

# Monthly Liquidity

February 2026

## The Fed on Course for a 3% Terminal Rate

ECB and FED keep looking at the data-driven of economy

### FED and ECB in « pause » mode

- **FED** At its January 2026 meeting, the Fed left rates unchanged in the target range of 3.5% to 3.75%, in line with expectations, after three consecutive cuts last year that pushed borrowing costs to their lowest level since 2022.
- **FOMC** Stephen Miran and Christopher Waller, however, voted against the remain, both advocating a further 25 basis point cut.
- **ECB** has decided to keep its key rates unchanged, this announcement was widely anticipated by the markets. The deposit, refinancing and marginal lending rates remain at 2%, 2.15% and 2.40% respectively.
- **Christine Lagarde** In the face of geopolitical tensions and political uncertainty, Christine Lagarde defends a data-driven monetary policy decided meeting by meeting. It underlines the attention paid to national price differences in the euro area and reaffirms the objective of maintaining price stability and the credibility of the euro, which is appreciated by around 80% of Europeans.

### Number of The Month

1,7%

Inflation rate in the euro area  
(end of Jan 26)



### Inflation down sharply

It came out at 1.7% over one year, according to a first estimate published on Wednesday by Eurostat.

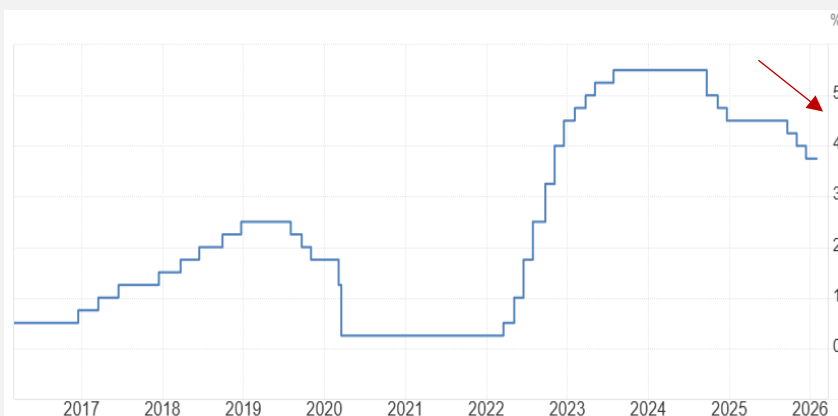
The slowdown observed last month is explained by a decline in energy prices, which increased to -4.1% last month from -1.9% in December.

Core inflation, which excludes volatile food and energy prices, fell 0.1% to 2.2%, hitting its lowest level since October 2021.

The closely watched services inflation figure fell to 3.2% in January from 3.4% in the previous month, suggesting that price pressure in the sector is easing, thanks to weaker wage growth.

By country, France once again has the lowest inflation rate in the euro zone with an increase of only 0.4%. The decline in inflation is also significant in countries such as Belgium, Bulgaria (countries that joined the European Union on 01/01/2026), Spain, the Netherlands and Austria.

### Interest rate evolution in the United States



FOMC members noted that economic activity was growing at a steady pace, job creation remained weak and the unemployment rate was showing signs of stabilizing, while inflation remained somewhat high.

The central bank also reiterated that it would carefully assess available data, the evolving outlook and the balance of risks before deciding on the next adjustments to the federal funds rate. Chair Powell said that the U.S. economy is entering 2026 on a solid footing and that current interest rates are appropriate to support the Fed's two goals

## Christine Lagarde defends a data-driven monetary policy decided meeting by meeting

In the current uncertain environment", marked by "heightened geopolitical tensions" and "persistent policy uncertainty, our data-driven approach to monetary policy, decided over the course of meetings, is very useful to us," European Central Bank President Christine Lagarde said at a hearing before the European Parliament in Strasbourg.

In a euro area marked by a great heterogeneity in growth and inflation rates between the 21 EU countries that make it up, "we pay very detailed attention to what people are

actually paying, and we know that this varies from one member state to another,"

Lagarde replied at the end of the session. addressing "those who think I have no idea what's going on in the real world, which I don't."

"Our aim is to maintain this price stability and to preserve the credibility of the euro" which "is appreciated by around 80% of our fellow European citizens," she said.

