Liquidity letter

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A busy back-to-school period

The rate cut cycle is about to begin

In the United States, data published last week confirmed the diagnosis of a solid US economy. Growth in US gross domestic product in the second quarter was revised upwards to an annualized rate of 3%, compared with the 2.8% initially forecast.

There are no longer any obstacles to rate cuts, and the Fed is likely to ease concerns by announcing a 25 bp cut at its next meeting on September 17-18. *"The time has come for an adjustment in monetary policy",* confirmed Jerome Powell at the Jackson Hole symposium.

In the Eurozone, a further rate cut by the ECB is all but assured at its September meeting, but debates within the institution are still raging over the pace of these cuts. Discussions focus on how weak economic growth, and a possible recession, will impact inflation, which the ECB is keen to bring down to 2% by the end of 2025.

It is unlikely that these disagreements between ECB members will have any impact on the September decision. Indeed, there is already a broad consensus to cut rates.

Number of the week

51

Euro Zone Composite PMI (August)

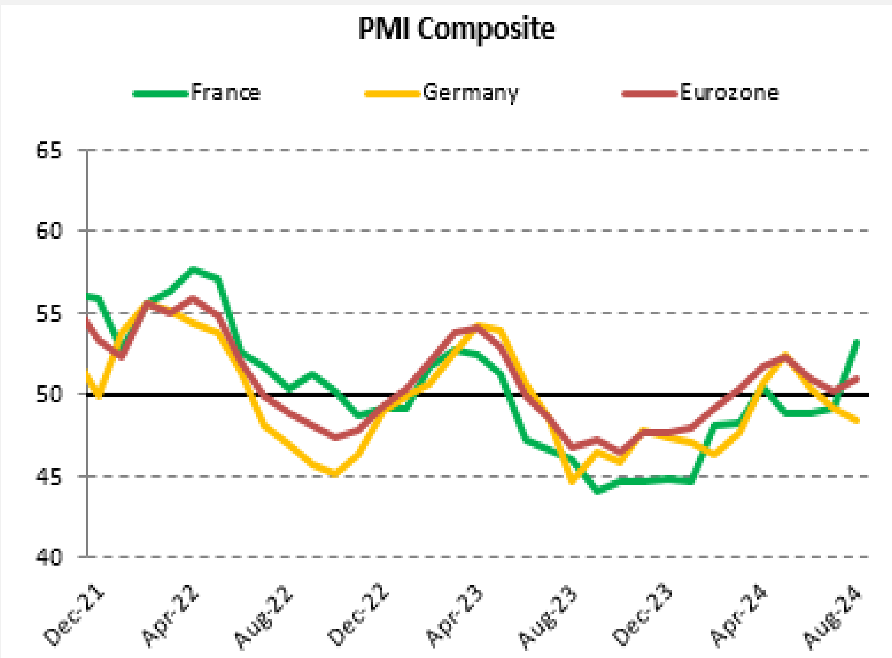
Euro Zone: activity remains resilient

Driven by stronger growth in the services sector, the Euro Zone economy recorded its strongest expansion since May.

At 51, compared with 50.2 in July, the composite PMI index of overall activity in the eurozone shows an acceleration in private sector growth in August, albeit still very moderate.

The rise in overall activity was again driven by the performance of the services sector, whose index reached 52.9 (51.9 in July) in August, while manufacturing output edged up to 45.8 (45.6 in July).

While overall activity in the region has thus risen, the underlying data nonetheless underscore the fragility of the economic situation, as the new orders, employment and business outlook indices have all fallen.



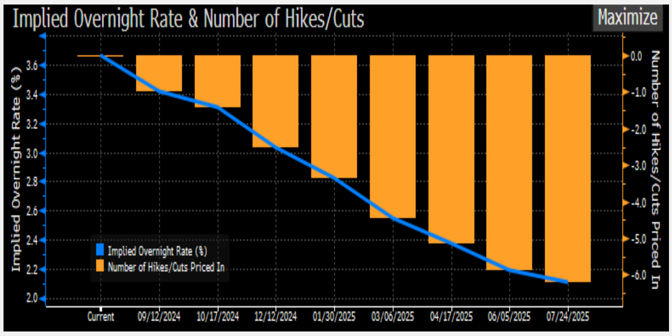
The composite PMI index, covering the manufacturing and services sectors, shows a slight upturn in activity in the Euro Zone.

