

Euro wrap-up

Overview

- Bunds made modest gains after a German consumer survey showed household purchase intentions rose to a three year high in January.
- Longer-dated Gilts followed Treasuries slightly lower on a quiet day for UK economic developments.
- Thursday will bring the EU Commission's latest economic sentiment survey and euro area bank lending figures for December.

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Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.089	-0.025
OBL 2½ 04/31	2.436	-0.029
DBR 2.9 02/36	2.852	-0.021
UKT 3¾ 03/27	3.728	+0.001
UKT 4¾ 03/30	3.983	+0.001
UKT 4½ 03/35	4.539	+0.016

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

Euro area

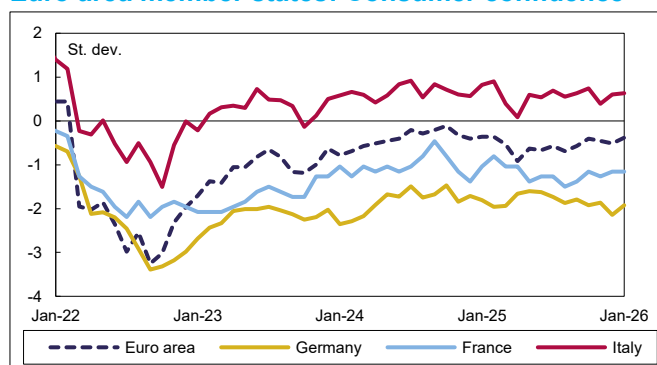
German household purchase intentions the best in 3 years, French confidence stable

According to today's GfK survey, the unexpected improvement in last week's flash January euro area consumer confidence indicator partly reflected a recovery in sentiment in Germany, despite heightened concerns over Trump's intentions for Greenland. The headline GfK confidence index – presented as a forecast for February – rose a larger-than-expected 2.8pts to -24.1. Admittedly, this failed to fully reverse the drop in the prior month, to remain close to the bottom of the range in 2025 and still almost two standard deviations below the long-run average. But the survey detail was generally encouraging, with perceptions of the economic outlook reportedly the best since July and broadly in line with the long-run average. While still weak by historical norms, income expectations were also seemingly boosted by the rise in the German minimum wage and declining inflation expectations. As such, households' willingness to buy jumped in January, with the respective index the highest for three years, raising hopes that household consumption will provide greater impetus to Germany's economic growth momentum over coming quarters. Elsewhere, Italian consumers remained broadly upbeat about the outlook in January, as unemployment concerns continued to recede. And while households signalled a cut in spending on big-ticket items in January after a splurge at the end of 2025, purchase intentions for the coming 12 months were reportedly the best since September and well above the long-run average. In contrast, French consumer confidence was merely stable in January at the Q4 average (90), albeit remaining some 10% below the long-run average, with a recovery in purchase intentions seemingly hindered by prolonged political uncertainty and rising inflation expectations.

Italian business sentiment rose to a 2-year high, with services conditions the best in 5 years

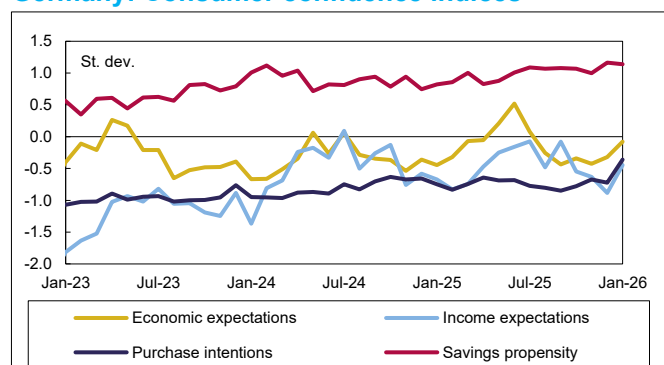
Today's ISTAT indices signalled a more convincing improvement in Italian business sentiment at the start of the year than suggested by the equivalent German and French business surveys. That perhaps reflected Italy's exclusion from the higher tariffs related to Greenland threatened by the US to the two largest euro area member states and others. In particular, the headline Italian business climate index rose to a two-year high (97.6), some 2pts above the Q4 average and almost 6% above the long-run average. The pickup was led by services, where sentiment was reportedly the highest for five years amid stronger recent demand and expectations of a further improvement over the coming three months. While still historically weak, manufacturing confidence was the second highest in 2½ years, buoyed by higher recent production and rising new orders. In contrast, sentiment among constructors fell to the lowest level since April 2021. But it remained firmly above the long-run average, with firms also noting an improvement in orders. And while retailers were reportedly the least optimistic in four months, recent sales were still judged to be close to the average of the past couple of years. Overall, today's survey suggests an acceleration at the start of 2026 after the likely return to positive Italian GDP growth in Q4.

