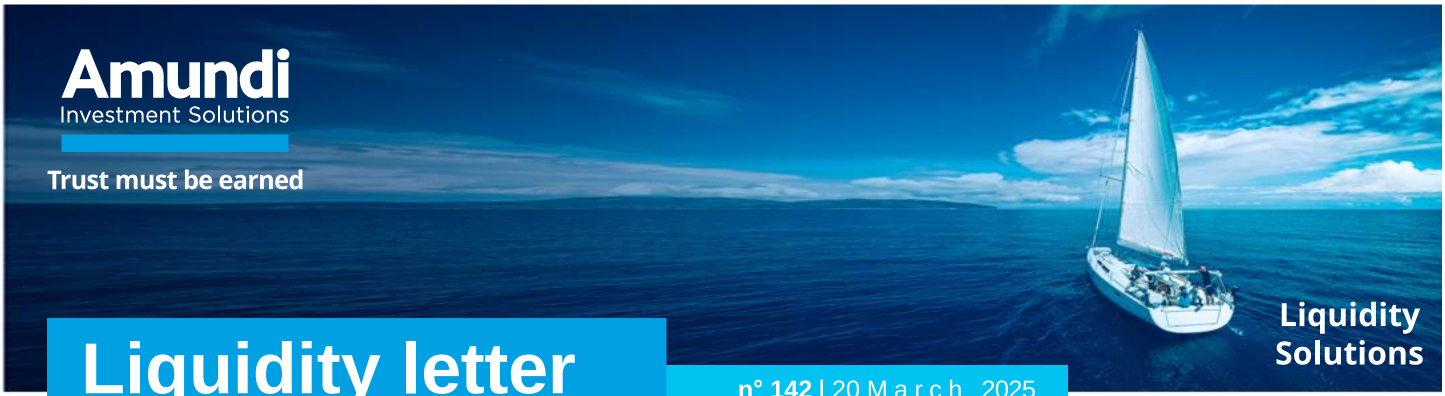


Liquidity letter

n° 142 I 20 March 2025

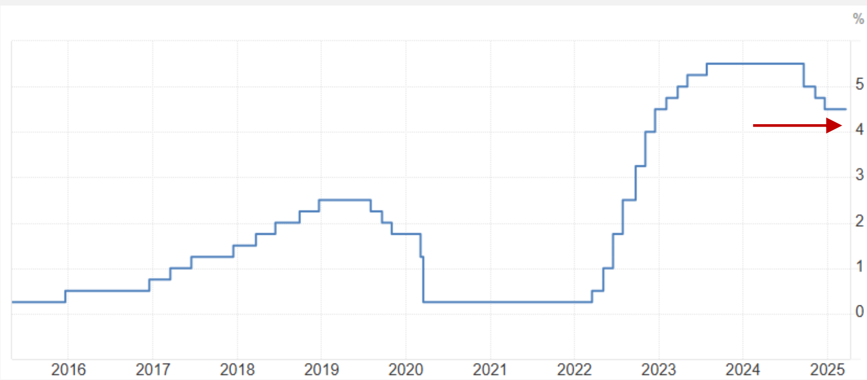
The Fed is not letting up on the brakes

No change in rates for the second consecutive year

More uncertainty with the new administration

- **The FED** kept interest rates in the 4.25% to 4.50% range, stating that economic activity has continued to grow at a sustained pace, the unemployment rate has stabilised at a low level in recent months and labour market conditions remain solid, while inflation remains "fairly high".
- **Next decisions** In considering the size and timing of further adjustments to the rate target range, the Fed will carefully assess the data ahead, the evolving outlook and the balance of risks.
- **Quantitative Tightening** The Fed has also announced that it is slowing the pace of its quantitative tightening programme, reducing the amount of US Treasury debt that it is allowing off its balance sheet each month from $25 billion to $5 billion from April...
- **Growth forecasts** The FED has also lowered its US growth forecasts and raised its inflation outlook, reinforcing fears that Donald Trump's tariffs will hit the world's largest economy.

Changes in FED interest rates



Source: FED 19/03/25

The Fed kept rates unchanged at 4.25%-4.5%, extending the pause in its rate-cutting cycle that began in January and in line with expectations. Policymakers noted that uncertainty surrounding the economic outlook had increased, but they still plan to cut rates by around 50 bp this year, in line with December's forecasts. GDP growth forecasts have been revised downwards for this year, from 2.1% in December to 1.7%.
Growth projections have also been revised downwards for 2026 (1.8% vs. 2%) and 2027 (1.8% vs. 1.9%). On the other hand, inflation is expected to be higher in 2025 (2.7% vs. 2.5%) and 2026 (2.2% vs. 2.1%).

Number of the week

4,5%

This is the interest rate at United States confirmed by the FOMC on Wednesday 19 March.

Jerome Powell

According to **Jerome Powell**, it is not easy to understand the impact of tariffs: "It will be very difficult to assess precisely how much of the inflation is due to tariffs and how much is due to other factors, and this is already the case.

Goods inflation has risen significantly in the first 2 months of the year, as we try to keep up with the increases in customs duties".
The difficulty also lies in understanding what to do: "In some cases, it may be appropriate to look beyond inflation, i.e. not to react, if it is expected to disappear quickly on its own, without any intervention on our part, if it is transitory; and this could be precisely the case with inflation caused by customs duties.
I think it will depend on how quickly this inflation fades, and it could also depend crucially on whether inflation expectations remain well anchored, particularly in the long term.

