

Euro wrap-up

Overview

- Bunds followed USTs higher while euro area Q4 GDP growth was unrevised at 0.3%Q/Q, and employment growth matched that in Q3.
- Gilts also made modest gains on a quiet day for UK economic news.
- The coming week will bring the flash February PMIs, as well as inflation and labour market figures from the UK.

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Daily bond market movements

Bond	Yield	Change
BKO 2.1 03/28	2.033	-0.017
OBL 2½ 04/31	2.334	-0.028
DBR 2.9 02/36	2.751	-0.025
UKT 3¾ 03/27	3.573	-0.014
UKT 4% 03/30	3.819	-0.033
UKT 4½ 03/35	4.411	-0.040

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

Source: Bloomberg

Euro area

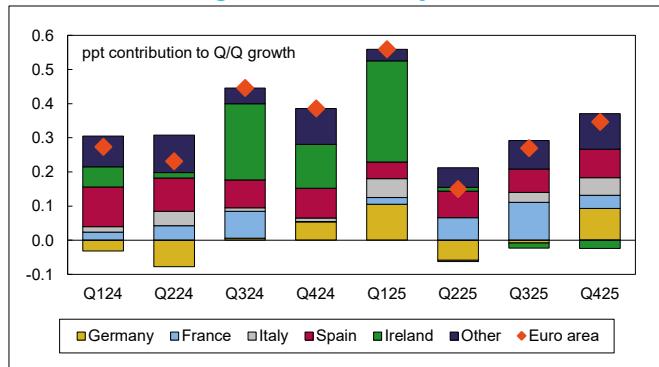
Q4 GDP growth confirmed at 0.3%Q/Q, with Spanish economic strength supporting employment

Today's updated euro area GDP estimates for Q4 broadly aligned with the initial figures, reaffirming that growth accelerated 0.1ppt to 0.3%Q/Q, the strongest growth since the surge in output in Q125 as firms front-loaded higher US tariffs. This left the annual rate unrevised at 1.3%Y/Y, down just 0.1ppt from Q3 and broadly in line with the euro area's potential growth. To two decimal places, today's figures brought a modest upwards revision by 0.02ppt to 0.35%Q/Q. And when excluding the distortion of Ireland – which led the surge at the start of last year and where activity contracted in Q4 – euro area GDP rose 0.4%Q/Q, the most since Q322. Admittedly, some monthly activity data for December disappointed, which could raise downside risks to the next national accounts update on 6 March and a negative carry over into the start of 2026. But while net trade appears to have been a drag on GDP growth in Q4, today's goods trade numbers suggested a more positive end to the year for exports (see below). And last week's [retail sales](#) figures implied that household consumption provided a non-negligible boost to growth last quarter, supported by a stable labour market and rising real incomes. Indeed, today's first estimate for euro area employment in Q4 showed that growth of 0.2%Q/Q matched that in the previous seven out of eight quarters. And the number of jobs added (306k) was some 65k more than in Q3 and 220k more than in Q2. The annual rate increased slightly to 0.7%Y/Y, albeit almost half the rate of GDP growth and therefore consistent with a pickup in labour productivity. While Germany continued to shed jobs in Q4, Spain again provided the principal source of employment growth.

Exports rise towards year-end, but still down in Q4 amid drop in shipments to the US

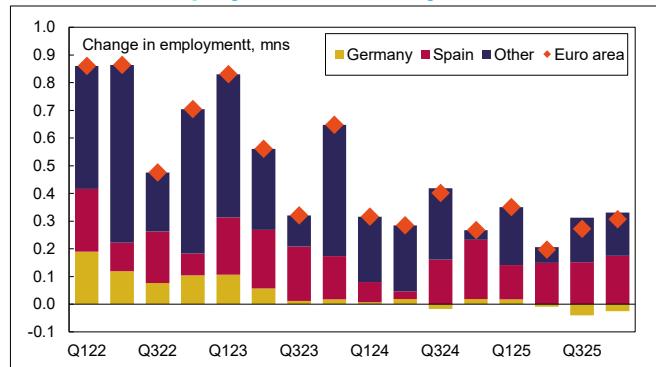
While member state releases suggest that net trade provided a drag on euro area GDP growth in Q4, today's goods trade numbers for December were, at face value, more positive. These showed that the value of exports rose for a third month in four (1.1%M/M) to leave them up 3.4%Y/Y. Admittedly, this still left export values down 0.7%Q/Q in Q4. But with import values also declining around 1.0%Q/Q, today's release raises the possibility that net goods trade had a more neutral impact. Of course, price effects may have played a non-negligible role, not least given the notable drop in import values of mineral fuels in Q4. Encouragingly, the detail showed that exports to China rose to the highest level in ten months, to leave them up some 3½%Q/Q in Q4. But despite a jump in December, shipments of machinery and transport equipment to that country rose just 0.7%Q/Q to remain historically weak. Overall, this left the total bilateral deficit with China at a record high in 2025 (€275bn) when excluding lockdown-related disruptions. Meanwhile, despite a modest increase in December, exports to the US were down roughly 13½%Q/Q in Q4 due to a sharp drop in chemicals, following the surge of Irish pharmaceutical products in September, and continued downtrend in machinery and transport equipment. But recent data point to gradual recovery in overseas orders for German goods, while the Commission's indicator for new export orders for the whole region has trended to the highest since mid-2024, albeit well below the long-run average.

