Euro wrap-up

Overview

Chris Scicluna +44 20 7597 8326
Emily Nicol +44 20 7597 8331

- While the Commission survey pointed to the firmest euro area growth momentum in three years, Bunds made gains.
- Gilts outperformed on a quiet day for UK economic news.
- Friday will bring the flash estimates of Q4 GDP in the euro area and large member states and January inflation in Germany and Spain.

Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.072	-0.020
OBL 2½ 04/31	2.410	-0.028
DBR 2.9 02/36	2.831	-0.024
UKT 3¾ 03/27	3.695	-0.034
UKT 4⅜ 03/30	3.938	-0.049
UKT 4½ 03/35	4.506	-0.037

*Change from close as at 4:45pm GMT.
Source: Bloomberg

Euro area

Economic sentiment jumps to a 3-year high amid broad-based improvement across sectors

While the flash PMIs moved broadly sideways in January, today's Commission business sentiment indices beat expectations. So, with an improvement in consumer confidence also confirmed, the Commission surveys suggested a welcome pickup in economic growth momentum at the start of the year. After a slight dip at the end of 2025, the headline euro area economic sentiment index (ESI) jumped 2.2pts – the most in more than two years – to 99.4, a three-year high just ½% below the long-run average and suggestive of GDP growth of about 0.3-0.4%Q/Q. The improvement in business sentiment was led by manufacturers. Confidence in that sector rose to a 2½-year high as orders were considered the best in 14 months and especially strong for non-auto transport goods. Services sentiment rose to a two-year high back above the long-run average. Optimism improved particularly in hospitality and telecommunications where firms expected demand over the coming three months to be the strongest in more than a year. Meanwhile, constructors judged conditions to be the best in 2½ years and significantly more favourable than the long-run average. And greater optimism among retailers tallied with improved consumer confidence, which rose to an 11-month high as purchase intentions benefitted from rising income expectations. The share of households planning to purchase a home within the next 12 months rose close to the series high.

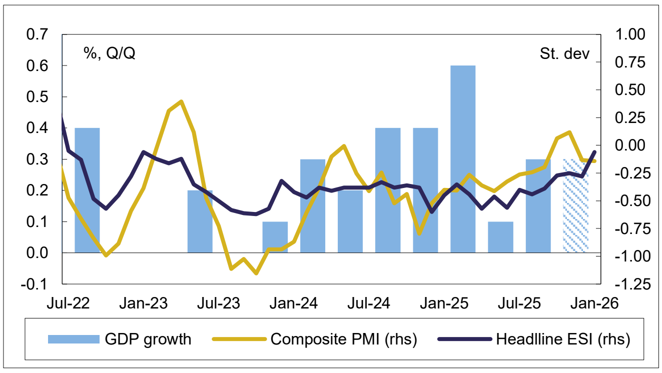
German & French ESIs rebound sharply, but Spanish & Italian indices suggest outperformance

The Commission survey was also encouraging as it implied a broad-based improvement in momentum across the member states. Indeed, having broadly flatlined through the second half of 2025, the German ESI (93.2) rose the most since mid-2021 to the highest level for 2½ years. Admittedly, this remains well below the long-run average, suggesting that growth still lacked vigour. But there were clearer signs of optimism across subsectors, such as civil engineering, that might be expected to benefit from increased government spending. Meanwhile, contrasting markedly the (questionable) deterioration reported by the flash French PMIs in January, the equivalent ESI jumped almost 6pts to 100.4, back to the long-run average for the first time in almost two years. And while the improvements were somewhat smaller in January, the Italian (102.7) and Spanish ESIs (106.2) were the highest in 22 and 16 months respectively, implying ongoing outperformance in Southern Europe.