Euro area member states: Consumer confidence



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Consumer confidence indices

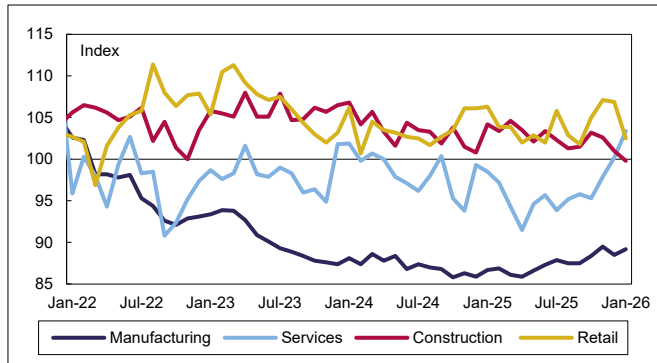


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The day ahead in the euro area

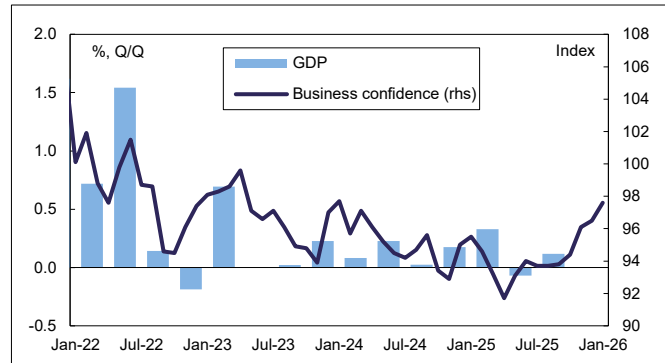
The Commission's economic sentiment indicators for January will provide the highlight of Thursday's European data flow. Despite a modest drop last month, the headline euro area ESI is broadly expected to resume a modest uptrend at the start of the new year. Such an improvement would broadly align with most of January's flash PMIs, as the sideways move in the composite euro area activity index was principally due to a questionable weakening in the French services survey. And like the PMIs, the Commission survey should report a pickup in sentiment amongst euro area manufacturers. Consistent with the rebound reported today in consumer confidence in Germany, the Commission's final euro area estimate should affirm its flash reading, which rose to an 11-month high (-12.4). Beyond the Commission survey, December's euro area monetary data will provide an update on bank lending activity at the end of 2025. Spanish retail sales figures for December are also due.

Italy: ISTAT business survey indices



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Italy: GDP growth & ISTAT business climate index



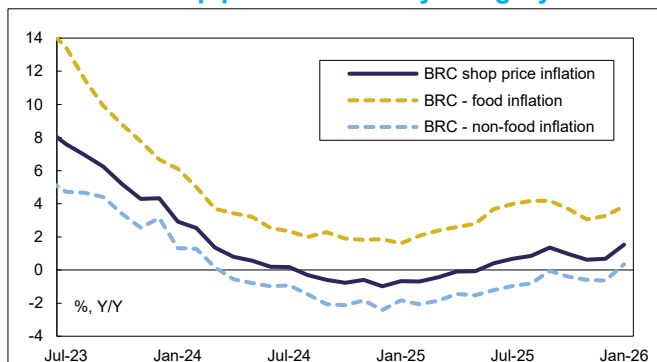
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK

BRC flags upside risks to inflation in January likely underscoring BoE caution next week

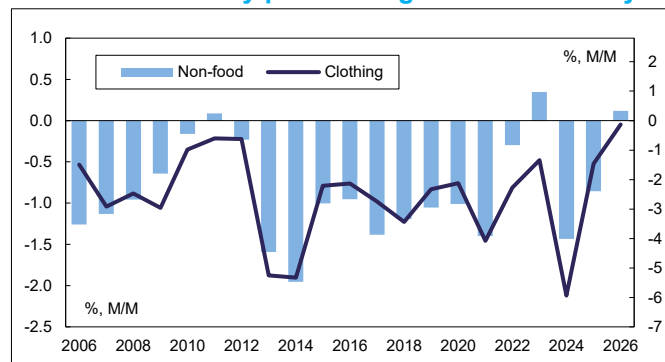
We currently think that CPI inflation moderated further in January as sharp increases in certain energy, services and food components a year ago fall out of the annual comparison. But like the flash services [price PMIs](#), January's BRC shop price survey highlighted upside risks to that view. Indeed, the BRC's topline inflation measure was notably firmer than expected, rising 0.8ppt to a near-two year high of 1.5%Y/Y. The survey's estimate of non-food price inflation rose almost 1ppt to 0.3%Y/Y to mark its first non-negative reading since early 2024. And the monthly increase in non-food prices was positive for only the second January in 15 years, suggesting that seasonal discounting in core goods was more muted than usual. The drop in clothing prices (-0.1%M/M) was the smallest in January on the series. And the decline in furniture prices was very modest compared to that a year earlier. Still, the trends in many other categories – electronics, gardening and health, for example – were more typical, and consistent with a broader lack of core goods price pressures. The BRC's clothes inflation measure had also been especially weak over recent months, while also providing less reliable guide to its CPI equivalent. So, perhaps of more concern in the BRC survey was the apparent acceleration in food inflation, which picked up to a four-month high of 3.9%Y/Y. Although January has often been a favourite month for supermarket repricing, this was the strongest increase this month for three years (1.1%M/M). Increases were sizable across both fresh and 'ambient' categories, with the pressure ascribed particularly to meat, fish and fruit. We continue to expect favourable base effects in meat, chocolate and coffee to provide some relief to food inflation in January. But given the recent softness in the food CPI, we cannot preclude that broader pressures within the component will dampen their effects. And given the perceived salience of food prices to household inflation expectations, those upside risks might reaffirm the caution among the MPC's hawks at next week's policy meeting.

