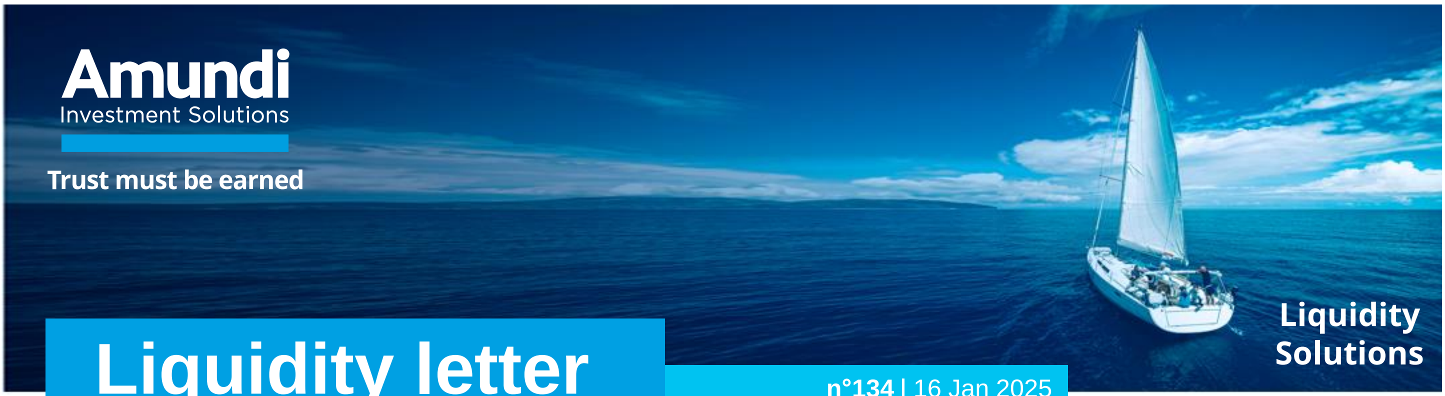


Liquidity letter

n°134 | 16 Jan 2025

An uncertain start to the year

US inflation is on the rise again

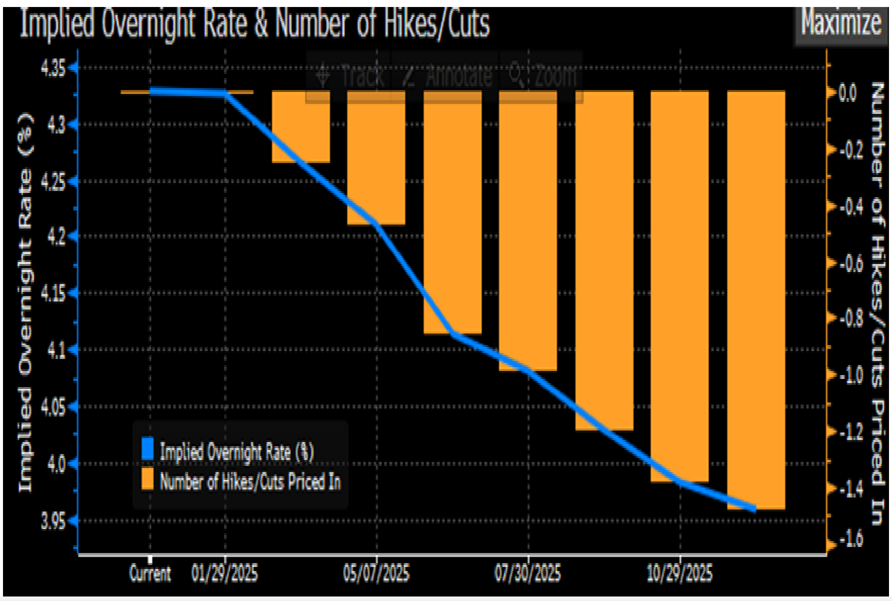
Inflation accelerated again in December, reaching 2.9% year-on-year, from 2.7% in November, according to the Consumer Price Index (CPI) released by the Labor Department. This increase marks the third consecutive month of increases. Analysts had expected this year-on-year increase, but the 0.4% monthly increase between November and December exceeded forecasts of +0.3%.

With this new increase, US inflation is still further away from the Fed's target. The monetary institution favors another measure of inflation, the PCE index, which will be published at the end of the month.

On the other hand, core inflation slowed to 3.2% year-on-year, after 3.3% in November. This decline is a relief for many analysts, even if this level remains well above the Fed's 2% target.

