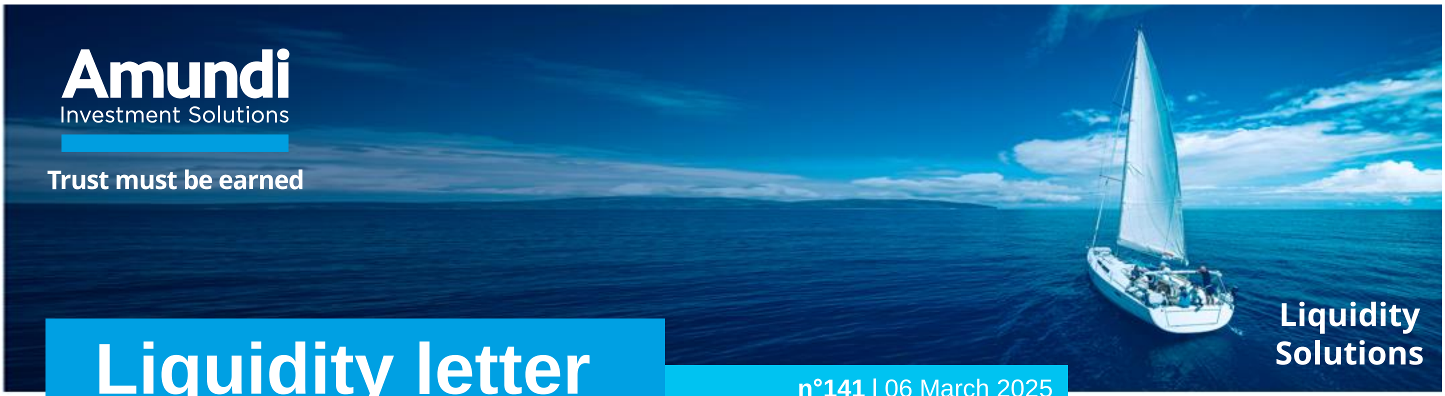


Liquidity letter

n°141 | 06 March 2025

ECB lowers rates again

A sixth decline

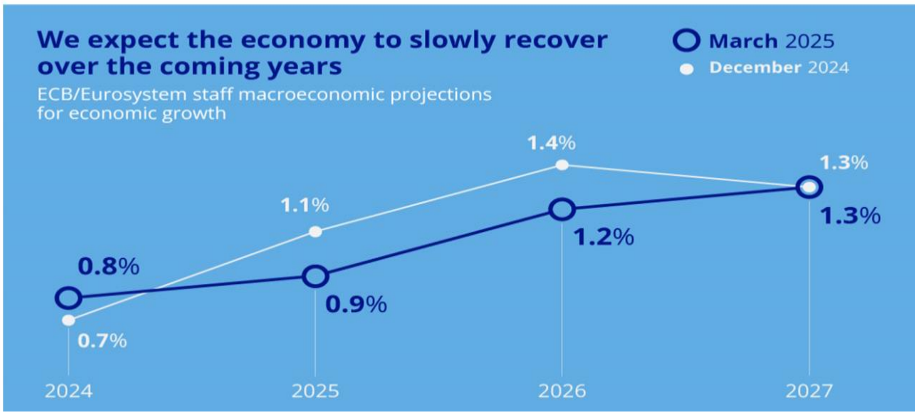
The ECB lowered interest rates by 25bp as expected, marking its sixth cut since June 2024 in a particularly tense economic and political climate. Thus, the deposit facility, refinancing and marginal lending rates will now be **2.50%, 2.65% and 2.90% respectively as of March 12, 2025.**