Euro area: GDP growth & country contributions



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area: Employment & country contributions



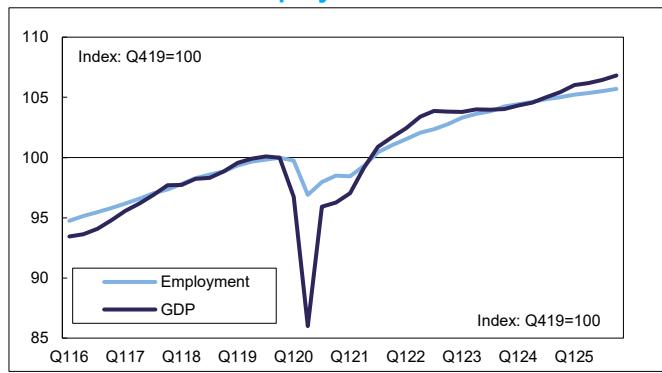
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

The week ahead in the euro area

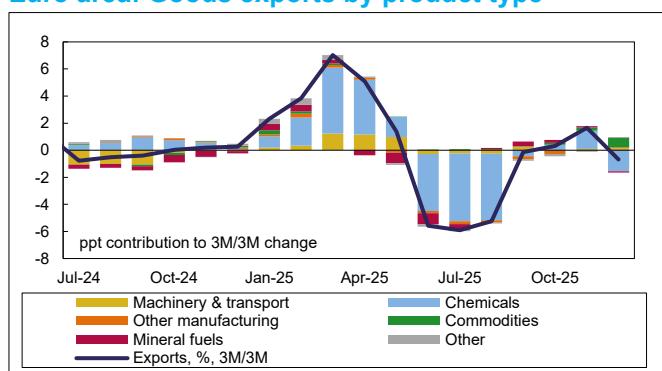
Looking beyond Q4, the highlight of the coming week's euro area dataflow should be February's flash euro area PMIs (Friday). Contrasting with an improvement in the Commission's economic sentiment index, the euro area composite PMI weakened a touch further in January (down 0.2pt to 51.3), 1pt below its Q4 average, albeit still consistent with modest expansion. While a softer expansion in Spain offers some explanation, we note that the euro area PMI was influenced by another disproportionately weak French services reading; a reversal of which may open the possibility for some upside. The German PMIs, on the other hand, showed more resilience. Separately, we expect the ZEW investor survey (Tuesday) to show that perceptions about the German economic outlook continue to turn brighter. Encouragingly, the PMIs also suggested that manufacturing output returned to expansion after December's blip. We expect that weakness will translate into a significant drop in December's euro area IP figure (Monday), of around 1½%M/M. That should still imply growth of 0.3% for the industrial sector over Q4 as a whole, but negative carryover will dampen hopes for a comparable contribution to Q1 GDP growth from industry. The construction sector also looks poised to have risen around ½%Q/Q in Q4, with rebounds in Germany and France teeing up a firm increase for the euro area in December (Thursday). Elsewhere, the Commission's flash consumer confidence reading for February (also Thursday) will be watched for a further improvement in household sentiment, after the index touched an 11-month high in January (-12.4).

With regards to inflation, today's final Spanish estimates confirmed a notable moderation in headline inflation in January, to a six-month low of 2.4%Y/Y on the HICP measure. That marked a modest downward revision from the flash estimate (by 0.1ppt). But as expected, the detail confirmed that energy categories drove the downward adjustment, while clothing was also soft. The week ahead will bring further insights into price developments from Germany (Tuesday) and France (Wednesday). Following a marked decline in German inflation at the end of last year, the flash estimates suggested that HICP ticked up just 0.1ppt in January, to 2.1%Y/Y. Payback in core goods after a soft December and food provided an upward impulse, while energy and services reportedly moderated. The accompanying granularity will reveal to what extent that reflects pass through of the cut to VAT rate in hospitality venues, as well as any broader effects of the larger minimum wage increase. In France, January's soft flash inflation reading – down 0.3ppt to 0.4%Y/Y, a five-year low – likely owed to core components. But we expect its weakness to be fleeting. Adding to the ECB's interpretation of the inflation outlook will be the coming week's quarterly flash releases of euro area job vacancy rates and labour cost indicators (Thursday) for Q4. The ECB's negotiated wages indicator (Friday) will also be of interest.