New York Fed President John Williams expressed confidence that inflation would continue to decline after the release of a better-than-expected consumer price report, but did not give any indication of the timing of future rate cuts. *"The process of disinflation is underway. But we are still not at our 2% target, and it will take more time to achieve this in a sustainable way,"* he said.

Expectations of rate cuts in the United States



Source: Bloomberg

Number of the week

1,80%

Final inflation rate in France (Dec 2024)

A renewed hope

The optimism comes mainly from the first decline in US core inflation in six months.

This is due in particular to a reduction in the price of hotel accommodation, a lower increase in medical costs and a more contained increase in rents. This slight decline was enough to give investors hope.

In recent days, the scenario of a resumption of inflation, pushing the Fed to end its cycle of rate cuts, had predominated. This prospect had pushed up government bond yields, with the US 10-year reaching 4.8% for the first time since October 2023.

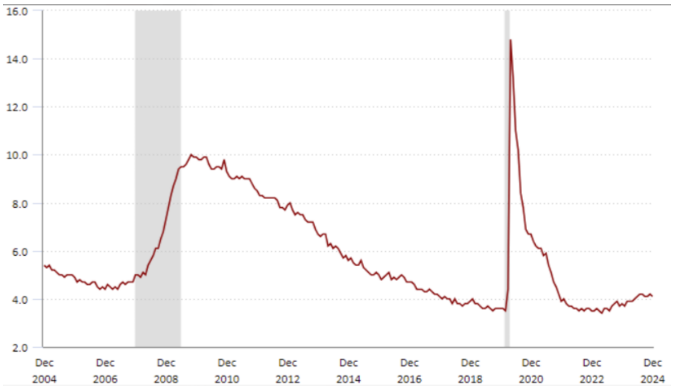
This evolution of the consumer price index suggests the possibility that the Fed will not shelve its rate cut policy. Economists are even timidly considering a decline as early as March, whereas it was not expected before the beginning of the second half of the year.

United States: The job market remains strong

In December, the U.S. labor market added 256,000 nonfarm payrolls, and the unemployment rate fell to 4.1%. This performance is supported by hiring in the healthcare, retail and leisure sectors, despite difficulties in the manufacturing sector. In 2024, 2.2 million jobs were created, a figure lower than the 3 million in 2023, but higher than the 2 million in 2019.

Wages also rose in December, by 0.3% month-on-month, slower than the previous month but remained in line with market expectations. Year-on-year, wages rose by an average of 3.9%, which is now higher than the pace of inflation, which reached 2.4% year-on-year in November, according to the PCE index which is favored by the Fed.