Source : Amundi, Bloomberg

Falling inflation favours easing monetary policy

The speed of monetary easing remains the major debate on the markets. In the United States, expectations are very high, with four rate cuts (of 25 basis points) planned between now and the end of the year, including the first in September. In the Eurozone, two cuts are expected by the end of 2024, with inflation down to 2.2% in August from 2.6% in July.

Most of this fall was due to base effects associated with energy prices. Underlying inflation fell very slightly to 2.8%. This is due to a slow decline in inflation in the services sector. The ECB needs stronger signs of a slowdown in wages to be fully reassured that inflation will return to 2% on a sustainable basis.



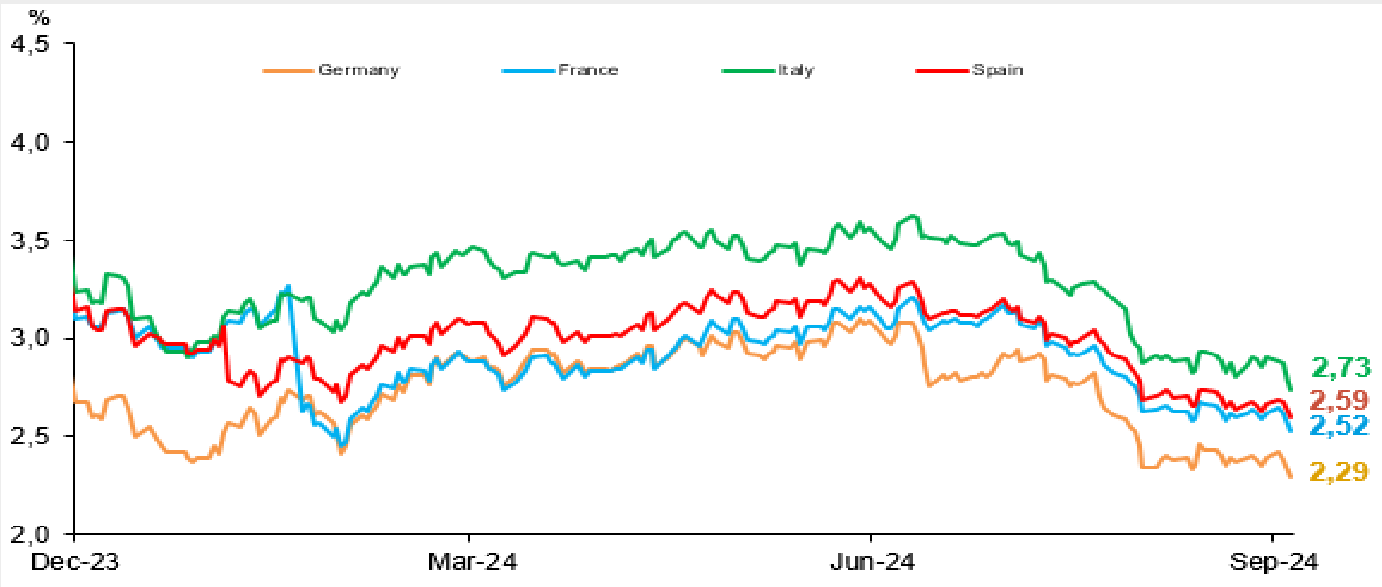
The ECB rate cut is set for September.
Markets are anticipating another cut in December.

