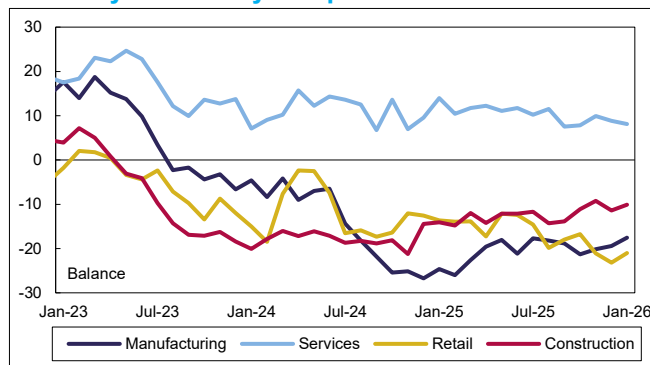
Source: ifo, S&P Global, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo survey – current conditions indices



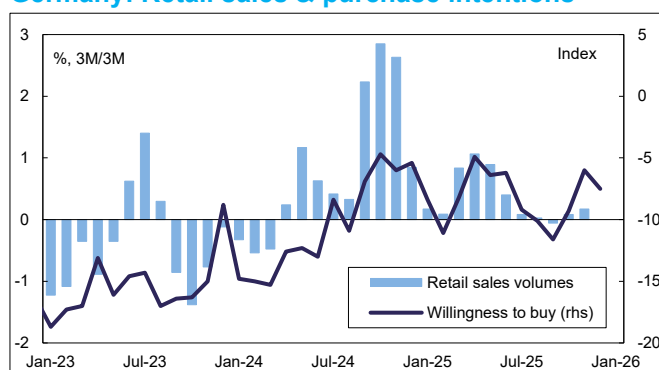
Source: ifo, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo survey – expectations indices



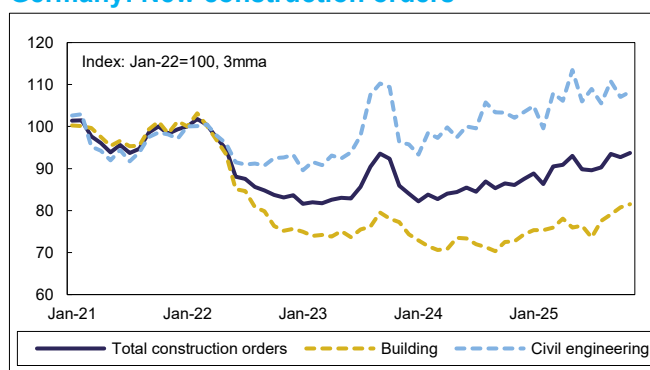
Source: ifo, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Retail sales & purchase intentions



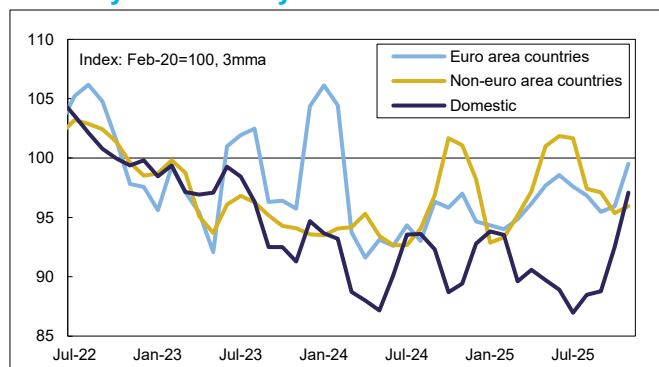
Source: GfK, Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New construction orders



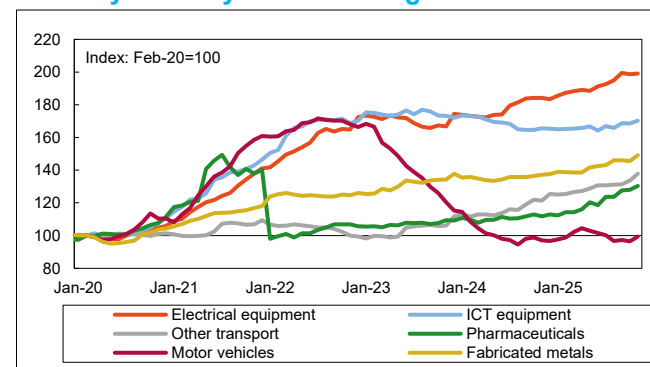
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: New factory orders