Evolution of the unemployment rate in the United States

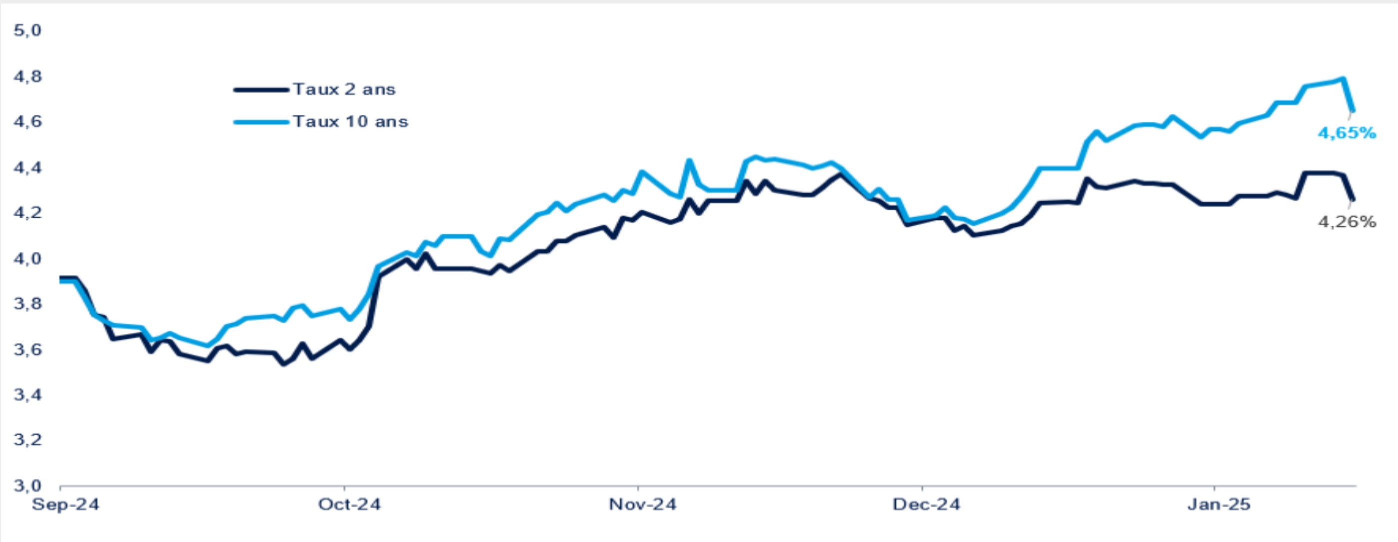


Source: Bureau of Labor of Statistics

> *This reinforces my belief that the labour market is stabilising at a level close to full employment.*
>
> *Austan Goolsbe, President of the Chicago Fed*

Market Impact

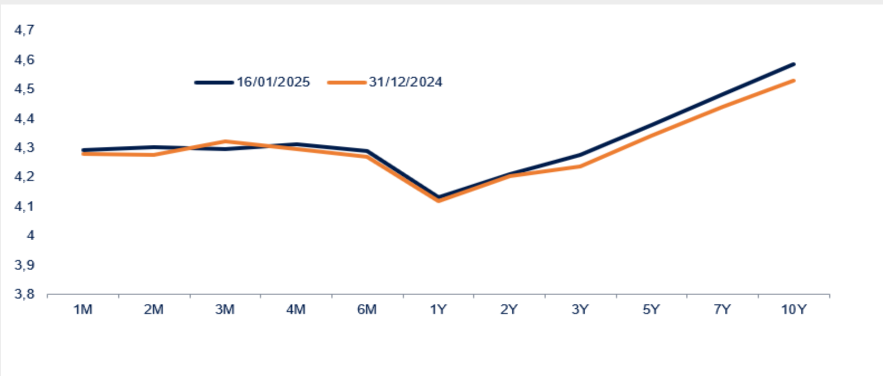
US 2-year and 10-year rates (%)



After the announcement of US core inflation, the 10-year yield fell by 14 bp, from 4.79% to 4.65%.

Source: Amundi, Bloomberg

US yield curve (%)



The US yield curve continues to steepen beyond the 1-year maturity.

Source: Amundi, Bloomberg

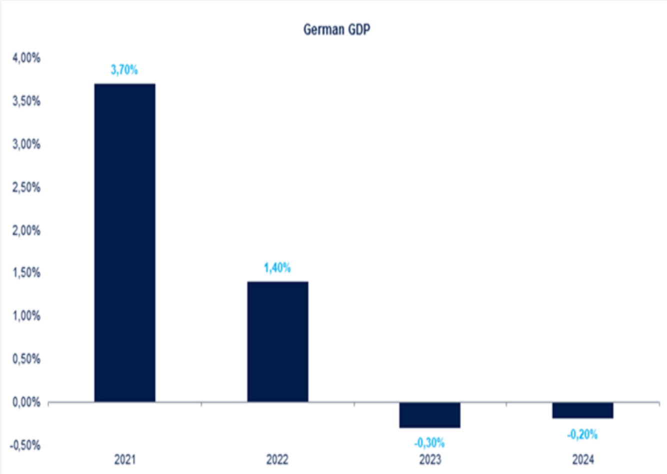
Germany in recession for the 2nd year in a row

Europe's largest economy recorded a 0.2% drop in its gross domestic product (GDP) in 2024, according to an initial estimate by the Destatis institute. In 2023, GDP had already contracted by 0.3%, weighed down by the rise in energy costs, following the war in Ukraine. In the last quarter of 2024, GDP fell by 0.1% compared to the previous quarter.

The economic crisis is illustrated above all by the difficulties of the manufacturing industry, whose international competitiveness is under pressure. Thus, in the automotive sector, the country's major groups are losing ground to their Chinese competitors.

In addition, households have refrained from consuming despite the increase in their incomes because of the uncertainty about the evolution of the economic situation.

Despite the decline in activity, the German public deficit remained at 2.6% of GDP in 2024, still below the European Union average estimated at 3.1%.



Source: Amundi, Destatis

News

Germany | Inflation rate at 2.6% (Dec 2024)

Spain | Inflation rate at 2.6% (Dec 2024)

Agenda

17 January | Publication of the inflation rate final in the Eurozone

24 January | PMI Publication S&P Composite in Zone Euro

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