UK: BRC – shop price inflation by category



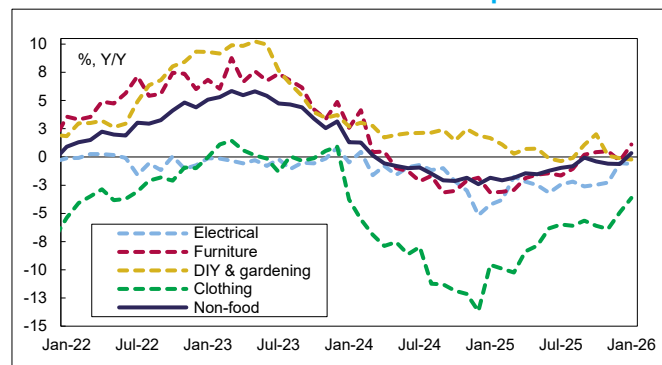
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: BRC – monthly price change in each January

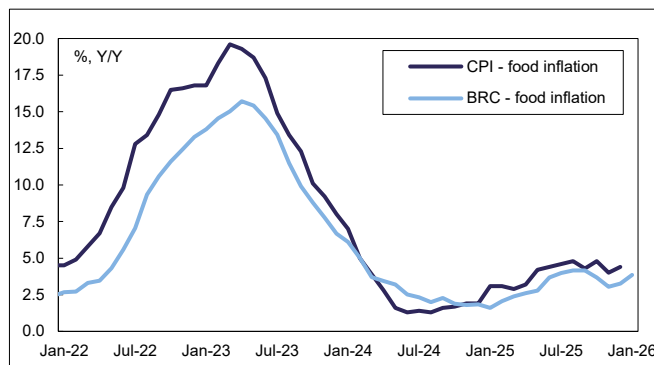


Source: Macrobond and Daiwa Capital Markets Europe Ltd.

UK: BRC – non-food inflation subcomponents



UK: CPI & BRC food inflation



The day ahead in the UK

With no economic data for the UK scheduled for release until Friday, it should be a quiet day ahead.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Germany	GfK consumer confidence indicator	Feb	-24.1	-25.5	-26.9	-
Italy	Istat economic (manufacturing) confidence indicator	Jan	97.6 (89.2)	-	96.5 (88.4)	96.6 (88.5)
	Istat consumer confidence indicator	Jan	96.8	96.9	96.6	-

Auctions

Country	Auction
Germany	sold €4.604bn of 2.9% 2036 bonds at an average yield of 2.85%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tuesday's results

Economic data








Country	Release	Period	Actual	Market consensus/ Daiwa forecast	Previous	Revised
Euro area	New car registrations Y/Y%	Dec	3.9	-	2.3	-
France	INSEE consumer confidence indicator	Jan	90	90	90	-
Spain	Unemployment rate %	Q4	9.93	10.25	10.45	-
UK	BRC shop price index Y/Y%	Jan	1.5	0.7	0.7	-

Auctions





Country	Auction
Germany	sold €4.633bn of 2.1% 2028 bonds at an average yield of 2.14%
Italy	sold €3bn of 2.2% 2028 bonds at an average yield of 2.26%
	sold €1bn of 1.1% 2031 inflation-linked bonds at an average yield of 0.94%
	sold €1bn of 2.55% 2056 inflation-linked bonds at an average yield of 2.38%
UK	sold £3.25bn of 4.125% 2033 bonds at an average yield of 4.296%

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		09.00	M3 money supply Y/Y%	Dec	3.0	3.0
		10.00	Commission economic sentiment indicator	Jan	97.1	96.7
		10.00	Commission services (industrial) confidence indicator	Jan	5.9 (-8.2)	5.6 (-9.0)
		10.00	Final Commission consumer confidence indicator	Jan	<u>-12.4</u>	-13.2
France		11.00	Total jobseekers mns	Q4	-	3.05
Italy		11.00	Hourly wages M/M% (Y/Y%)	Q4	-	0.0 (2.6)
Spain		08.00	Retail sales Y/Y%	Dec	-	6.0

Auctions and events

Italy		10.00	Auction: to sell up to €2.75bn of 2.85% 2031 bonds
		10.00	Auction: to sell up to €2bn of floating rate 2035 bonds
		10.00	Auction: to sell up to €3.75bn of 3.45% 2036 bonds
UK		10.00	Auction: to sell £1.25bn of 0.125% 2028 bonds

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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