

Central banks: calm and caution

Bankers question the pace of rate cuts

Doubts confirmed by resilient inflation data

- ▶ **Isabel Schnabel** According to the German member of the ECB, the central bank should start to consider the possibility of taking a break from rate cuts or stopping them altogether, as the level of restraint has fallen considerably and there is a risk that inflation will start to rise again.
- ▶ **Fabio Panetta**, an Italian member of the European Central Bank, takes the opposite view, arguing that rates must continue to be cut to prevent inflation from falling too far below the ECB's target level of 2%.
- ▶ **FED** The minutes of the last FOMC meeting show that there is a consensus among bankers on the prudence to be adopted at this time before continuing to cut rates, given the persistence of excessively high inflation and the possible effects of US tariffs.
- ▶ **United Kingdom** Inflation reached 3% at the end of January, up sharply from 2.5% at the end of December, considerably reducing the chances of a rate cut at the next central bank meeting.

Number of the week

3%

This is the rate of inflation in the United Kingdom at the end of January, up on the previous month (2.5%).



Isabel Schnabel

The European Central Bank should start discussing a "pause or halt" in interest rate cuts now, says ECB board member Isabel Schnabel.

In an interview with the Financial Times, Isabel Schnabel warned that inflation risks were "tilted more and more to the upside" at a time when borrowing costs had fallen significantly.

"The data shows that the degree of restriction has fallen considerably, to the point where we can no longer say with any certainty that our monetary policy is still restrictive.

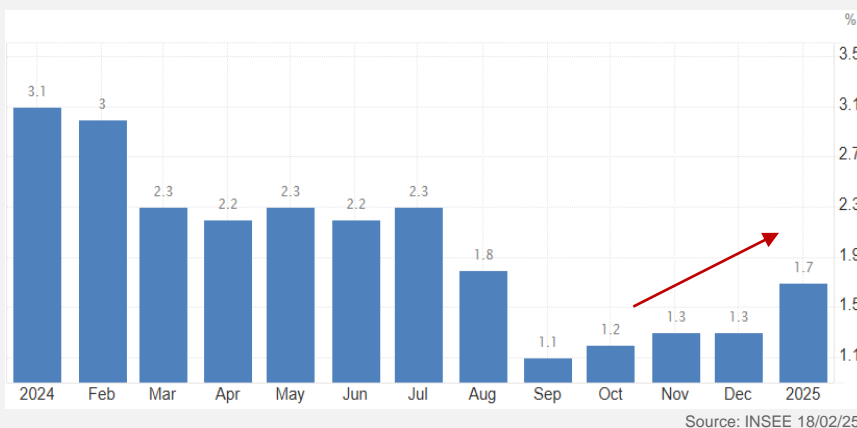
We now need to start discussing how far we should go.

I'm not saying we're there yet. But we need to start the discussion".

"I'm not saying that our monetary policy is no longer restrictive for growth.

What I am saying is that I am no longer sure that it is always restrictive."

Inflation in France



France's annual inflation rate rose to 1.7% in January 2025, exceeding initial estimates of 1.4% and up from 1.3% in December.

This is the highest level since last August, due to an acceleration in the rise in the prices of services (2.5% vs. 2.2% in December) and energy (2.7% vs. 1.2%). In addition, the cost of manufactured goods rebounded (0.2% vs. -0.4%), mainly due to a sharp rise in the price of clothing and footwear.

Meanwhile, food costs remained stable (0.1% vs. 0%), while tobacco inflation slowed (6% vs. 8.7%).

Panetta (ECB): interest rates must continue to fall to avoid low inflation.

The European Central Bank must continue to cut interest rates, because the main risk for inflation is that it will be too low, below 2% in the medium term.

The Governor of the Bank of Italy, **Fabio Panetta**, did not change his view on the ECB's monetary policy path at the Assiom Forex conference and added a new message, also addressed to the other members of the Governing Council in Frankfurt.

"At this stage, excessive attention to the available data risks generating uncertainty and volatility in the markets,

thereby reducing the effectiveness of monetary policy".

As far as inflation is concerned, adds Fabio Panetta, "the most insidious risks come from the energy markets, which are experiencing high volatility and rising prices, particularly for gas".

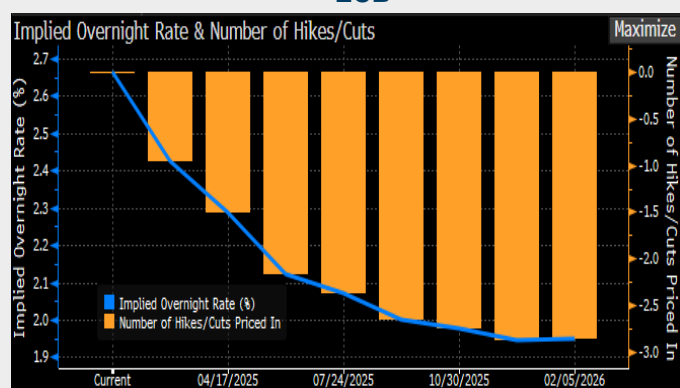
In the short term, they could make inflation trends "more variable", but in the medium term, "the slowdown in global demand could contain price pressures".



