Amundi Asset Management | Liquidity Solutions

Liquidity letter

n° 83 I 23 November 2023

FOMC minutes

So far, so good…

The minutes of the Fed's November meeting confirmed that its members were unanimous in maintaining the key rate unchanged and adopting a "cautious approach" as inflation is slowing sharply and there are signs of a slowdown in the economy.

At the same time, Fed members maintain an upward bias on policy rates, while recalling that they would do more to control inflation if the data showed "insufficient progress. "

For now, the Fed is expected to remain in "pause" mode over the coming months to ensure that inflation continues to fall.

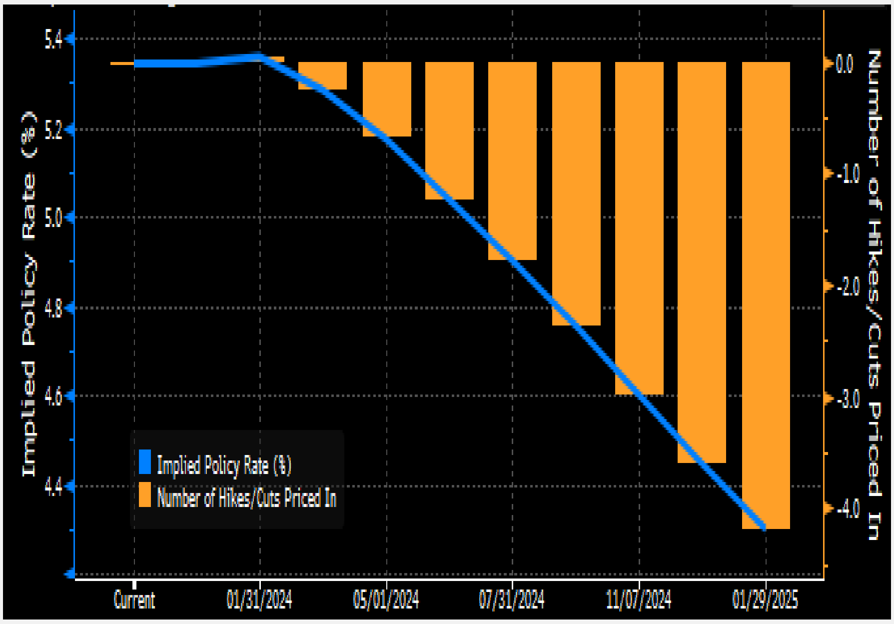
So far, price increases remain above the Fed's target, while job creation has slowed down from the rapid pace at the beginning of the year. Economic growth is also expected to be slower, according to the report. Consumers have reduced their spending in the face of dwindling savings reserves and deteriorating economic prospects.

Number of the week

47.1

PMI composite index S&P in euro area (Nov) vs 46. 5 (Oct)

Forecast Fed Funds rate cuts



The market has completely given up on any anticipation of a Fed rate hike in December or January 2024, and is even giving a 30% chance of a cut as early as March 2024.

Source: Bloomberg

A resilient US economy

Job market remains tight

The University of Michigan's consumer confidence index (61.3) and weekly jobless claims (209,000) came as positive surprises, while durable goods orders fell sharply in October (-5.4%).

All these macroeconomic data point to a soft landing for the US economy.

Nevertheless, a net slowdown in the US economy is expected in the final quarter, after a third quarter that saw growth accelerate.

Economists also anticipate slower growth over the next two years, due to the lagged effects of monetary policy on the economy, before returning to cruising speed in 2026.

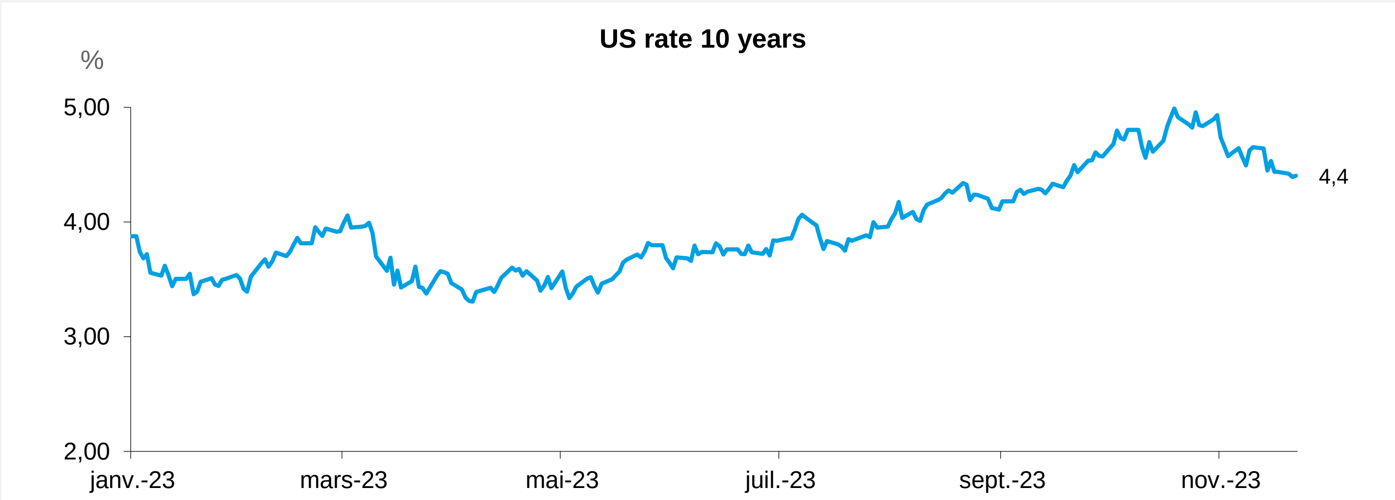
Moody's upgrades Italy's outlook

On Friday, Moody's raised Italy's rating outlook from negative to stable, and maintained its long-term debt rating at Baa3, thus preventing a further surge in its spread (the difference between Italian and German government debt). The spread thus fell to its lowest level in 2 months: 175 bp.
Moody's justifies its decision with "a stabilized outlook for the country's economic strength, the health of its banking sector and public debt dynamics". Above all, the rating agency had confidence in the choices made by the previous Italian government led by Mario Draghi. Nevertheless, it is concerned about Italy's fiscal solidity in a context of sluggish growth and rising public spending.