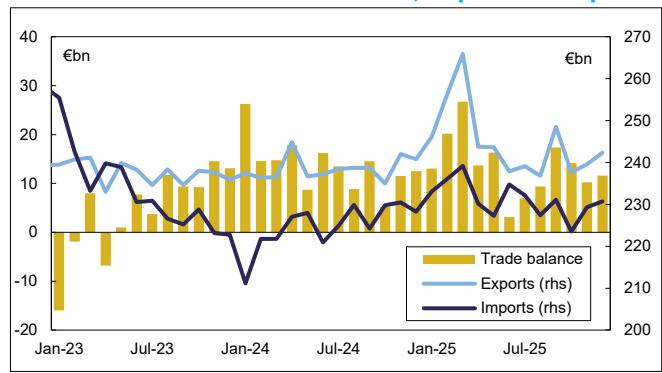
Euro area: GDP & employment levels



Euro area: Goods exports by product type

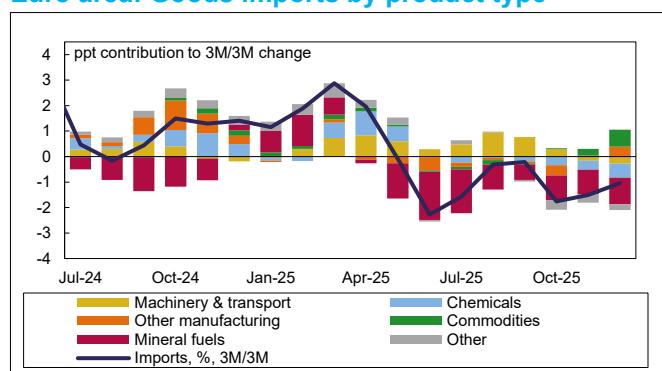


Euro area: Goods trade balance, exports & imports*

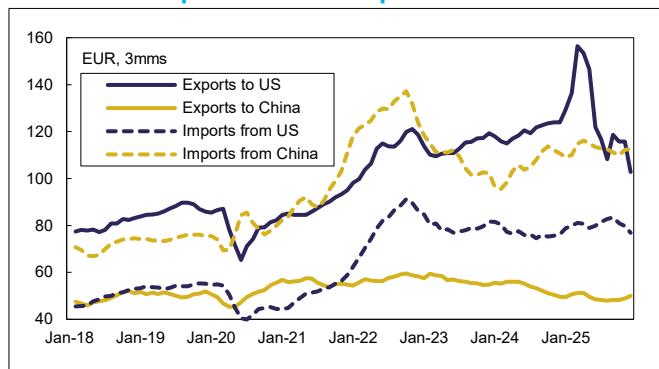


*Seasonally adjusted values.

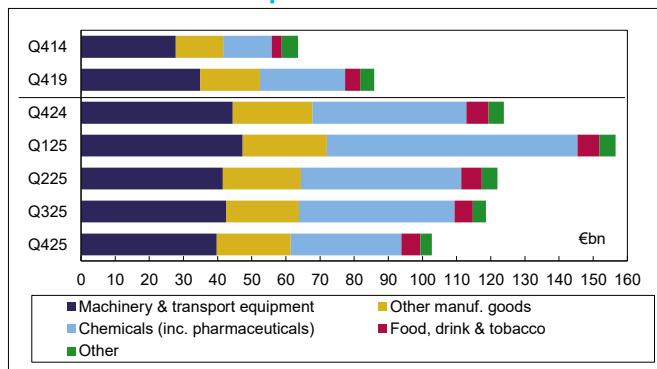
Euro area: Goods imports by product type