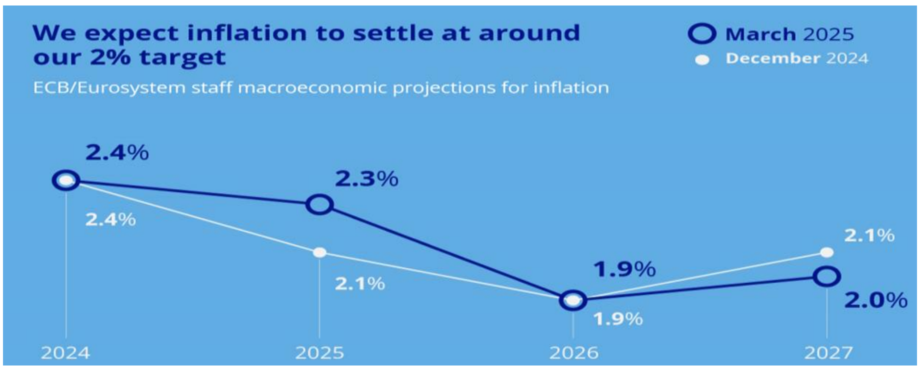
The portfolios of the Asset Purchase Program (APP) and the Pandemic Emergency Purchase Program (PEPP) are contracting at a gradual pace, as the Eurosystem no longer reinvests redemptions of maturing securities.

Monetary policy is becoming significantly less restrictive as new borrowing will be less costly for businesses and households by lowering policy rates.

Christine Lagarde was confident about the evolution of price increases. *"Most of the measurement tools support a return of inflation to 2%".*

Even though prices in the euro zone rose slightly more than expected in February, the movement is showing signs of slowing. Year-on-year inflation stood at 2.4% in February, compared with 2.5% in January.





Source: ECB

Number of the week

-25 bp

ECB rate cut (March 2025)

Debate on the future

At its meeting in March, the discussions were particularly lively. The decision was taken unanimously minus one vote, that of the Austrian governor Robert Holzmann who abstained.

The main question for ECB members was how far to continue the rate cut cycle. Proponents of a hard line on monetary policy believe that at 2.5%, the ECB could have reached the level of a neutral rate.

The ECB presented its new projections:

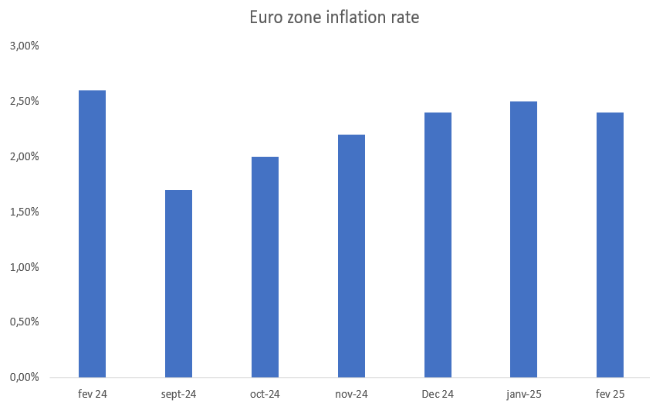
- average headline inflation of 2.3% in 2025, 1.9% in 2026 and 2% in 2027. The upward revision of inflation for this year reflects stronger energy price dynamics.
- growth has been revised downwards to 0.9% for 2025, 1.2% for 2026 and 1.3% for 2027, impacted by tariff increases decided by the United States and by the political uncertainty surrounding the war in Ukraine.

Inflation is falling in the Euro zone

Inflation fell slightly in February, to 2.4% year-on-year, after four consecutive months of increases, thanks to a decline in energy prices, which rose by only 0.2%, after 1.9% in January.

Conversely, food prices (including alcohol and tobacco) rose faster in February to 2.7%, compared to 2.3% the previous month, while the rise in the prices of industrial goods accelerated slightly to 0.6% (+0.1 point).

Core inflation came in at 2.6% in February, in line with economists' expectations. Between September and January, this indicator remained unchanged at 2.7%. Overall, price increases have calmed down significantly since peaking at 10.6% in October 2022.