Firmer labour demand, softer inflation expectations

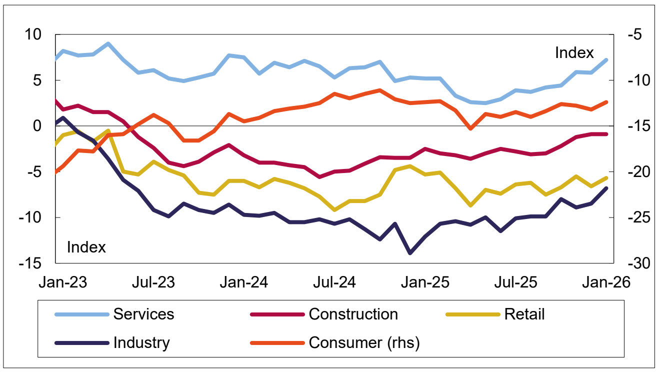
Just as the ESIs signalled firmer growth momentum at the start of the year, the Commission survey also pointed to a slight improvement in labour market conditions. Indeed, the euro area Employment Expectations Index (EEI) rose in January more than 1pt to 98.2, 1.8pts below the long-run average but still the best in a year. Among the member states, employment

Euro area: GDP growth* & survey indices



*Q425 GDP figure is Daiwa forecast. Source: S&P Global, EC Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Economic sentiment indices by sector



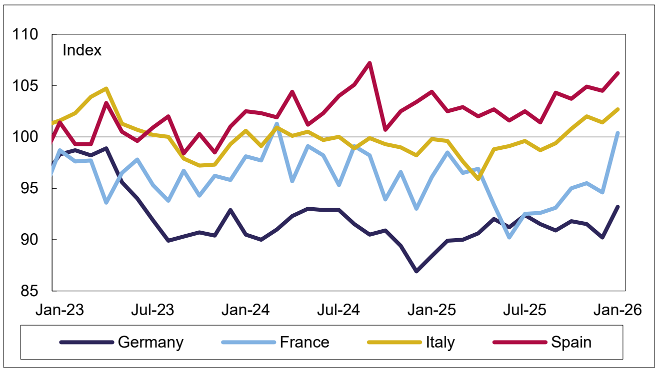
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

expectations improved in Germany, France and Spain, while the respective index in Italy remained more than 5pts above the long-run average. Labour demand reportedly improved in all major sectors expect construction where demand nevertheless remained firm by historical standards. Notably, the manufacturing EEI rose to a 16-month high consistent with perceptions that the gloom in that sector is gradually lifting. In terms of inflation too the Commission survey brought good news. Selling price expectations three-months ahead moderated in each major sector in January. And consumer price expectations for the coming 12 months eased in each of the four large member states and significantly in Germany to a seven-month low. In the euro area as a whole, 12-month consumer price expectations eased to a three-month low, closer to (albeit still a little above) the long-run average.

Bank lending picks up at year-end, but growth remains below historical trend

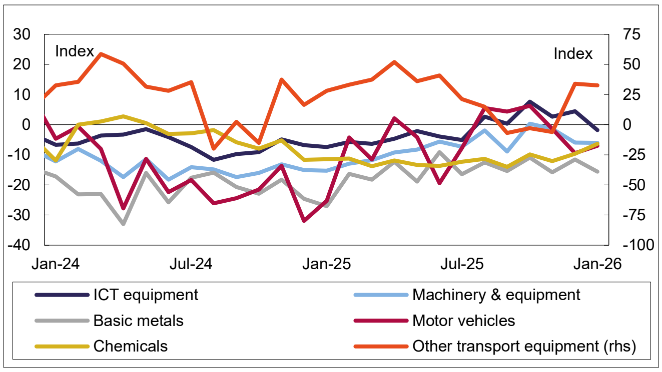
Today's ECB monetary figures were consistent with moderate economic growth in the euro area at the turn of the year. With interest rates on new business loans having fallen close to the average on the outstanding stock of loans, the net flow of lending to non-financial corporations (NFCs) in December rose the most in a year (€29.2bn). While this partly reflected a rise in shorter-dated loans, the net flow of longer-term loans – i.e. those with a maturity of more than five years, which tend to align more closely with business fixed investment – was the strongest in 3½ years. However, given the strong flow of lending

