



Liquidity letter

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ECB: no cuts before the holidays

Unsurprisingly, the central bank is not touching its interest rates

Christine Lagarde ready for a further cut in September

- ▶ **The ECB** has kept the deposit facility rate at 3.75%, leaving the door open to a possible cut in September, despite fears that geopolitical uncertainty and rapidly rising wages will continue to push up prices. A decision in line with market expectations.
- ▶ **Interest rates** The ECB Governing Council does not have a "predetermined rate path", Ms Lagarde told reporters in Frankfurt. "The question of September and what we do in September is therefore very open and will be determined on the basis of all the data we receive".
- ▶ **FED** According to Christophe Waller, a member of the Federal Reserve's FOMC, the central bank is approaching the time when an interest rate cut will be justified.
- ▶ **UK** UK inflation was slightly higher than expected (2.0% vs. 1.9%), but stable compared with the previous month and once again in line with the BoE's sustained target. The probability of a rate cut next month falls to 25%.

Number of the week

2,0%

This is the annualised rate of inflation at the end of June for the United Kingdom, stable compared with the previous month.



Christine Lagarde

According to ECB President **Christine Lagarde**, the next ECB meeting on interest rates will be "very open", even though the governors will have much more information to decide whether a further cut is justified.

"The question of September and what we do in September is very open and will be determined on the basis of all the data we receive".

The governors looked at data on wage growth, corporate profit margins and productivity and said they would have "much more in the weeks and months ahead".

If this data does indeed confirm the disinflationary process that is underway at the moment, it will reinforce our confidence" that inflation will return to 2% by the end of 2025.

Wages continue to rise in the eurozone



Source: FT / Indeed Hiring Lab 10/07/24

The ECB regularly refers to the current wage monitoring indicator as a forward-looking indicator of overall wage growth in the single currency bloc, which has become one of the main factors influencing the pace of cuts.

If wages continue to rise rapidly, this drives up costs for companies, which often seek to pass them on to consumers by raising prices, keeping inflation high.



FED - Waller: central bank "getting closer" to cutting interest rates

FED Governor **Christopher Waller** hinted on Wednesday that interest rate cuts are on the cards as long as there are no major surprises on the inflation and employment fronts.

"I think the current data is consistent with a soft landing, and I'll wait for the data over the next couple of months to support that view," Waller said on a programme at the Kansas City Fed.

I don't think we've reached our final destination, but I do think we're getting closer to the point where a reduction in the key rate will be justified.

In line with statements from other policymakers, Waller's 'feelings' indicate that a rate cut is unlikely at the FOMC meeting at the end of the month, but more likely in September.

Central bankers have become more optimistic thanks to data over the last few months showing a fall in inflation after a surprising rise in the first three months of 2024.

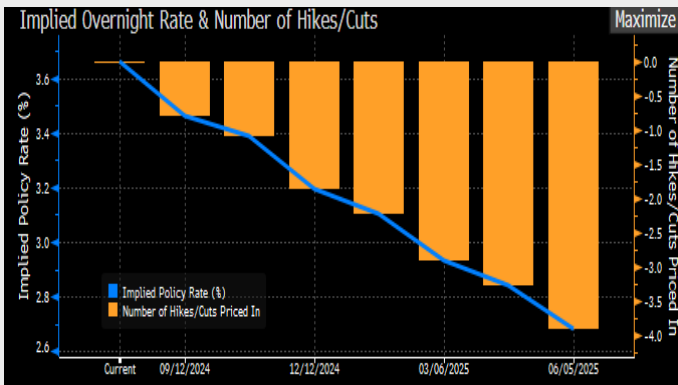
"I think the time to cut the key rate is approaching", said Waller.



