

# A fragile economic climate

## US inflation remains high in October

After the surge in prices in 2023, the US economy is gradually returning to a steady pace, reflected in solid growth of almost 3% annualised, coupled with inflation that is converging towards the Fed's 2% target. The consumer price index jumped in October to 2.3% year-on-year, compared with 2.1% in September, driven by the rise in services prices.

More specifically, the house price index accounted for more than half of this rise, while underlying inflation, which excludes volatile food and energy products, remained unchanged at 0.3% month-on-month. These data should therefore encourage the Fed to adopt a more cautious approach at its next monetary policy meeting.

On the other hand, Donald Trump's planned protectionist programme could reshuffle the deck. Widespread increases in customs duties and the expulsion programme are once again fuelling fears of a further rise in prices, which could push inflation back up by 1.3 percentage points, according to market forecasts. The future American president plans to impose a 10% tax on all products imported into the United States and a 60% tax on those imported from China.

## Number of the week

**2,8%**

US core inflation  
(October)



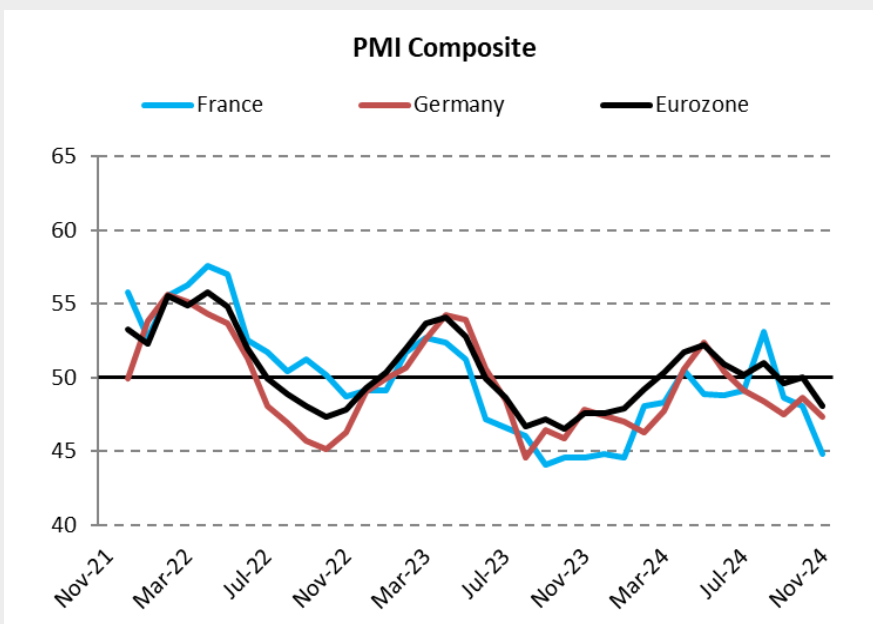
## Euro zone PMI downturn

In the Euro zone, the Purchasing Managers' Index (PMI) fell sharply to 48.1 from 50 in October, its lowest level for nine months. This decline is no longer confined to the manufacturing sector, but is now also affecting services, where the PMI fell to 49.2 from the expected 51.6.

This contraction in the service sector is affecting all eurozone countries, with falls of 3.5 points in France and 2.2 points in Germany. These figures are fuelling concerns about the health of the German economy, which has already been weakened by the fall in foreign demand for industrial goods, combined with a rise in energy prices as a result of the war in Ukraine. This trend is all the more worrying given that it coincides with political instability in Germany.

As for the manufacturing sector, the PMI fell by 1.3 points to 43.2 in France, while it rose slightly by 0.2 points in Germany to 43.2.

Overall, these indicators suggest a downward trend for economic activity in the eurozone, reinforcing fears of a widespread economic slowdown.

