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Liquidity letter

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Liquidity Solutions

Inflation: central banks remain cautious

Inflation remains the main point of vigilance

Australia, United Kingdom, Sweden: new rate hikes

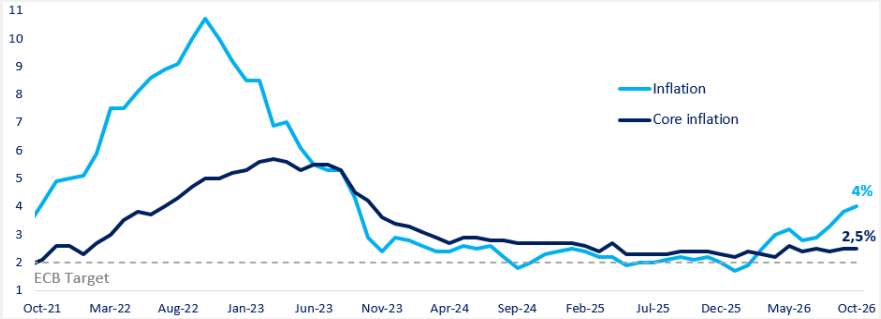
- **Eurozone** Eurozone inflation accelerated to 4.0% in October, while the ECB remains open to a further rate hike.
- **Joachim Nagel** said a new rate hike in December was likely, saying the inflation outlook had deteriorated further.
- **The RBA and BoE** raised rates, in a context where central banks remain vigilant in the face of still high inflation.
- **The BoJ** kept its key rate at 1.25% and judged core inflation to be "generally in line" with its 2% target for the first time
- **The AMF** has published its recommendations on the liquidity of money market funds, recommending 20% weekly liquid assets for VNAV funds and 40% for PDCNAV and LVNAV funds.

Figure of the week

4%

Inflation in the euro area reached 4% in October 2026.

Eurozone: inflation on the rise, core inflation under control



Inflation in the euro area accelerated in October, to 4.0% year-on-year, from 3.8% in September, according to Eurostat. It remains well above the ECB's 2% target and at its highest level since September 2023. The increase was mainly driven by energy, amid ongoing tensions in the Middle East, while services inflation rose to 3.3%. In contrast, core inflation, excluding energy and food, remained stable at 2.5%, as expected.

The ECB believes for the moment that the shock remains mainly concentrated on energy, but it remains vigilant against the risk of second-round effects via wages and selling prices. Several members of the Governing Council have also signalled that a further rate hike may still be necessary if the inflation outlook does not improve.

Source: Bloomberg 05/11/2026

Joachim Nagel

Joachim Nagel, President of the Bundesbank and member of the ECB's Governing Council, indicated that a further rate hike in December would probably be necessary if the inflation outlook does not improve significantly.

He pointed out that even the September projections already included an additional hike, and that the situation has deteriorated further since then, in particular due to the persistence of tensions on energy prices. Joachim Nagel also warned that these repeated increases could end up fuelling second-round effects, via wages and selling prices. The meeting on 17 December will therefore be decisive, with new economic forecasts until 2029.

Christine Lagarde also considered that the direction remained clear, recalling that the October pause did not mean the end of monetary tightening.

RBA and BoE: Central banks raise rates amid persistent inflation.

The RBA raised its key interest rate by 25 bps to 4.85% in a 6-3 split vote. While the hike extends the monetary tightening initiated this year, Bullock took a more cautious tone, suggesting that a pause was still possible. The governor insisted that previous hikes had not yet been fully transmitted to the economy, while reiterating that inflation remained too high and that price expectations represented a significant risk.

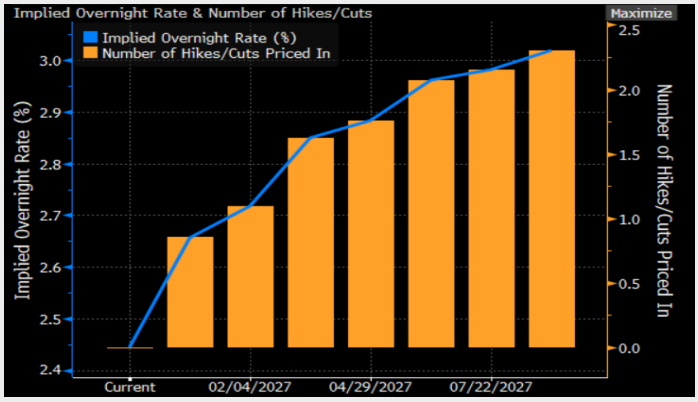
In the United Kingdom, the BoE also raised its key interest rate from 3.75% to 4%, its first hike in three years. The decision was taken by 8 votes to 1, in a context where inflation remains driven by the energy shock linked to the Middle East conflict. Andrew Bailey stressed that this hike should not be interpreted as the beginning of a mechanical series of hikes, but he also acknowledged that further tightening remained likely if tensions in the Middle East persisted.