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Factory order backlogs



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The coming two days in the euro area

Consumer sentiment surveys will be the main draw of the euro area dataflow over the coming two days, with national releases from France (Tuesday), Germany & Italy (Wednesday) teeing up the Commission's detailed release on Thursday. Incidentally, last week's flash release for January reported that consumer confidence in the euro area was the highest in 11 months (-12.4). Given not least the increasing angst surrounding US rhetoric on Greenland, that improvement was something of an upside surprise. As noted [previously](#), the survey might have benefited from its lengthier sample period. But observing the better sentiment among investors, it might also imply some rebound from recent weakness of consumer confidence in Germany too. Still, we caution that recent geopolitical and trade-related threats pose a downside risk to the GfK (which is presented as a forecast for the coming month) and INSEE readings. Italy, which unlike Germany and France managed to avoid the direct threats of fresh US tariffs, might be relatively less exposed. Its release will be accompanied by ISTAT's monthly business survey, which will provide a first view of economic activity in Italy this month ahead of Thursday's Economic Sentiment Indicators and next week's final PMIs. Otherwise, a presentation by influential Executive Board member Schnabel on Wednesday is likely to mark the final piece of notable ECB-speak before the pre-Governing Council meeting media blackout.

The coming two days in the UK



Though Wednesday will be another quiet day for UK economic news, Tuesday will at least bring one relevant UK economic data release. The BRC's shop price monitor will provide a first insight into price developments from retailers at the start of 2026. Overall, the survey is likely to show little change from its mark towards the end of last year, with high street shop price inflation trending a touch below 1%Y/Y. Within that, food price pressures are expected to remain elevated, although the strength of price mark-ups in the new year will be of particular interest. Non-food goods, which will give an indication as to the extent of this year's January discounts, should otherwise stay in deflationary territory, consistent with a continued benign outlook for core goods CPI inflation.

The Euro wrap-up will next be published on Wednesday 28 January 2026

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 ifo business climate indicator	Jan	87.6	88.2	87.6	-
	 ifo current assessment (expectations) indicator	Jan	85.7 (89.5)	86.0 (90.3)	85.6 (89.7)	-





Auctions

Country	Auction
- Nothing to report -	






Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tuesday's releases

Economic data




Country	GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	 05.00	New car registrations Y/Y%	Dec	-	2.3
France	 07.45	INSEE consumer confidence indicator	Jan	90	90
Spain	 08.00	Unemployment rate %	Q4	-	10.45
UK	 00.01	BRC shop price index Y/Y%	Jan	0.7	0.7

Auctions and events




Germany	 10.30	Auction: to sell up to €6bn of 2.1% 2028 bonds
Italy	 10.00	Auction: to sell up to €3bn of 2.2% 2028 bonds
	 10.00	Auction: to sell up to €1bn of 1.1% 2031 inflation-linked bonds
	 10.00	Auction: to sell up to €1bn of 2.55% 2056 inflation-linked bonds
UK	 10.00	Auction: to sell £3.25bn of 4.125% 2033 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Wednesday's releases
Economic data

Country		GMT	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Germany		07.00	GfK consumer confidence indicator	Feb	-25.5	-26.9
Italy		09.00	Istat economic (manufacturing) confidence indicator	Jan	- (89.0)	96.5 (88.4)
		09.00	Istat consumer confidence indicator	Jan	97.0	96.6

Auctions and events

Euro area		10.00	Eurostat to publish household sector accounts for Q325			
		18.00	ECB Executive Board member Schnabel to give a presentation in Frankfurt			
Germany		10.30	Auction: to sell up to €6bn of 2.9% 2036 bonds			

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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