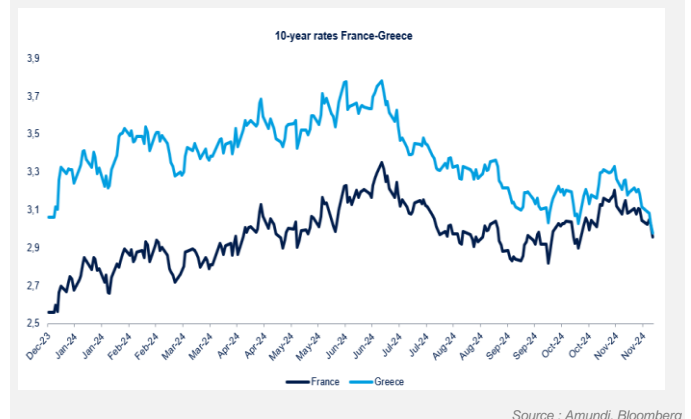


Source : Amundi, Bloomberg

## Rising 10-year borrowing rates: A warning signal for the markets

For the first time, France's 10-year borrowing costs have equalled those of Greece, once at the heart of the European sovereign debt crisis. Previously considered the safest in the eurozone, with an AA-rating from S&P, the rate on French bonds has jumped from 2.99% to 3.03% in the space of a month, equivalent to the Greek 10-year rate and higher than that of Spain and Portugal.

This considerable rise is fuelled by fears that the budget will not be adopted and that the Barnier government will not remain in power. This political instability is therefore fuelling widespread fear among investors, who are now demanding a higher premium for holding French bonds than for German securities of the same maturity. This situation highlights France's vulnerability in terms of its ability to stabilise its public finances.