Euro area: ESIs by member state



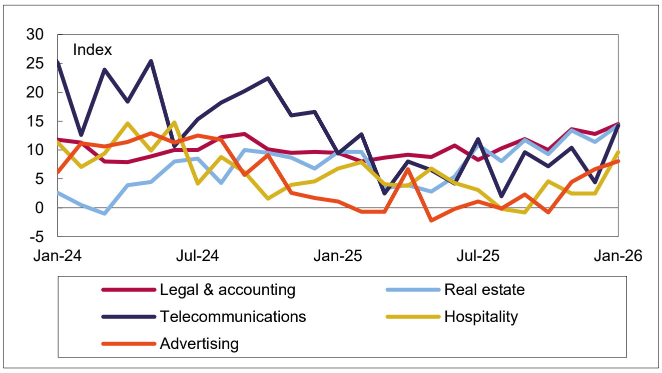
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Manufacturing sentiment indices



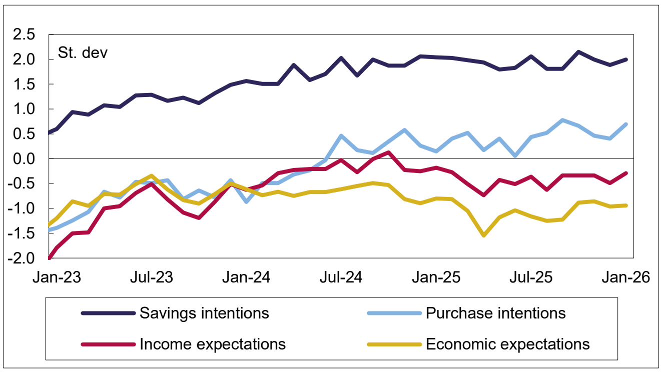
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Services sentiment indices



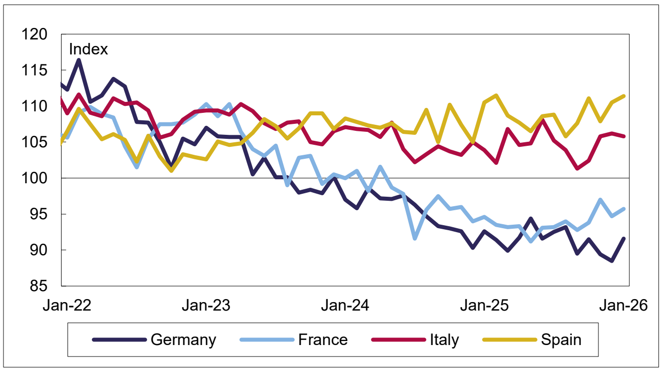
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Consumer confidence indices



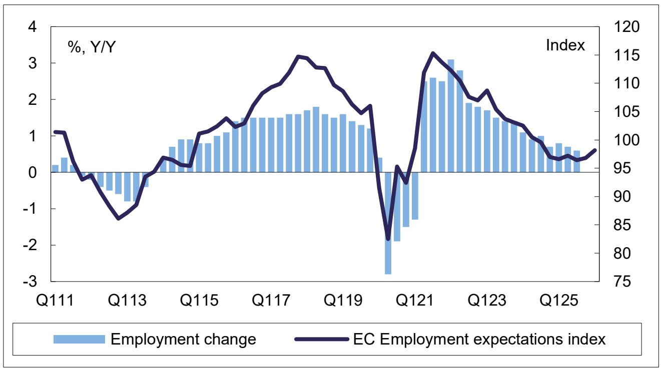
Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Employment expectations indices (EEIs)



