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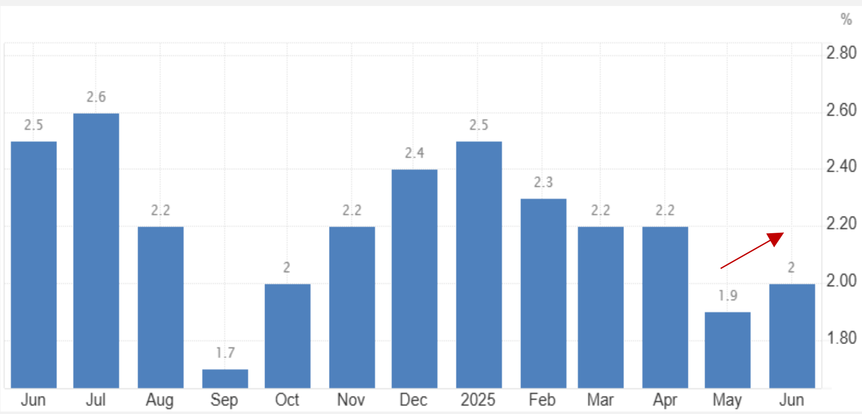
Inflation pushes ECB into pause

The stable figure of 2% does not put the governors under pressure

New rate cuts after the summer for ECB and FED

- **Inflation in the Eurozone** increased slightly to 2.0% in June 2025, compared to 1.9% in May. This rate is in line with the target set by the European Central Bank. The services sector saw the largest increase at an annual rate of 3.3%.
- **Joachim Nagel**, a member of the ECB Council, stresses that despite the current control of inflation, the central bank must remain vigilant in the face of geopolitical instability, including fluctuations in energy prices linked to the Israel-Iran conflict.
- **Jerome Powell**, chairman of the Fed, indicates that the impact of tariffs on inflation will become apparent in the coming months, with uncertainty about its magnitude and timing.
- **Bank of England** Alan Taylor of the Bank of England recommends three more rate cuts in 2025, fearing a hard landing for the British economy. It believes that the outlook has deteriorated, increasing the risk of a downside scenario in 2026 linked to weak demand and trade disruptions.

Inflation trends in the euro area



Source: EUROSTAT 01/07/2025

Consumer price inflation in the euro area increased slightly to 2.0% year-on-year in June 2025. This level was 1.9% in May, its lowest in eight months, in line with market expectations.
Services inflation accelerated to 3.3% from 3.2% in May, its lowest level in three years, while the decline in energy prices eased from 3.6% to 2.7%.
Core inflation, which excludes energy and food, was unchanged at 2.3%, its lowest level since January 2022.

Figure of the week

2%

This is the inflation rate in the Eurozone at the end of June, in line with the ECB's target

Joachim Nagel

The ECB has kept inflation under control, but it must remain vigilant due to the very unstable geopolitical context.

Governing Council member Joachim Nagel said on the sidelines of the ECB's annual symposium in Sintra, Portugal, the recent fluctuations in energy prices due to the war between Israel and Iran underscore that the ECB needs to remain cautious.
"In the current situation, we are in calm waters. But we must not rest on our laurels."
The ECB's July interest rate meeting is expected to result in a pause in monetary easing.

Nagel said he was waiting for the next set of quarterly economic projections in September to decide on the future path of borrowing costs.
"We have to be ready for anything," he said. "I'll see what the data tells me in the fall, and then we'll see."

J. Powell: the impact of tariffs on US prices expected this summer

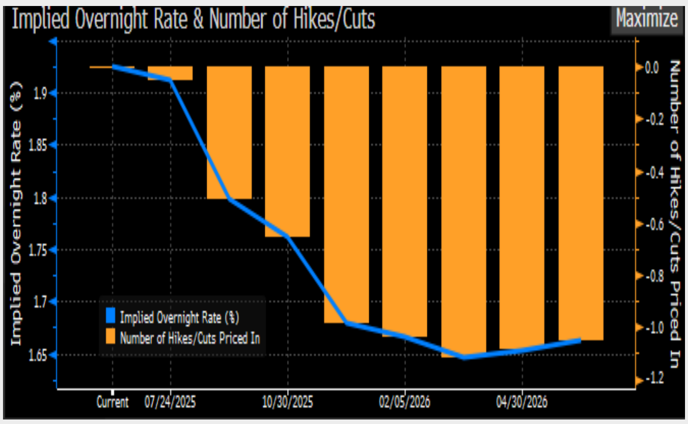
According to Fed Chair Jerome Powell, the impact of tariffs will be reflected in inflation data in the coming months, despite the persistence of some level of uncertainty.

