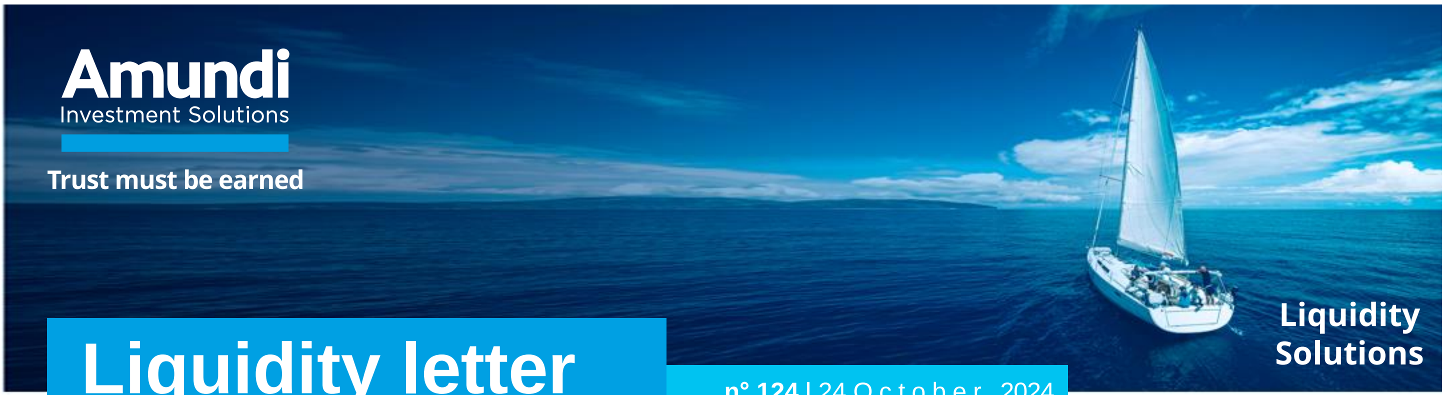


Liquidity letter

n° 124 I 24 October 2024

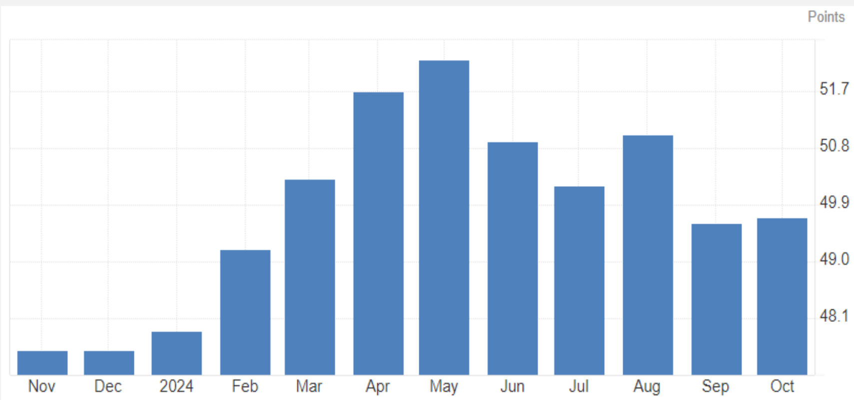
A fourth rate cut on the horizon

Economic data from the Eurozone in support of the ECB

A rate cut in December seems highly likely

- **ECB** The President of the ECB, Christine Lagarde, has said that the central bank was satisfied with the way in which inflation had slowed to below the 2% target set by the authorities.
- **Christine Lagarde** "We are now below 2% for the moment, but we have reason to believe that inflation will rise back above 2% in the coming months. This is considerable progress to which we have made a major contribution.
- **Eurozone economy** Economic activity in the eurozone continued to contract in October, according to a survey of purchasing managers, strengthening the case for a further interest rate cut by the ECB before the end of the year.
- **FED** According to Jeffrey Schmid, President of the Kansas City Fed, a slower pace of interest rate cuts would be appropriate, given the uncertainty over the level at which the US central bank should finally cut rates.
- **Canada** The Central Bank lowered its key interest rate to 3.75%, a 50 bp reduction for the 1st time since the COVID pandemic.

Euro zone - S&P Global composite PMI index



Source: S&P Global 24/10/24

The eurozone's **composite PMI** index stood at **49.7** in October, following a seven-month low of 49.6 in September, but remained well below forecasts of 49.8 and continued to point to a **slight contraction in business activity**. Growth in services slowed slightly (51.2 vs. 51.4) and the slowdown in manufacturing eased (45.9 vs. 45). Production was reduced in response to weaker demand, with new orders falling for the fifth month in a row.

Number of the week

49,7

This is the level of the S&P Global composite PMI index for the Eurozone at the end of October.

Mario Centeno

The absence of a significant recovery and the growing risks to the economic outlook are a strong signal for the ECB to consider deeper interest rate cuts," said Governing Council member **Mario Centeno**.

Mr Centeno said that policymakers should quickly remove all obstacles to the eurozone economy in order to stimulate spending and investment.

He also suggested that the prospect of inflation reaching the ECB's 2% target by the end of the first quarter should encourage them to act before rising unemployment complicates the resumption of growth.

"We don't need to limit ourselves to a metric that consists of only moving forward in quarter-point steps [...].

We need to take into account the fact that the economy is collapsing, we need to consider the possibility of taking bigger steps."