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

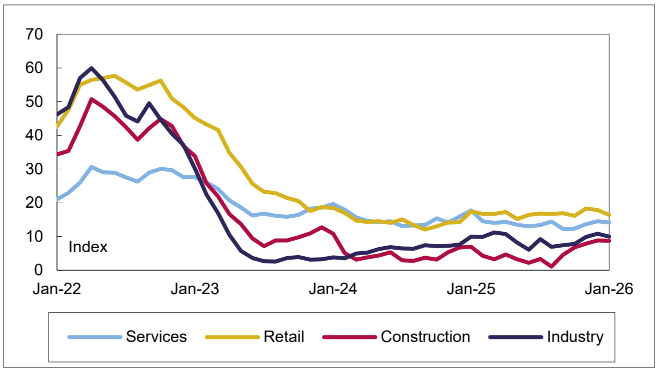
Euro area: Employment & EEI*



**EEI in Q125 is January figure. Source: EC, Macrobond and Daiwa Capital Markets Europe Ltd.*

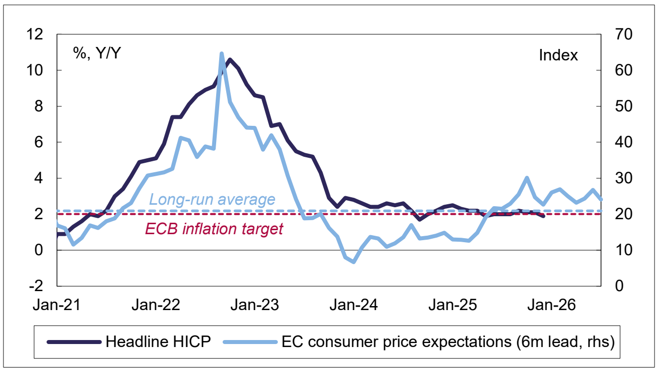
a year earlier, annual growth in the stock of loans to NFCs edged down slightly in December, by 0.1ppt to 3.0%Y/Y, remaining some way below the long-run average. And while growth in business lending accelerated in Spain (4.3%Y/Y) and remained firm in France (3.6%Y/Y), it was again largely absent in Germany (0.1%Y/Y). Meanwhile, the monthly flow of new lending to households was broadly steady in December at €20bn for a third month, to push the three-month flow to the best in 3½ years. That reflected strength in mortgage lending, supported by the ongoing recovery in the housing market, which rose to 3.0%Y/Y, the strongest since February 2023. But consumer credit slowed at the end of 2025 as interest rates on new loans ticked higher and remained more than 1½ppts above those on existing loans. So, while annual growth in consumer credit appeared firm at more than 5%Y/Y, this was still almost 1ppt below the long-run average. Overall, therefore, while it is consistent with an expanding economy, euro area credit growth remains weaker than might be expected given recent rate cuts and historical trends, suggesting that the current monetary policy stance is more likely neutral than accommodative.

Euro area: 3-month selling price expectations



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

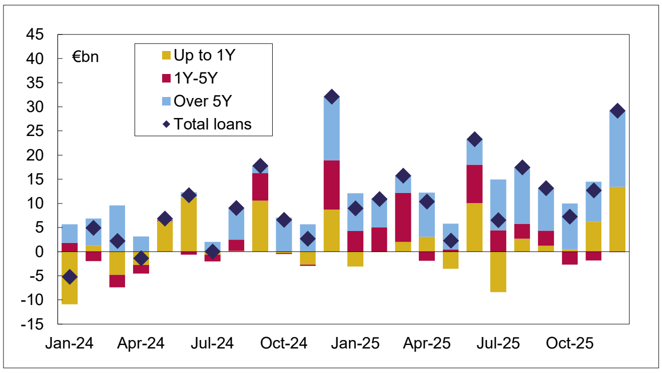
Euro area: Consumer price inflation & expectations*



**12 months ahead.*

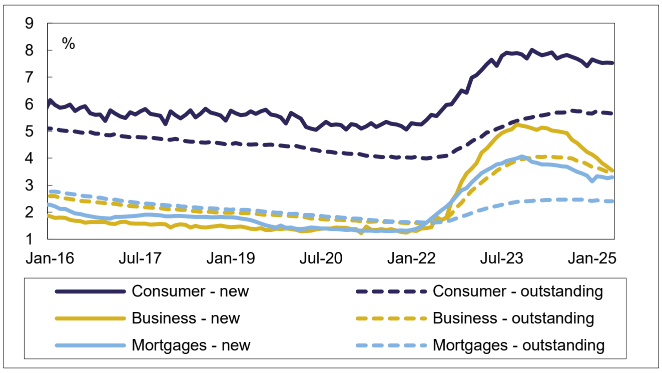
Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Net flow of business loans, by maturity