Source : Amundi, Bloomberg

> *Recent data remain consistent with the baseline scenario, which forecasts that inflation will fall back durably to our 2% target by the end of 2025.*
>
> *Isabel Schnabel, member of the ECB, 30 August 2024*

Market Impact

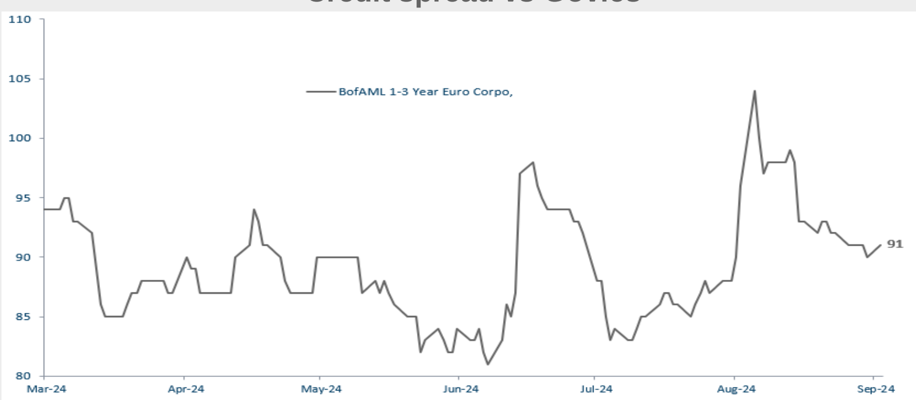
European 2-year sovereign yields (%)



Yields on 2-year bonds have tightened overall, with German bonds at 2.29% (-3 bp), French at 2.52% (-3 bp), Italian at 2.73% (-4 bp) and Spanish at 2.59% (-3 bp).

Source : Amundi, Bloomberg

Credit spread vs Govies



On the European credit market, investors do not seem to be overly concerned about the political situation in France, but are focusing instead on primary issue volumes.

Source : Amundi, Bloomberg

United States: sharp drop in job vacancies

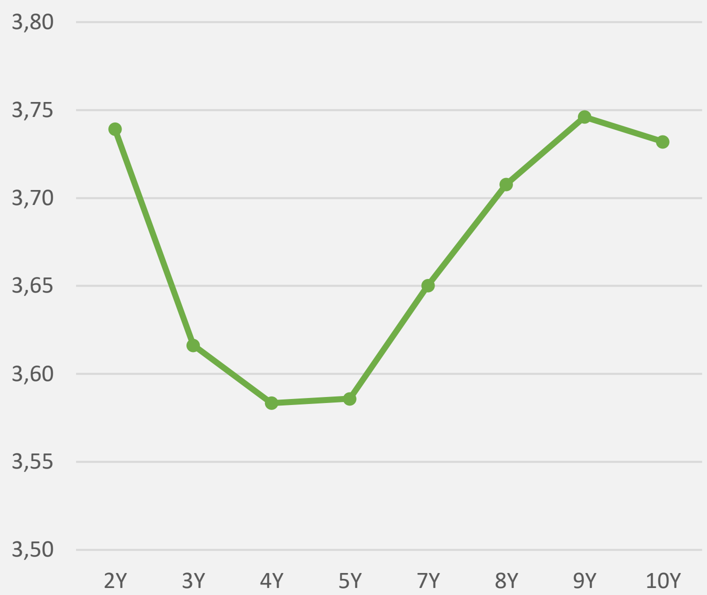
The number of job offers in the United States fell more sharply than expected in July, according to data released on Wednesday, a sign that the US labor market is contracting under the pressure of restrictive rates.

Job openings fell to 7.673 million in July, according to the Labor Department's latest “Jolts” (Job Openings and Labor Turnover Survey) report. June's figure had already been revised downwards, to 7.910 million, compared with an anticipated 8.184 million.

The stakes are high, as they would condition the Fed's decision to start its rate-cutting cycle with a 50 bp reduction instead of 25 bp.

US government bond yields fell sharply following the release of labor market data. The US 2-year yield, which is highly sensitive to changes in monetary policy expectations, fell 6 bp to 3.72%, while the 10-year yield dropped 8 bp to 3.73%.

U.S. yield curve



U.S. yield curve begins to normalize

Source : Amundi, Bloomberg

News

USA | PMI manufacturing index 47.9 (August)

France | Global Composite PMI Index 53.1 (August)

Agenda

6 September l Publication of US unemployment rate

6 September l Publication of GDP in Europe (2nd quarter)

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