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Liquidity letter

n° 166 I 9 october 2025

Liquidity Solutions

Central banks between caution and action

Markets anticipate different paths for the ECB and the FED

Four more rate cuts are expected for Jerome Powell.

- **ECB** maintains an appropriate monetary policy with inflation close to the 2% target, considered stable for the coming years according to Joachim Nagel.
- **Christine Lagarde** highlights the political crisis and delays in adopting the budget, emphasizing the need to respect international commitments to control public debt.
- **FED** is concerned about persistent inflationary pressure and has reduced interest rates, with internal debates on the need to support the labor market while controlling inflation.
- **New Zealand** has lowered its rates by 50 basis points, adopting a flexible monetary policy to stabilize inflation, while acknowledging both upside and downside risks to economic growth.
- **Interest rates** Markets no longer anticipate a rate cut in the eurozone by the end of 2026, while on the American side, the FED could still reduce its rates four times to support the economic recover

Joachim Nagel defends the ECB's monetary policy

The ECB's policy orientations are adapted **to a situation where inflation fluctuates around the 2% target, said Joachim Nagel**, member of the Governing Council, in an interview with the Greek newspaper Kathimerini. "We are currently in a good situation: inflation in the euro area is close to our medium-term target of 2% and is expected to remain there over the coming years.
Based on the information we currently have, I can affirm that our monetary policy is the right path to follow."

Number of the week

50

These are the basis points cut from New Zealand's interest rates.

The situation in France

The President of the ECB, Christine Lagarde, stated that the institutions were observing the political crisis in France and hoped that the government would find a way to adopt a budget.
These upheavals mean that the government will likely not meet the deadlines to submit a budget to Parliament, which it urgently needs to curb the rising debt.

"I do not comment on the specific situation of countries," said Ms. Lagarde, former French Finance Minister, during a conference in Paris on Tuesday. She added: "The situation is also evolving regarding the deadlines for budget submission.

I believe that all European institutions are observing the current changes and sincerely hope that solutions will be found to meet international commitments, particularly in terms of submitting the budget within the allotted time."

Members of the FED are concerned about the persistent pressure on prices.

Some Federal Reserve officials would have preferred to keep interest rates unchanged last month, highlighting policymakers' concerns that persistently high inflation continues to threaten the U.S. economy.

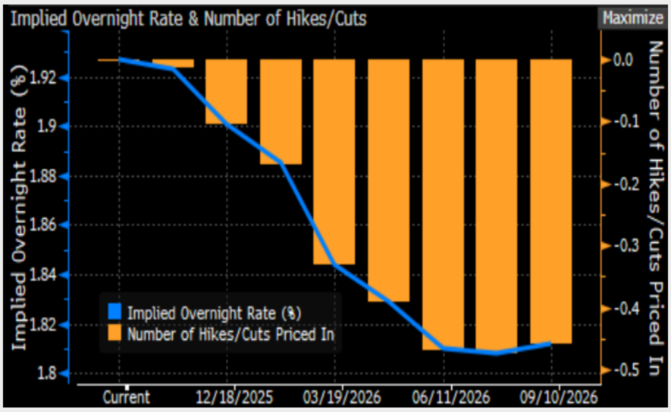
The FOMC, the committee that sets interest rates, decided to cut them for the first time this year in September, lowering the target range for the Fed Funds rate by 25 basis points to 4-4.25%, amid signs of weakening in the labor market. However, according to the minutes of the last meeting, "a few" FOMC members would have preferred to keep borrowing costs unchanged, as inflation risked remaining above the central bank's target.

Progress toward the 2% goal "has stalled this year due to rising inflation rates," the minutes state, adding that some members "expressed concern about a possible rise in long-term inflation expectations if inflation did not return to target in a timely manner."

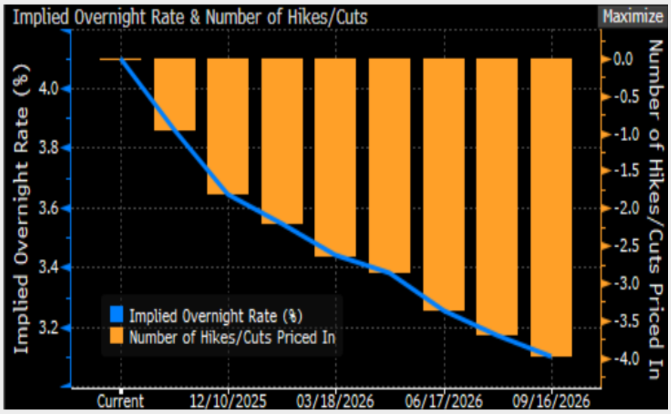
The Fed's preferred inflation index stood at 2.7% over the year through August, slightly higher than the 2.6% recorded in July.

> *The current monetary policy is appropriate.*
>
> *Joaquim Nagel, 10th October 2025*

ECB



FED



Source: Bloomberg 09/10/25

Market expectations regarding the evolution of interest rates in the eurozone do not show much change compared to last week.

According to the scenario forecasted by experts, the European Central Bank's monetary policy easing cycle would be over for the time being.

The probabilities of a further rate cut by September 2026 stand at 45%.

The chances of a rate change by the end of the year do not exceed 10%.

On the United States side, the scenario remains consistent with last week's forecasts, according to which the Fed could proceed with at least four more cuts before ending its stimulus cycle, as announced during the last FOMC meeting.

This is despite doubts raised by the publication of the minutes from the central bank's last meeting, where some members expressed concern about the resilience of inflation in the United States.

According to the market scenario, the Fed Funds rate could therefore still fall by 100 basis points.

Michelle Bowman, Fed

BOWMAN: THE FED COULD DELAY SUPPORTING THE LABOR MARKET.

Michelle Bowman, Vice Chair of the Fed in charge of supervision, stated that "it is much easier to support the labor market by lowering the federal funds rate than by fixing it afterward," in a speech that highlighted the need to focus fully on potential labor market issues and to largely dismiss inflation risks.

While the unemployment rate, at 4.3%, is close to estimates of full employment, Ms. Bowman said that the slowdown in hiring is such that "it is time for the Fed to act decisively and proactively to address the decline in labor market momentum and emerging signs of fragility" by implementing regular rate cuts.

In addition to her support for the 25 basis point rate cut at the last Fed meeting, Ms. Bowman is among the nine policymakers who foresee cuts at the upcoming October and December meetings.

New Zealand cuts the rate by 50 basis points.

The Reserve Bank of New Zealand lowered its key interest rate by 50 basis points, bringing it down to 2.5%. This is the lowest level since July 2022 and a surprise for the market, which expected a more moderate decrease of 25 basis points.

The Monetary Policy Committee remains open to further rate cuts, if necessary, to ensure that inflation sustainably stabilizes near the 2% target in the medium term, according to the statement released after the meeting.

Annual inflation measured by the consumer price index is currently around the upper limit of the Committee's target range, which is between 1% and 3%.

However, given the unused production capacity in the economy, inflation is expected to return to around 2% in the first half of 2026.

"There are upside and downside risks to inflation prospects in New Zealand, says the central bank. Prudent behavior by households and businesses could slow the economic recovery, reducing inflationary pressure in the medium term."

Actualité

UK | The construction PMI index rises to 46.2 at the end of September versus 45.5 the previous month.

Germany | Industrial production declined at the end of August (-4.3% vs +1.3% the previous month).

Agenda

14 october I Publication of the inflation rate in Germany at the end of September

15 october I Publication of the inflation rate in the United States at the end of September.

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Suivez -nous

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