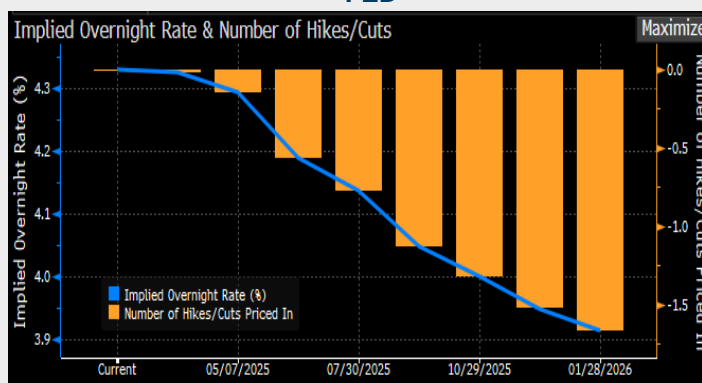
I'm no longer sure that our monetary policy is still restrictive.

Isabel Schnabel, ECB

ECB



FED



Source: Bloomberg 20/02/25

Market expectations for interest rates in the eurozone point to a 25 bp cut at the European Central Bank's next meeting on 6 March.

This decision would take the deposit rate to 2.5%, 1.5% below the maximum level reached at the end of the rate hike cycle to combat inflation.

At least one further cut is expected before the end of the year, certainly before the June meeting, while a third seems likely but not entirely certain.

On the Federal Reserve side, the situation remains different, with a single rate cut fully anticipated by the markets and likely to take place at the earliest at the central bank's meeting on 17 September. Between now and then, as confirmed by the latest statements from FOMC members, we should see a period of pause, during which the central bankers will focus on inflation, which remains resilient and above the 2% target.

The probability of a second fall by the end of 2025 is around 50%.



Jerome Powell, FED Chairman

FED MINUTES: A CAUTIOUS APPROACH TO RATES

"The inflation situation must continue to improve". The tariffs imposed and threatened by President Donald Trump are worrying.

This is why a "cautious approach" to interest rate cuts is needed. This is what emerged from the minutes of the last FOMC meeting, which ended on 29 January.

"We can keep rates at restrictive levels if the economy is strong. Inflation must continue to fall", before any further cuts, the bankers reaffirmed.

At the end of last month, the Fed decided to maintain interest rates at 4.25-4.50%. Previously, the Fed had made 3 consecutive rate cuts: in September, the central bank announced the first cut in four years, of 50 bp; at the beginning of November and in December, it decided on 2 cuts of 25 bp each.

Inflation accelerates in the UK

Inflation in the UK rose more than expected to 3% in January, its highest level in ten months.

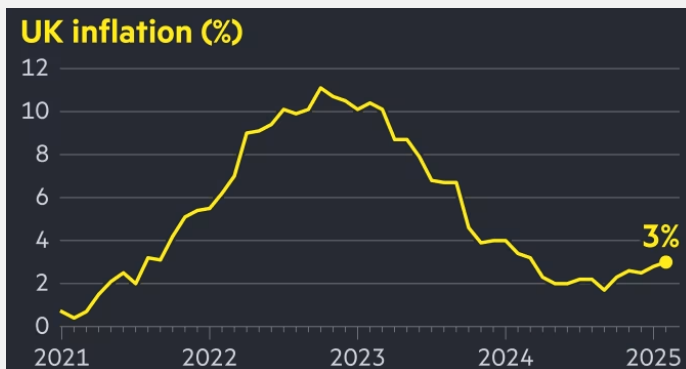
The annual rate of price growth was higher than December's 2.5% and the 2.8% forecast by economists. It was also well above the recent low of 1.7% reached in September.

According to the ONS, the rise was due to lower-than-usual air fares in January, higher public school fees following the imposition of VAT, and higher food and soft drinks costs. Services inflation rose to 5%, from 4.4% in December, but remained below the Bank of England's expectations of 5.2%.

Core inflation, which excludes energy, food, alcohol and tobacco, climbed to 3.7% from 3.2% in December, in line with analysts' expectations.

According to the latest money market quotes, City investors have reduced the chances of an interest rate cut in March to 15%, compared with 24% before the release of the inflation data.

Inflation in the United Kingdom



Source: ONS 19/02/25

The City is still expecting two further cuts in the base rate this year, after the Bank of England reduced it to 4.5% earlier this month

News



Australia | The central bank has decided to cut its interest rates by 25bp for the to 4.10%, in line with expectations

New Zealand | Lower interest rates by 25 bp. As expected by the markets, the new rate is 3.75%.

Agenda



24 February | Eurozone inflation rate published for end-January

28 February | Publication of inflation rate in the United States at the end of January

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