For 2024, the Italian government is forecasting GDP growth of 1.2%, compared with 1.5% in its April forecasts.

The IMF is more pessimistic, forecasting growth of 0.7% in 2023 and 2024. As for the public deficit for 2024, it has been raised from 3.7% of GDP to 4.3% due to public debt reaching 140% of GDP this year.

> *We can act again if we see rising risks of missing our inflation target.*
>
> *Christine Lagarde, President of the ECB, 21 November 2023*

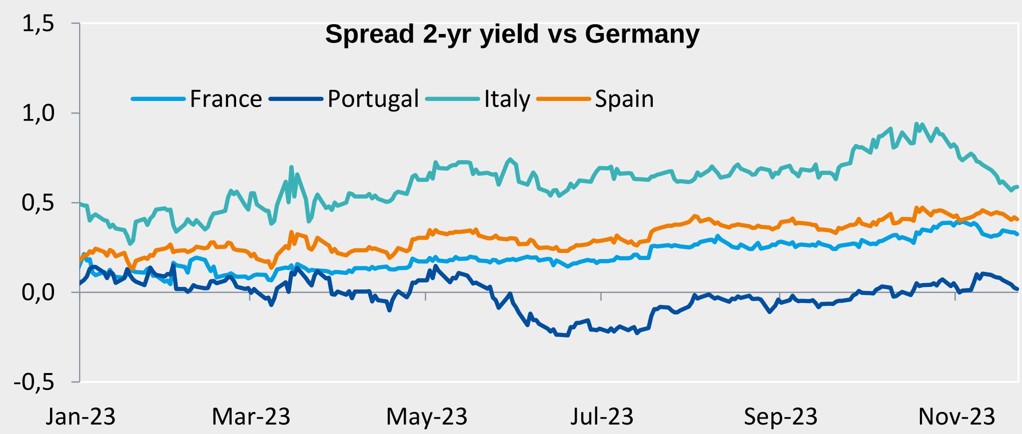


Source: Bloomberg

US sovereign yields, and in their wake European yields, fell sharply this week following the publication of statistics showing a slowdown in inflation and activity. Most of this fall, in both short- and long-term rates, came from real rates (i.e., excluding inflation expectations).

As a result, the US 10-year yield fell slightly to 4.40% on November 22.

The (very temporary) breach of the symbolic 5% threshold on the US 10-year yield at the end of October left a lasting impression, but in the end was not all that surprising given its meteoric rise in recent weeks (around +35 bps between October 1 and 20!).



Interest rate spreads between eurozone countries narrowed.

Source: Bloomberg

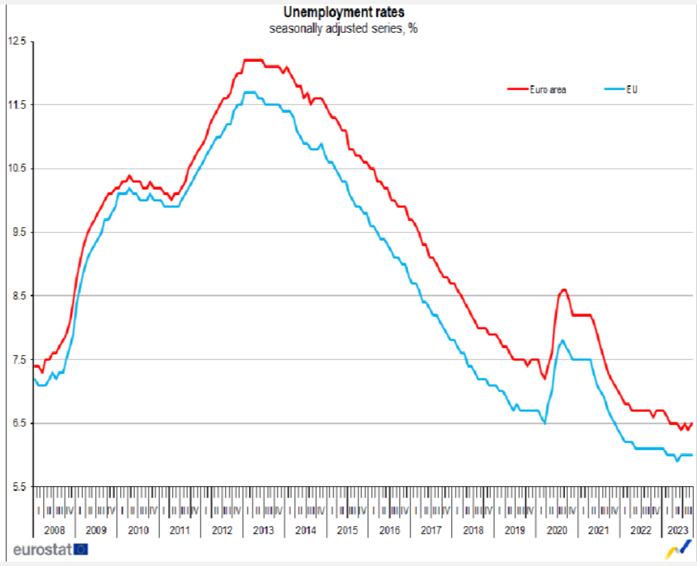
Euro zone: growth slows down

The European Commission has cut its growth forecast for the euro zone to 0.6% in 2023, compared with a previous estimate of 0.8% in September and an initial forecast of 1.1% in May.

It also downgraded its forecast for 2024 to 1.2% from 1.3% in September, a figure that had already been lowered from the 1.6% forecast made in the spring.

The European Commission pointed to high inflation, high interest rates and weak external demand to justify these downward revisions.

The European Union labor market continues to perform well, despite the slowdown in economic growth. In September, the unemployment rate held steady at 6% of the working population, close to its historic low.



Employment growth in the EU is expected to reach 1.0% this year, before slowing to 0.4% in 2024 and 2025. Unemployment in the EU should remain broadly stable in 2023 and 2024, at 6%, rising to 5.9% in 2025.

Source: Eurostat

News

- **France |** S&P composite PMI down to 44.5
- **Canada |** Release of inflation rate (Oct.) at 4.2%

Agenda

- **24 November** | Release of S&P composite in the US
- **30 November** | Release of inflation rate in the euro zone

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