Euro area: Exports from & imports to US & China



Euro area: Goods exports to the US



The week ahead in the UK

The coming week's UK economic data will have a bearing on forthcoming BoE monetary policy decisions. Indeed, January's inflation release (due Wednesday) will provide the sole official price figures to be published ahead of the March MPC meeting. And while we will receive two months of labour market data before then, the second of those will coincide with MPC's announcement and we should grant weight to the coming week's release (Tuesday). Firstly, in terms of inflation, the headline CPI rate is widely expected to take another step down at the start of Q1. The BoE anticipates that the annual CPI rate will moderate by $\frac{1}{2}$ ppt in January to a ten-month low of 2.9%Y/Y. The BoE also expects the softness to be broad-based, although most pronounced in services as the effects of policy changes announced in Budget 2024 – such as last January's VAT increase on private school fees – begin to fall out of the annual calculations. The Bank also expects a weaker impulse from food inflation compared to last January. And although the Ofgem household electricity price cap rose a modest 0.2%Q/Q last month, favourable base effects and falling petrol prices should translate into a decline in energy inflation. We expect a slightly smaller moderation in the headline CPI rate to 3.0%Y/Y. And noting the stubbornness of some forward-looking indicators, we see core inflation easing to 3.1%Y/Y, down just 0.1ppt, albeit with the risks skewed to the downside.

Turning to the labour market, the BoE also expects Tuesday's update to be on the soft side. Citing concerns about the level of redundancies, the MPC's latest Monetary Policy Report stated that 'some further [labour market] loosening is expected in the near term'. Indeed, despite some stabilisation in vacancies, ongoing weakness of employment growth at the end of last year would be consistent with sub-potential growth in Q4 as well as the absence of any evidence of a pickup in labour demand across the timelier data and survey indicators. The BoE also took the opportunity to revise up its forecast for peak unemployment by 0.2ppt, to 5.3%3M by Q226, albeit only after a sideways move in December (5.1%3M). Despite the repeated concerns from some MPC members regarding persistently elevated forward-looking pay indicators, expectations of rising slack appears to have diminished their importance for several MPC members. Crucially, we expect December's official data to show further deceleration in underlying pay growth. And like the Bank, we expect its preferred measure of private sector regular wage growth to ease to a five-year low of just 3.4%3M/Y, close to the upper bounds of some estimates of target-consistent wage growth.

Beyond the labour market and inflation figures, Friday will provide the other flashpoint for top-tier UK data in the coming week. February's flash PMIs will perhaps be of most interest considering their surprisingly firm pickup last month. At 53.7, the UK composite output PMI rose in January a full 2pts above the Q4 average to be consistent with the strongest expansion in business activity since August 2024. Notwithstanding a likely softer flash reading this month, we expect them to add further support to expectations of a rebound in GDP growth this quarter. January's retail sales data might also point towards a rebound in that sector after declining 0.3%Q/Q in Q4. Following growth of 0.4%M/M in December, surveys suggest that retail sales volumes probably rose for a second successive month in January. However, inclement weather risks dampened footfall, while price rises might also have weighed on demand for food.