In both cases, central banks are taking a cautious approach to inflation that remains too high, but with nuances in the message: the RBA is taking a wait-and-see approach, believing that the hikes implemented since the beginning of the year have not yet fully transmitted their effects to the economy, while the BoE suggests that a further hike remains possible if the inflationary shock persists.

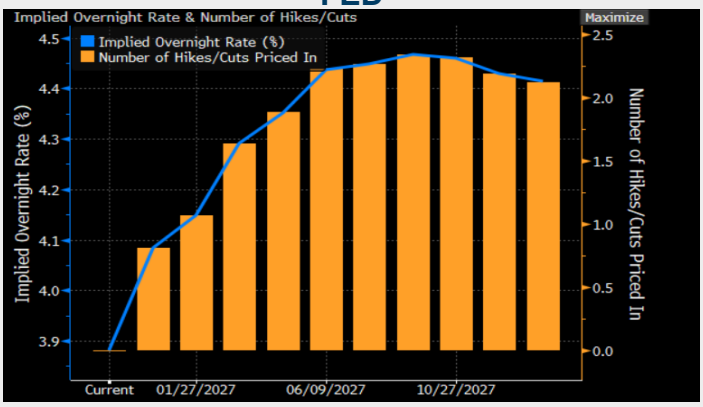
ECB : "From today's perspective, however, there is likely no way around an interest-rate hike unless the inflation outlook improves significantly.

Joachim Nagel, 03/11/2026

ECB



FED



Source: Bloomberg 05/11/2026

On the ECB's side, the curve remains clearly on the upside. The market is already pricing in a further hike at the meeting on 17 December 2026, with an implied rate of 2.66% and around an 85% probability of a hike. Beyond that, the curve continues to price in further increases, up to an implied rate close to 3.02% by September 2027. Clearly, the market is anticipating not only the December hike, but also several additional hikes over the medium term.

In the United States, the curve also remains on an upward stance. A rise is already largely priced in for the meeting on December 9, 2026, with an implied rate of 4.08% and around an 81% probability of a hike. The curve then continues to rise before reflecting a slight easing but without calling into question the restrictive tone in the medium term. In practice, implied rates suggest several more hikes before a stabilization phase.



The AMF sets its expectations for the liquidity of money market funds.

The Autorité des Marchés Financiers (AMF) has published its recommendations on the liquidity of MMFs following a public consultation conducted in the summer of 2026. This initiative is part of a coordinated approach with the Irish and Luxembourg authorities, in a context of changes in international regulatory frameworks. The AMF thus clarifies its expectations in terms of liquidity and risk management. It recommends a level of 20% of weekly liquid assets for VNAV MMFs, compared to a minimum of 15% provided for by the MMFR, and 40% for PDCNAV and LVNAV funds, compared to a regulatory minimum of 30%. In the event of a level that is durably below these thresholds, the AMF expects enhanced monitoring and rapid reporting to the regulator. These recommendations, which aim to strengthen the resilience of MMFs, will enter into force on 1 February 2027, after a three-month implementation period.

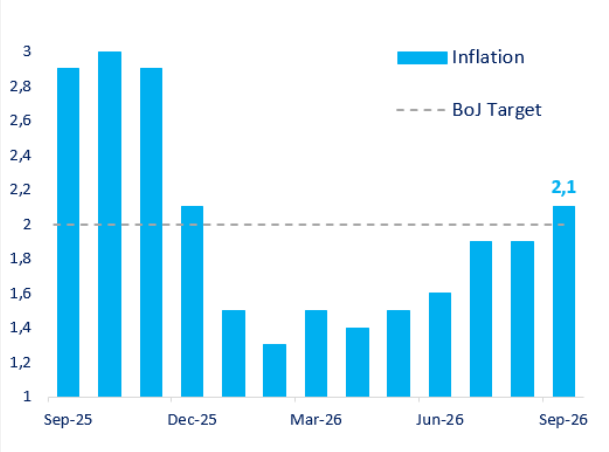
The BoJ is keeping rates steady and considers core inflation to be in line with its target.

The BoJ kept its key rate at 1.25%, by 8 votes to 1, with Hajime Takata arguing for a hike to 1.5%. In September, annual inflation in Japan reached 2.1%, its highest level of 2026, while the central bank indicated for the first time that core inflation was "generally in line" with its 2% target.

The BoJ now believes that core inflation is close enough to its target to continue raising rates. This is part of a gradual return to more neutral rates, a theme also addressed by the board. The minutes of the September meeting also show that several members believe it is necessary to continue raising rates, with some even talking about a faster pace if prices were to accelerate further.

The BoJ also raised its inflation forecast for fiscal 2027 to 2.6% from 2.4% previously, amid persistent pressures from the weak yen, energy costs and tensions in the Middle East.

Rising Japanese inflation



News

Norway | Norges Bank maintained its rate Director at 4.5%, in line with expectations.

Sweden | The Riksbank raised its rate 25bps, bringing it to 2%.

Agenda

10 November | Publication of the inflation data in the United States.

12 November I Publication of the UK growth indicators.

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