Source : Amundi, Bloomberg

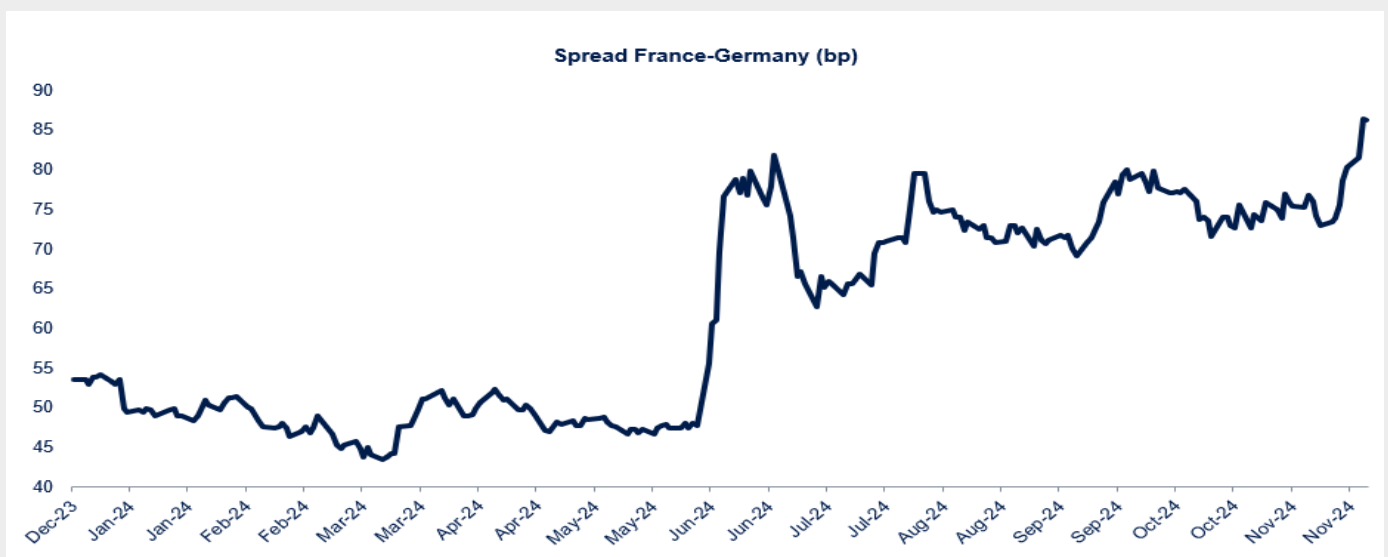


*A sharp fall in rates would not correct the structural problems*



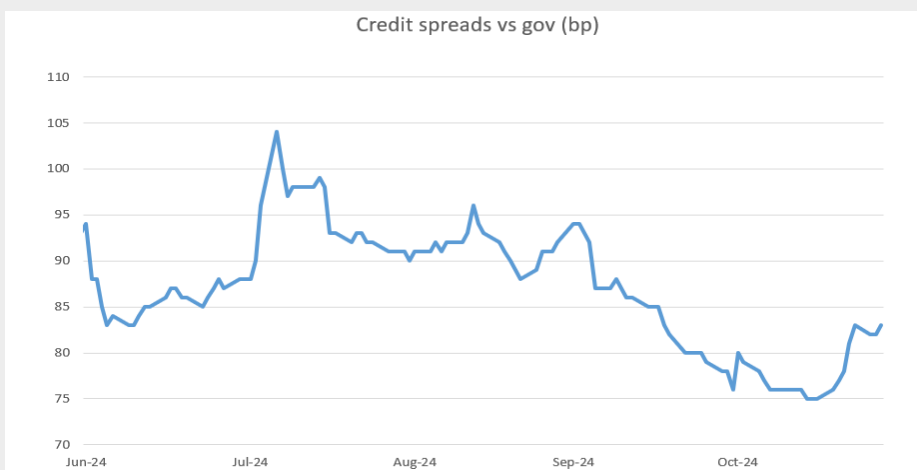
*Isabel Schnabel, Member of the Executive Board of the ECB, 27 November 2024*

## Impact marchés



Spreads widening between France and Germany due to the difficulty of reaching a consensus on the budget vote in France.

Source : Amundi, Bloomberg



Credit spreads rise slightly but remain volatile.

Source : Amundi, Bloomberg

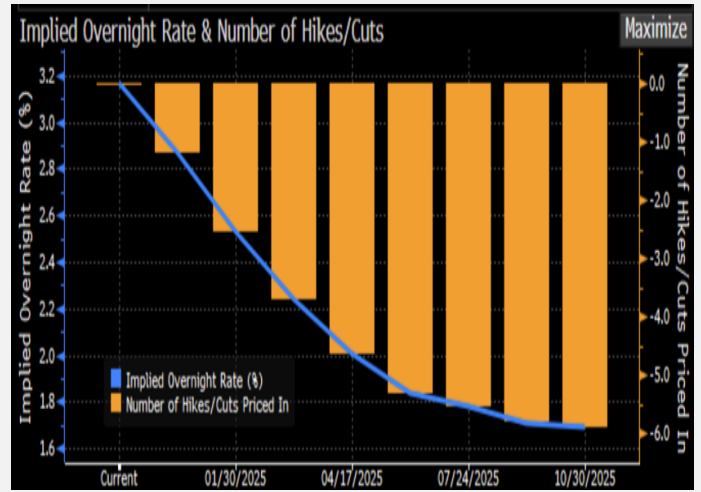
## ECB wants to act gradually

While investors are expecting further easing of the ECB's monetary policy to stimulate economic growth, Isabel Schnabel argues for a more neutral approach. In her view, too much easing would not correct the deep structural flaws in the European economy.

In this context, although inflation is expected to remain lower than forecast, a rate cut could prove counterproductive, she believes. 'The costs of moving into accommodative territory could outweigh the benefits'. Isabel Schnabel says she wants to apply an accommodative policy 'when the economy is faced with shocks that monetary policy can manage more effectively.'

Contrary to the expectations of the Governor of the French Central Bank, François Villeroy de Galhau, who is warning of a risk of recession, Ms Schnabel seems rather optimistic, pointing to an increase in consumption that could lead to a recovery in the European economy.

## ECB rate cut expectations



The markets expect the ECB to cut rates at each of its next meetings, at least until next June, which would bring the deposit rate, currently at 3.25%, down to 1.75% by the end of 2025.

Source : Bloomberg, Amundi

### News



▶ **USA** | US GDP at 2.8% (3Q)

▶ **Germany** | IFO (business climate) down to 85,7

### Agenda



▶ **29 Nov** | Publication of inflation rate in France (Nov)

▶ **29 Nov** | Publication of inflation rate in Euro Zone (Nov)

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