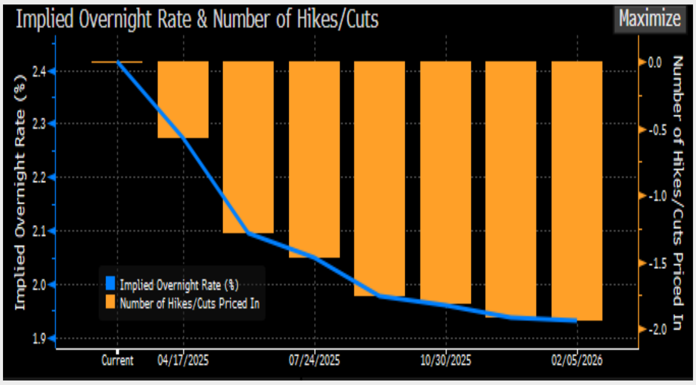
Christine Lagarde: "The ECB cannot commit to a particular interest rate path".

Christine Lagarde once again reiterated the ECB's central message:
"We are not committing to any particular rate path in advance.
While the disinflation process remains "well underway", the eurozone is particularly exposed to changes in tariffs, which weakens confidence in the ECB's projections. "Especially in the current context of increasing uncertainty, we will take a data-driven, meeting-by-meeting approach to determining the appropriate stance of monetary policy".
The ECB President cited analysis suggesting that a 25% US tariff on European imports would reduce economic growth in the region by around 0.3% in the first year. EU retaliation would increase this figure by a further 0.5%.
At the same time, the inflation outlook would become much more uncertain.
In the short term, European retaliation and a weaker euro exchange rate could boost price growth by around half a percentage point.
It is increasingly difficult to assess if and when further cuts will occur, given the trade tensions with the US, the uncertainty surrounding a peace agreement in Ukraine and the forthcoming rise in European defence spending.

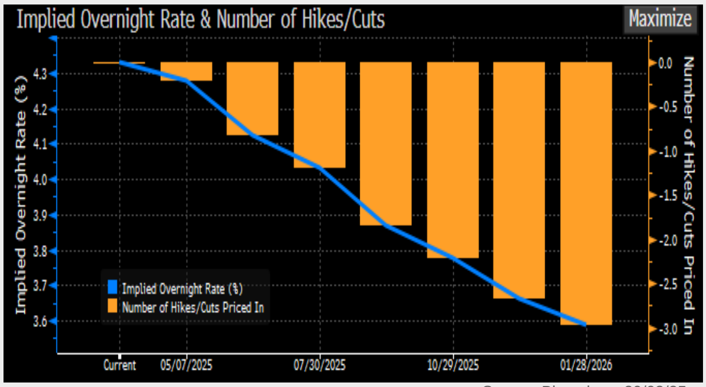
Uncertainty about the economic outlook has increased

FOMC, 19 March 2025

ECB



FED



Source: Bloomberg 20/03/25

With a month to go before the ECB's next monetary policy meeting, market expectations point to a 50% probability of a further rate cut by the Frankfurt-based institution.

As ECB President Christine Lagarde pointed out on Thursday morning, it is not possible for the time being to predict a definite change in interest rates. These decisions will only be taken in the light of the macroeconomic data available. For the coming months, the markets are forecasting two interest rate cuts between now and February 2026.

In the United States, after keeping rates unchanged for the second time in a row, the Federal Reserve is expected to make three rate cuts of 25 bp, according to the markets, between now and January 2026.

The first of these decisions should be taken at the June meeting.

However, uncertainty remains over the impact that the Trump administration's economic policy measures and the effect of tariffs could have on inflation and economic growth.

BANK OF JAPAN HOLDS RATES STEADY

On Wednesday, the Bank of Japan unanimously maintained its interest rate at 0.5%, in line with market expectations. The decision comes as policymakers assess the potential impact of US President Donald Trump's protectionist trade policies on Japan's export-intensive economy.
BOJ officials have acknowledged that, although the Japanese economy is recovering moderately, there are signs of weakness in some areas. In a statement, the central bank referred to "the major uncertainties surrounding economic activity and prices in Japan, including developments in the trade situation and the wage and price behaviour of domestic firms".
The decision to keep rates unchanged comes as the BOJ monitors inflationary pressure from rising wages and food prices.

BNS lowers interest rates to 0.25 %

The Swiss National Bank has cut its key rate by 25 bp to 0.25% in March 2025, the lowest since September 2022, as expected against a backdrop of low inflation and economic uncertainty.
This is the 5ème cut in the current cycle. Inflation fell from 0.7% in November to 0.3% in February, mainly due to lower electricity prices, although domestic services continue to drive price growth.
The SNB's inflation forecasts remain stable, with 0.4% forecast for 2025 and 0.8% for 2026 and 2027, assuming the rate remains at 0.25%.
The Swiss economy grew steadily at the end of 2024, supported by services and some manufacturing sectors, despite a slight rise in unemployment.
The SNB forecasts GDP growth of between 1% and 1.5% in 2025, driven by rising real wages and the easing of monetary policy, although weak global demand could weigh on trade. Growth should reach 1.5% in 2026, although uncertainties linked to geopolitical and trade risks remain.

Martin Schlegel, Chairman SNB

"The introduction of trade barriers could slow global growth. At the same time, a more expansionary fiscal policy in Europe could stimulate the economy in the medium term"

News

Euro zone | Annualised inflation at the end of February was 2.3% (down compared with the previous month (2.5%)

Germany | Sentiment Index rose to 51.6 (compared with 26.0 at the end of February).

Agenda

26 March I Publication of the inflation rate as at United Kingdom to end February

28 March I Publication of inflation rate in the United States at the end of February

Follow us

Amundi Investment Solutions
Trust must be earned