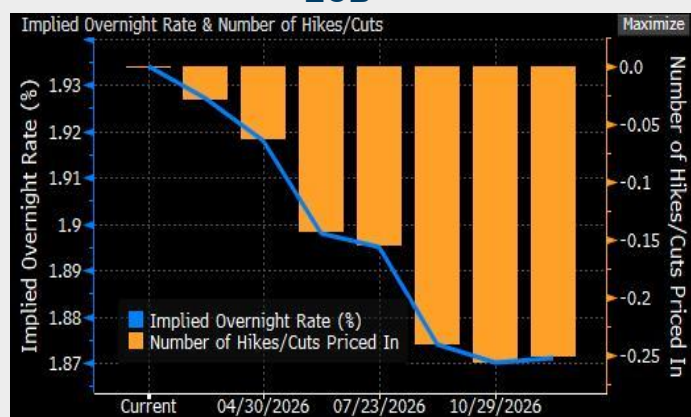


*The current level of policy rates provides sufficient flexibility to act in response to shocks*

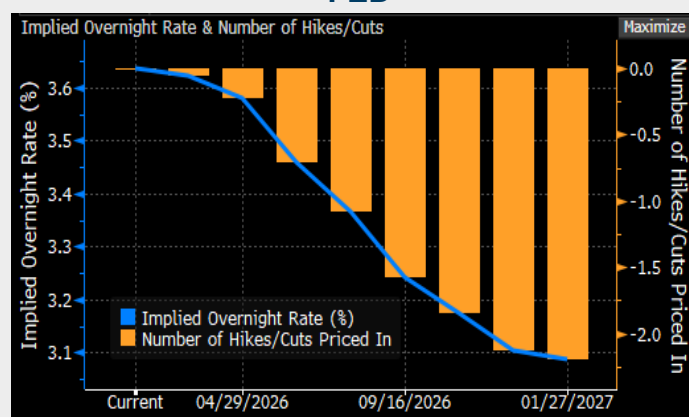


Christine Lagarde, President of the ECB, 21/01/2026

### ECB



### FED



Source: Bloomberg 12/02/26

Market expectations on the evolution of interest rates have not changed in the euro zone a week after the last meeting of the European Central Bank.

Markets continue to say that this cycle of monetary policy easing by the institution led by Christine Lagarde could be coming to an end.

Indeed, the probability of a further rate cut by the end of 2026 stands at 25%.

Under this scenario, the ECB's terminal rate would be 2%.

On the U.S. side, we are still on track to reach the terminal rate expected by the markets.

Two more rate cuts are planned for the Federal Reserve by the end of 2026.

The first could take place at the meeting next July. The second cut is expected for the last FOMC meeting of the year.

The Federal Reserve's terminal rate is therefore expected to be 3%.



### BOJ WARNS OF RISING BOND YIELDS

BoJ Governor Kazuo Ueda warned that Japanese government bond yields were rising "rapidly" and that the bank could step up its bond purchases, expressing concerns after a sharp sell-off this week.

His comments on Friday sparked an hour of high volatility in the currency market, apparently triggered by rumours that the Finance Ministry had carried out a "rate check", a low-key investigation that often precedes an intervention.

The remarks followed the BoJ's decision to keep rates at around 0.75% while pointing to possible further hikes in 2026 as inflation and wages continue to rise.

The turbulence also comes against the backdrop of the early general elections called by Prime Minister Sanae Takaichi.

## Rates unchanged in the United Kingdom

The Bank of England left its key interest rate unchanged at 3.75% on Thursday, as inflation remains above target and economic growth shows signs of recovery.

The central bank, which sets interest rates for the whole of the UK, has gradually reduced the cost of money over the past 18 months, often at a rate of one intervention every three months.

The last cut in the policy rate was in December, when it was cut by a quarter of a percentage point, and the institution indicated that further cuts were likely during the year.

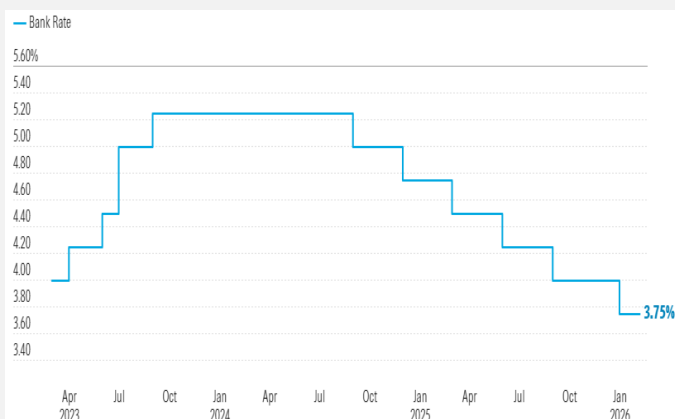
Since then, a series of economic indicators have shown that the UK economy has started the year stronger than expected.

This dynamic could put further upward pressure on inflation.

Although it has been declining for about a year, inflation remains at 3.4%, above the Bank of England's 2% target.

"Early data for 2026 suggest stronger demand and more rigid inflation than expected," said Andrew Wishart, chief economist for the United Kingdom.

## Interest rate evolution in the UK



**"We now believe that inflation will fall back to around 2% by the spring. This is good news."**

*Andrew Bailey, Bank of England*

### News



**United States** | The unemployment rate falls to at the end of January at 4.3% (vs. 4.4% the month previous)

**United Kingdom** | Annual GDP at the end of 2025 down to 1.0% vs. 1.2% over the previous period

### Agenda



**17 February** | Publication of the inflation rate in Germany at the end of January

**February 18** Interest Rate Decision Royal Bank of New Zealand

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