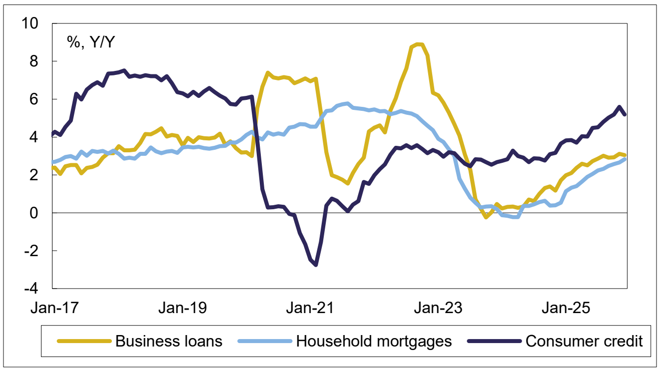
Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Average interest rates on loans



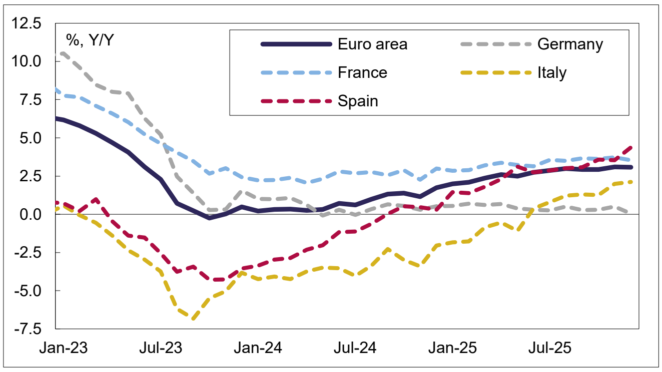
Source: ECB, Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Growth in business & household loans



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

Euro area member states: Growth in business loans



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

The day ahead in the euro area

Friday is set to be a busy day for European economic data, with the first estimates of Q4 GDP and January flash inflation providing the highlights. GDP growth continued to show encouraging resilience in Q325, rising a touch over ¼%Q/Q as government spending and fixed investment offset a continued drag from net trade. Surveys suggest that growth momentum remained firm through Q4, and the industrial and construction output data points towards a positive contribution from those sectors for the first quarter since Q1. So, euro area GDP likely picked up by a similar pace, around ¼%Q/Q, in Q4. Thursday's first estimates reported modest growth in Belgium (0.2%Q/Q), but contraction in Ireland (-0.6%Q/Q). Neither of those movements should have a discernible effect on the euro area figure. Meanwhile, output likely rose across each of the largest member states, including Germany, for just the first quarter in three. After a sidestep in Q3, German output is expected to have risen 0.2%Q/Q, consistent with Destatis' preliminary whole-year estimate. First GDP estimates from France are likely to report a similar outturn, albeit in that case marking a slowdown from an export-boosted 0.5%Q/Q in Q3. Surveys also suggest that Italian growth might have picked up, potentially to as much as 0.2%Q/Q. Spanish outperformance, in excess of ½%Q/Q, is also expected to continue. Estimates from Spain and France will also provide a preliminary breakdown by expenditure components.

Turning to inflation, Friday will bring flash estimates from Germany and Spain in January. HICP inflation in Germany fell back to 2%Y/Y last month, easing a considerable 0.6ppt. Inflation is expected to stay close to the ECB's target this month, although offsetting policy measures mean that uncertainty is greater than usual. Notwithstanding an increase in national carbon prices affecting heating oil and fuels, lower grid fees for electricity prices should see energy inflation soften overall. Transport services inflation will tick higher, owing to the increased "Deutschland ticket" price. But the implications for services inflation more broadly are ambiguous given January's big minimum wage increase and cut to VAT for certain hospitality businesses. Spanish inflation is expected to fall more sharply, with upwards pressure from energy likely to fall away entirely owing to favourable base effects. Otherwise, German import prices and PPI data from France and Italy are likely to keep signalling that underlying goods price pressures were largely absent at the end of last year. Barring revisions, the euro area unemployment rate should have remained unchanged at 6.3% in December, close to its series low, while January data from Germany will provide a timelier insight as to whether labour market conditions continued to stabilise in the largest member state.