However, policymakers were willing to accept that the impact could be "greater or less, later or earlier than expected". Powell reiterated that the Fed would likely have cut rates further this year if Trump had not extended the tariffs. "In fact, we suspended our action when we became aware of the magnitude of the tariffs and that all inflation forecasts for the United States have risen significantly as a result." "We think the prudent thing to do is to wait, find out more and see what those effects might be."

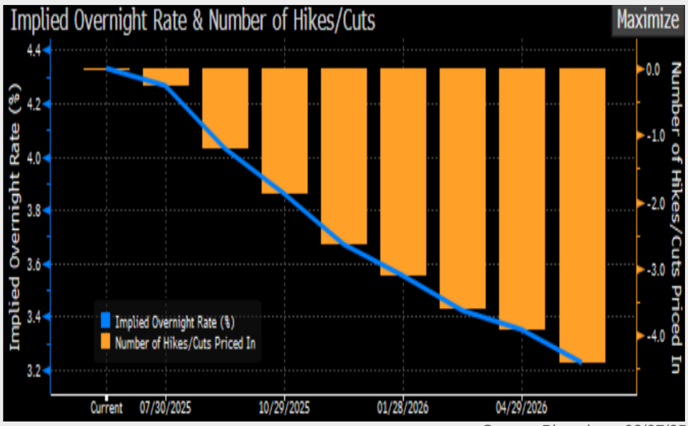
Asked if July was too early for a rate cut, Powell did not rule out the possibility. "We are moving forward meeting after meeting. I would not rule out any meeting or put it directly on the table. Everything will depend on the evolution of the data."

> *We move forward meeting after meeting*
>
> *Jerome Powell, July 1, 2025*

ECB



FED



Source: Bloomberg 03/07/25

The data on inflation stable at 2%, up slightly from the previous month, as well as the latest statements from the members of the European Central Bank, only reinforce the certainty that the Brussels institution could decide to pause its cycle of interest rate cuts after cutting them eight times in a row.

Despite this short-term trend, the process of easing monetary policy does not yet seem to be fully complete, as market expectations suggest that a further cut is expected by the end of 2025.

On the US side, the probabilities anticipated by the markets of a rate cut at the next FOMC meeting at the end of July are low (25%).

However, after this pause period, the members of the US central bank are expected to return to the path of rate cuts from the meeting on 17 September.

In total, markets are pricing in four cuts by the end of the first half of 2026, half of which before the end of 2025.

Mario Centeno, ECB

CENTENO (ECB): NO PRESSURE TO LOWER INTEREST RATES

The ECB is in no hurry to cut borrowing costs further after eight cuts in the space of a year, according to Mario Centeno, a member of the Governing Council.
Centeno said on Wednesday that policymakers remain cautious, despite the "very good news" that inflation has now reached their 2% target.
Officials are following "all possible figures" and assessments of the economies of the 20 eurozone countries.
The current situation "does not mean that we should rush" to cut interest rates further, the governor of the Portuguese central bank told Bloomberg Television. "We have to look at the data, we have to watch how the situation evolves."
"While we see a slight decline in terms of growth, it still raises questions about the sustainability of 2% inflation."

Alan Taylor (BoE): three cuts in 2025

Alan Taylor, a member of the Bank of England's Monetary Policy Committee, has called for 3 more quarter-point interest rate cuts this year, warning of the risk of a hard landing.

Taylor was speaking in an interview with Bloomberg TV at the ECB Forum in Sintra.
"After several shocks and disruptions blurred my view of the global economy and developments in the first quarter, my analysis of the deteriorating outlook suggested to me that we need to embark on a path of rate cuts, with 5 cuts in 2025 rather than the quarterly pace of four cuts implied in market expectations.
Previously, I was forecasting a soft landing in the UK, with some residual upside risks to inflation related to the 2025 upside.
Today, I consider that this soft landing is in jeopardy and that there is a higher probability of a downside scenario in 2026 that would take us off course, due to weakening demand and trade disruptions."

Alan Taylor, member of the Bank of England

"I estimate that the neutral real rate in the UK is between 0.75 and 1%"

Topicality

- **France** | Publication of the PMI index down but above the Expectations (48.1)
- **United States** | The the ISM rose more than expectations to 49.0 (vs 48.5 at the end of May)

Agenda

- **8 July** l Decision of the Royal Bank of Australia on interest rates
- **9 July** l Decision of the Royal Bank of New Zealand on interest rates

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