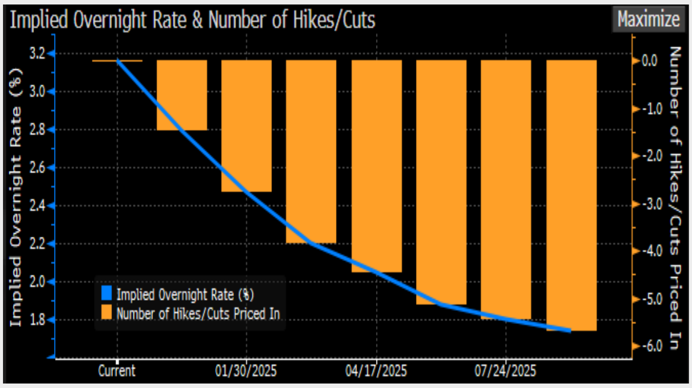
F. Villeroy de Galhau: ECB rules out no option on interest rates

According to Banque de France Governor **François de Galhau,** the ECB will keep its options open for its next monetary policy decision in December, after having continued to ease policy in October.
"We are guided by European data and if I may stress, it is only October 23 today," said Villeroy when asked if the ECB might consider a larger 50bp cut.
"What we decide in December is a completely open story, with all possible options.
The French central banker has previously called on the ECB to be "agile" in adjusting its policy parameters and to avoid the risk of being too late in reducing its restrictive stance at a time when the economy is showing signs of running out of steam.
But Villeroy also stressed that the ECB should not commit to policy changes in advance and should stick to its data-dependent approach.
« I would say that we have made very significant progress on the road to disinflation.
So victory is in sight, but we must not rest on our laurels and that is why I maintain this pragmatic approach ».

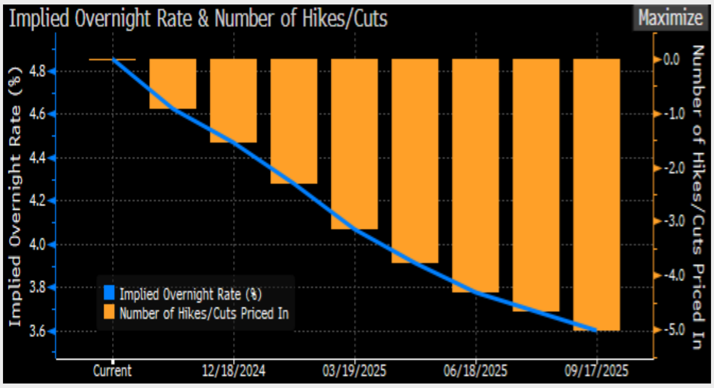
Very good progress on inflation

Christine Lagarde, President ECB, 23 October 2024

ECB



FED



Source: Bloomberg 24/10/24

Market expectations regarding the **ECB**'s interest rate path point to the certainty of a further 25 basis point cut by the end of the year at the meeting on 12 December. Despite the fact that there is still a long way to go, and despite François Villeroy de Galhau's statement that the ECB will leave all options open, the markets seem convinced that the ECB will intervene once again on interest rates before 2025. In total, the markets are anticipating 5 rate cuts of 25 basis points between now and September 2025. Under this scenario, the €STR index could fall to 1.73%.

In the **US**, expectations seem to be for two rate cuts of 25 basis points between now and the end of the year.

According to this forecast, the Fed would come into line with the ECB in terms of total bp cuts since the start of the new monetary policy easing cycle.

Between now and September 2025, a total of 5 rate cuts are expected, which in this scenario would take the Fed Funds index to around 3.6%.

Jeffrey Schmid, FED Kansas City

Jeffrey Schmid (FED) recommends a slower pace of rate cuts

The President of the Kansas City Fed, Jeffrey Schmid, has stated that he is in favour of a slower pace of interest rate cuts, given the uncertainty over the level at which the US central bank should finally lower its rates.
A slower pace of rate cuts would allow the Fed to find a so-called neutral level, where policy neither weighs on the economy nor stimulates it. "In the absence of major shocks, I am optimistic that such a cycle can be achieved, but I believe it will require a cautious and gradual approach to policy.
While I am in favour of reducing the restrictiveness of monetary policy, I would prefer to avoid too large a move, not least because of uncertainty about the ultimate destination of monetary policy and my desire to avoid contributing to financial market volatility."

Bank of Canada cuts rates by 50bp

The **Bank of Canada** has cut its key interest rate to 3.75%, a 50 bp reduction for the 1ère time since the COVID pandemic.

Before Wednesday, the rate was 4.25%. Economists were expecting the central bank to make a larger cut than usual, compared with the 25 bp cuts made in June, July and September.
The last time the bank made a cut of this magnitude was on 27 March 2020.

As concerns about inflation have eased - the runaway price growth that prompted the central bank's first rate hike campaign is now back within the target range - the bank has focused on cuts to keep inflation stable and support economic growth, which has been sluggish under the pressure of high rates.

"We have to make a successful landing", said Tiff Macklem, Governor of the Bank of Canada. With inflation back to 2%, we want growth to strengthen.

Tiff Macklem, BoE Governor

"Redundancies have remained modest, but companies have done little hiring, which has particularly affected young people and newcomers to Canada. In other words, the number of workers has grown faster than the number of jobs."

News

France| PMI manufacturing index falls slightly at the end of October to 44.5. It was expected to rise to 44.9

Germany | PMI manufacturing index rose more than expected to 42.6 at the end of October. It was expected to rise to 40.7

Agenda

31 October l Decision by the Banque du Japan on interest rates

31 October l Publication of inflation estimated at the end of October for the Eurozone

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