Source: Amundi, Eurostat

> *The process of disinflation is well underway*
>
> *Christine Lagarde, President of the ECB, 06/03/2025*

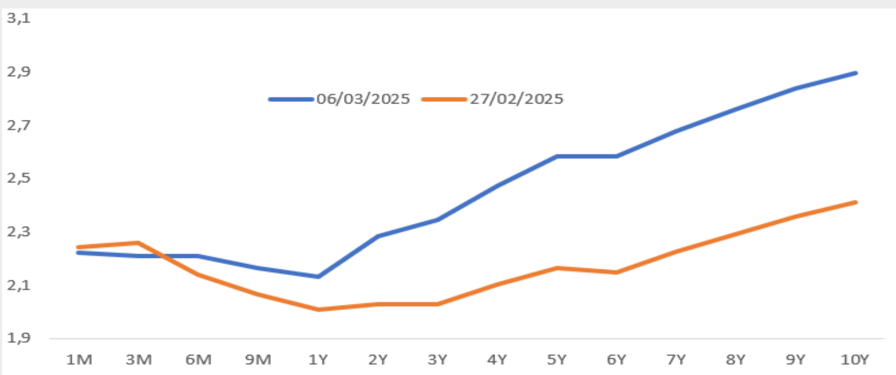
Market Impact

German 2-year and 10-year rates (%)

The German decision to invest €500 billion over ten years in infrastructure and the modernisation of the country, but also to remove the "debt brake" to finance its rearmament, has caused rates to soar in Europe. The 10-year and 2-year rates increased by 30bp and 22bp respectively, from 2.50% to 2.80% and from 2.03% to 2.25%.

Source: Amundi, Bloomberg

German yield curve (%)



Curve inversion up to maturity 1 year.

Then, steepening of the curve beyond 1 year.

Source: Amundi, Bloomberg

Euro zone: stable unemployment

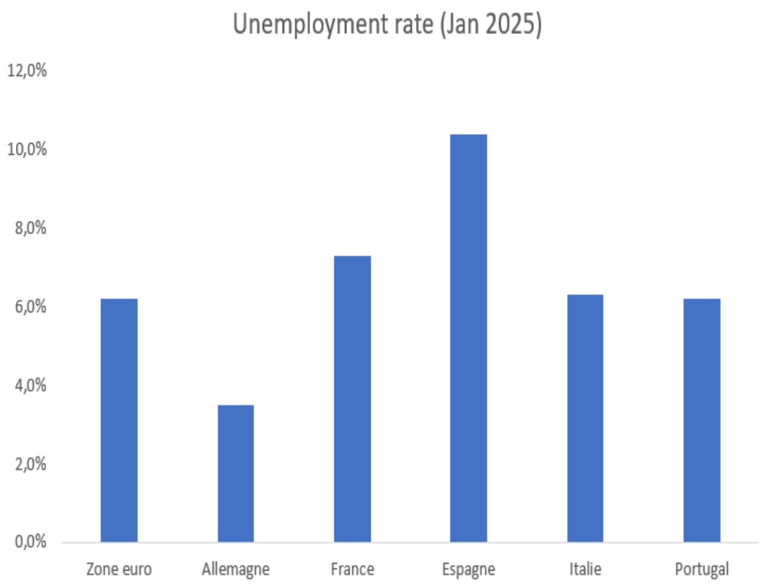
The unemployment rate remained stable at 6.2% of the working population in January in the euro zone, Eurostat announced.

Over one year, the rate of unemployed people fell by 0.3 points in the 20 member countries of the Eurozone. For the European Union as a whole (which includes the Eurozone), the unemployment rate reached 5.8% in January.

This stands at 7.3% in France against 6.3% in Italy and 3.5% in Germany, according to harmonised Eurostat data.

The lowest rates in the EU were recorded in the Czech Republic (2.6%), Poland (2.6%) and Malta (3%). The highest were recorded in Spain (10.4%), Sweden (8.9%), Greece (8.7%) and Finland (8.7%).

In its latest economic forecasts published in November, the European Commission forecast a stabilisation of the unemployment rate at 6.3% in 2025 and 2026 in the euro area, and at 5.9% over the same period at the European Union level.



Source: Amundi, Eurostat

News

United States | Manufacturing PMI at 52.7 (Feb 2025)

Eurozone | Manufacturing PMI at 47.6 (Feb 2025)

Agenda

7 March I Publication of GDP in the zone Euro (4th quarter 2024)

12 March I Publication of the inflation rate American (Feb 2025)

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