Daiwa economic forecast

	2025		2026				2025	2026	2027
	Q3	Q4	Q1	Q2	Q3	Q4			
GDP	%, Q/Q						%, Y/Y		
Euro area	0.3	0.3	0.2	0.3	0.3	0.3	1.5	1.1	1.3
UK	0.1	0.1	0.3	0.3	0.3	0.3	1.3	0.9	1.3
Inflation, %, Y/Y									
Euro area									
Headline HICP	2.1	2.1	1.7	1.7	1.7	1.9	2.1	1.7	1.8
Core HICP	2.3	2.4	2.1	1.6	1.5	1.6	2.4	1.7	1.6
UK									
Headline CPI	3.8	3.4	3.0	2.2	2.2	2.1	3.4	2.4	2.1
Core CPI	3.6	3.3	3.1	2.6	2.5	2.5	3.5	2.7	1.9
Monetary policy, %									
ECB									
Deposit Rate	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Refi Rate	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
BoE									
Bank Rate	4.00	3.75	3.50	3.25	3.25	3.25	3.75	3.25	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	
Euro area	GDP – second estimate Q/Q% (Y/Y%)	Q4	0.3 (1.3)	<u>0.3 (1.3)</u>	0.3 (1.4)	-	
	Employment – first estimate Q/Q% (Y/Y%)	Q4	0.2 (0.6)	<u>0.1 (0.6)</u>	0.2 (0.6)	-	
	Trade balance €bn	Dec	11.6	12.0	10.7	-	
Spain	Final HICP (CPI) Y/Y%	Jan	2.4 (2.3)	<u>2.5 (2.4)</u>	3.0 (2.9)	-	
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/ <u>Daiwa forecast</u>	Previous	
Monday 16 February 2026						
Euro area		10.00	Industrial production M/M% (Y/Y%)	Dec	<u>-1.4 (1.1)</u>	0.7 (2.5)
UK		00.01	Rightmove house prices M/M% (Y/Y%)	Feb	-	2.8 (0.5)
Tuesday 17 February 2026						
Germany		07.00	Final HICP (CPI) Y/Y%	Jan	<u>2.1 (2.1)</u>	2.0 (1.8)
		10.00	ZEW current situation (expectations) balance	Feb	-65.7 (65.0)	-72.7 (59.6)
UK		07.00	Average wages (excluding bonuses) 3M/Y%	Dec	4.6 (4.2)	4.7 (4.5)
		07.00	Private sector regular wages 3M/Y%	Dec	<u>3.4</u>	3.6
		07.00	Unemployment rate 3M%	Dec	5.1	5.1
		07.00	Employment 3M/3M change 000s	Dec	108	82
		07.00	Payrolled employees M/M change 000s	Jan	-20	-43
		07.00	Claimant count rate % (change 000s)	Jan	-	4.4 (17.9)
		09.30	Output per hour Y/Y%	Q4	-	1.1
Wednesday 18 February 2026						
France		07.45	Final HICP (CPI) Y/Y%	Jan	<u>0.4 (0.3)</u>	0.7 (0.8)
UK		07.00	Headline (core) CPI Y/Y%	Jan	<u>3.0 (3.1)</u>	3.4 (3.2)
		07.00	PPI – output (input) prices Y/Y%	Jan	2.9 (0.3)	3.4 (0.8)
		07.00	House price index Y/Y%	Dec	-	2.5
Thursday 19 February 2026						
Euro area		09.00	ECB current account balance €bn	Dec	-	8.6
		10.00	Preliminary Commission consumer confidence indicator	Feb	-11.7	-12.4
		10.00	Construction output M/M% (Y/Y)	Dec	-	-1.1 (-0.8)
		10.00	Preliminary labour costs Y/Y%	Q4	-	3.3
		10.00	Preliminary job vacancy rate %	Q4	-	2.2
France		-	Retail sales Y/Y%	Jan	-	-1.0
UK		11.00	CBI industrial trends survey – total orders (selling prices) net balance %	Feb	-28 (23)	-30 (29)
Friday 20 February 2026						
Euro area		09.00	Preliminary services (manufacturing) PMI	Feb	51.9 (50.0)	51.6 (49.5)
		09.00	Preliminary composite PMI	Feb	51.5	51.3
		10.00	Negotiated wages Y/Y%	Q4	2.90	1.87
Germany		07.00	PPI Y/Y%	Jan	-2.1	-2.5
		08.30	Preliminary services (manufacturing) PMI	Feb	52.4 (49.5)	52.4 (49.1)
		08.30	Preliminary composite PMI	Feb	52.3	52.1
France		08.15	Preliminary services (manufacturing) PMI	Feb	49.1 (51.0)	48.4 (51.2)
		08.15	Preliminary composite PMI	Feb	49.6	49.1
UK		07.00	Retail sales – incl. auto fuels M/M% (Y/Y%)	Jan	0.2 (2.8)	0.4 (2.5)
		07.00	Retail sales – excl. auto fuels M/M% (Y/Y%)	Jan	0.3 (3.6)	0.3 (3.1)
		07.00	Public sector net borrowing £bn	Jan	-24.0	11.6
		09.30	Preliminary services (manufacturing) PMI	Feb	53.5 (51.5)	54.0 (51.8)
		09.30	Preliminary composite PMI	Feb	53.3	53.7

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The coming week's key events & auctions

Country	GMT	Event / Auction
Monday 16 February 2026		
- Nothing scheduled -		
Tuesday 17 February 2026		
Germany		10.30 Auction: to sell up to €6bn of 2.1% 2028 bonds
UK		10.00 Auction: to sell £500mn of 0.125% 2028 bonds
		11.30 Auction: to sell £750mn of 4.25% 2032 bonds
Wednesday 18 February 2026		
Germany		10.30 Auction: to sell up to €5.5bn of 2.9% 2036 bonds
Thursday 19 February 2026		
Euro area		09.00 ECB to publish Economic Bulletin 1/2026
France		09.50 Auction: to sell up to €13.5bn of 2.4% 2029, 2.7% 2031 & 2% 2032 bonds
		10.50 Auction: to sell up to €1.5bn of 3.15% 2032, 0.6% 2034 & 1.8% 2040 inflation-linked bonds
Spain		09.30 Auction: to sell 3.5% 2029, 2.6% 2031 & 3.3% 2036 bonds
Friday 20 February 2026		
- Nothing scheduled -		

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

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