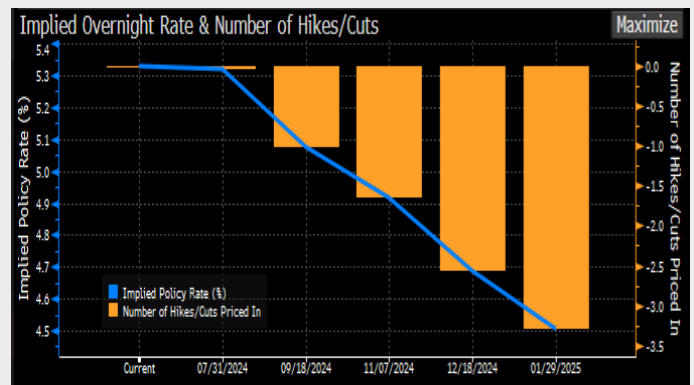
The question of September and what we will do in September is wide open

Christine Lagarde, President ECB, 18 July 2024

ECB



FED



Source: Bloomberg 18/07/24

Having decided to leave interest rates unchanged at the **ECB** meeting in July, the last before the holidays, all attention is now focused on the next meeting on 12 September where, as Christine Lagarde herself mentioned, there is a chance that the central bank governors will decide on a further rate cut.

The markets currently assess this probability at 80%. A further rate cut is expected at the meeting on 12 December. In all, around four rate cuts are expected between now and June 2025.

On the Federal Reserve side, the start of interest rate cuts is likely to be delayed compared with what the ECB has already done.

The resilience of the economic situation and more robust inflation have delayed this decision for the time being. According to the markets, the first rate cut could take place at the September meeting (the probability is close to 100%).

A second reduction to 75% is expected in November, while the third will probably have to wait until January 2025.



FED: BEIGE BOOK, ECONOMIC GROWTH BETWEEN "WEAK AND MODEST"

Economic activity in the US continued to grow at a "weak to modest" pace. This is according to the Beige Book, which is produced every 6 weeks on the basis of information gathered from the 12 districts in which the FED operates, and covers the period from mid-May to 8 July.

Price rises were "modest" on average, as in the previous six weeks. Employment grew at a "weak" pace. Wage growth was "between modest and moderate" in most districts. "Expectations for the future of the economy are for slower growth over the next six months, due to uncertainty surrounding the upcoming elections, domestic politics, geopolitical conflicts and inflation".



The pound at its highest level for a year vs USD

The pound hit its highest level in a year against the USD on Wednesday after UK inflation figures came in slightly above expectations at 2% for June.

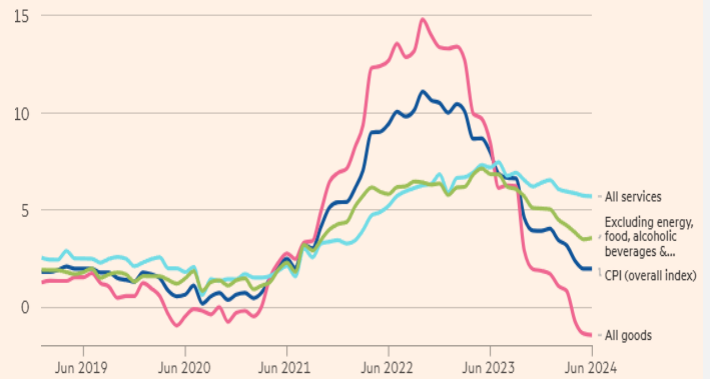
The data was higher than analysts had forecast (1.9%) and prompted traders to reduce their bets that the BoE would cut interest rates, currently at their highest level for 16 years, next month. But the figure remained within the BoE's target, which it reached in May for the first time in 3 years.

Following the release of the data, investors put the probability of a 25bp interest rate cut next month at just over a third, compared with a 50/50 split previously.

During the day, the pound reached USD 1.3044, its highest level for a year.

The Monetary Policy Committee has indicated that it is moving towards a cut in interest rates, currently at 5.25%. However, such a decision would depend on the certainty of policymakers that the underlying price pressures are fully under control.

Inflation in the UK



Source: FT / ONS 18/07/2024

A major concern is the persistent growth in services prices, which is seen as an important indicator of underlying inflation. The latest figures show that services inflation held steady at 5.7% in June, exceeding analysts' expectations of a fall to 5.6%.

News



Eurozone | ZEW Sentiment Index

The economy fell more than expected in July (43.7 vs. 51.3 in June), compared with 48.1

UK | Inflation at the end of June remains stable at 2.0% , in line with the previous month

Agenda



24 July | Decisions of the Banque du Canada on interest rates

25 July | Publication of data on inflation in the United States at the end of June

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