The day ahead in the UK

The end of the week will bring UK bank lending data for December. Despite elevated policy uncertainty that month, growth in consumer credit and business lending was encouragingly strong in November and is likely to have remained so as uncertainty fell back in December. Considering the subtle boost in September, new mortgage lending was also relatively robust in November. But since new mortgage approvals edged down to a five-month low, a slight slowdown in secured lending growth around the turn of the year would be unsurprising.

European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ *Daiwa forecast*	Previous	Revised
Euro area	Commission economic sentiment indicator	Jan	**99.4**	97.1	96.7	97.2
	Commission services (industrial) confidence indicator	Jan	**7.2 (-6.8)**	6.0 (-8.2)	5.6 (-9.0)	5.8 (-8.5)
	Final Commission consumer confidence indicator	Jan	**-12.4**	*-12.4*	-13.2	-
	M3 money supply Y/Y%	Dec	**2.8**	3.0	3.0	-
France	Total jobseekers mns	Q4	**3.13**	-	3.05	-
Italy	Hourly wages M/M% (Y/Y%)	Q4	**0.2 (2.9)**	-	0.0 (2.6)	-
Spain	Retail sales Y/Y%	Dec	**2.9**	-	6.0	-

Auctions

Country	Auction
Italy	sold €2.75bn of 2.85% 2031 bonds at an average yield of 2.74%
	sold €2bn of 2035 floating bonds at an average yield of 2.71%
	sold €3.75bn of 3.45% 2036 bonds at an average yield of 3.44%
UK	sold £1.25bn of 0.125% 2028 at an average yield of 3.443%

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country		GMT	Release	Period	Market consensus/ *Daiwa forecast*	Previous
Euro area		09.00	ECB consumer expectations survey – 1Y (3Y) ahead CPI Y/Y%	Dec	2.7 (2.4)	2.8 (2.5)
		10.00	GDP – first estimate Q/Q% (Y/Y%)	Q4	*0.3 (1.2)*	0.3 (1.4)
		10.00	Unemployment rate %	Dec	6.3	6.3
Germany		07.00	Import prices M/M% (Y/Y%)	Dec	-0.4 (-2.6)	0.5 (-1.9)
		08.55	Unemployment claims rate % (change 000s)	Jan	6.3 (3)	6.3 (3)
		09.00	GDP – first estimate Q/Q% (Y/Y%)	Q4	*0.2 (0.2)*	0.0 (0.3)
		13.00	Preliminary HICP (CPI) Y/Y%	Jan	2.0 (1.9)	2.0 (1.8)
France		06.30	GDP – first estimate Q/Q% (Y/Y%)	Q4	*0.2 (1.2)*	0.5 (0.9)
		06.30	Consumer spending M/M% (Y/Y%)	Dec	-0.4 (-0.6)	-0.3 (0.0)
		07.45	PPI Y/Y%	Dec	-	-3.3
Italy		09.00	GDP – first estimate Q/Q% (Y/Y%)	Q4	*0.2 (0.6)*	0.1 (0.6)
		11.00	PPI Y/Y%	Dec	-	-0.3
Spain		08.00	GDP – first estimate Q/Q% (Y/Y%)	Q4	*0.6 (2.9)*	0.6 (2.8)
		08.00	Preliminary HICP (CPI) Y/Y%	Jan	2.4 (2.4)	3.0 (2.9)
UK		09.30	Net consumer credit £bn (Y/Y%)	Dec	-	2.1 (8.1)
		09.30	Net mortgage lending £bn (approvals 000s)	Dec	4.4 (64.9)	4.5 (64.5)

Auctions and events

- Nothing scheduled -

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Access our research reports at:
https://www.uk.daiwacm.com/ficc-research/research-reports