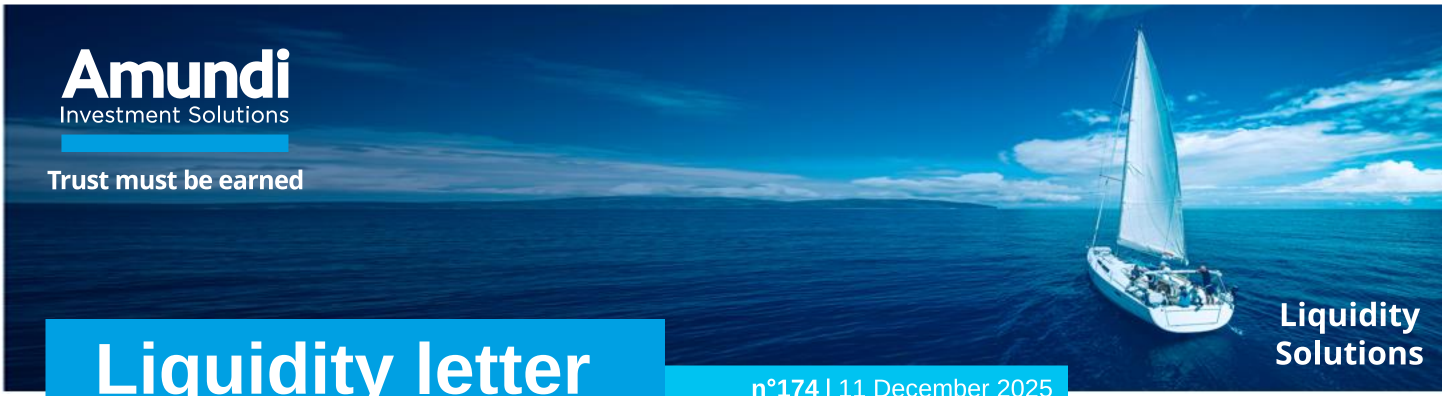


Liquidity letter

n°174 I 11 December 2025

The Fed cuts rates amid division

Third decline

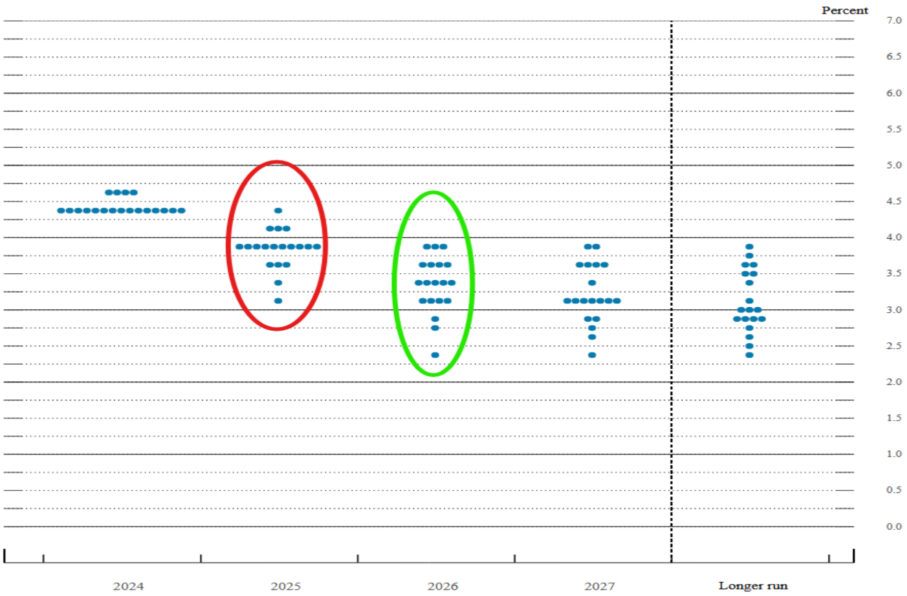
The central bank decided to cut its key rates by 25 bps for the third time in a row, a first since 2019 – they are now between **3.5% and 3.75%.** This is the lowest level in three years.

Nevertheless, the Governing Council has never seemed so divided on its reading of current events and on the strategy to be followed for the coming months.

Jerome Powell believes that the data has not fundamentally changed since October despite the shutdown and the non-publication of recent, essential data on employment and price levels. This means that in his view, the balance of risks is still tilted in favour of supporting the labour market. The latest signals seem to show that job creation has been insufficient for several months, a sign of a sluggish economy.

Fed officials continue to forecast another interest rate cut in 2026, according to their updated economic forecast on Wednesday. The United States could experience GDP growth of 2.3% year-on-year by the end of 2026 (compared to 1.8% estimated in September). Inflation could then be as better as expected (2.4% compared to 2.6% in September). As for unemployment, it is expected to remain at the present level (4.4%).

Dot plot



The chart of Fed officials' projections released on Wednesday highlighted the deep division among policymakers.

Source: Federal Reserve

Figure of the week

-25 bp

Fed Rate Cut (Dec.25)

"Close" debates

Three of the twelve members of the Fed's monetary policy committee opposed the quarter-point cut decided by the central bank, which is the strongest opposition since 2019.

The debate within the Fed follows statements by President Donald Trump, who insists that it cut rates much more aggressively, and repeatedly criticizes Jerome Powell.

Stephen Miran, a staunch ally of the president, called for a 50bp cut, while the Chicago Fed's Austan Goolsbee and the Kansas City Fed's Jeffrey Schmid called for rates to be maintained.

Fed officials broadly imagine that another rate cut will be needed in 2026, according to their updated projections. But some of them will then no longer be able to vote. Indeed, among the twelve people who set US rates, four change every year according to a rotation system involving the regional central banks. The new entrants are reputed to be even more concerned about the level of inflation than their predecessors.

United States: job offers at a standstill

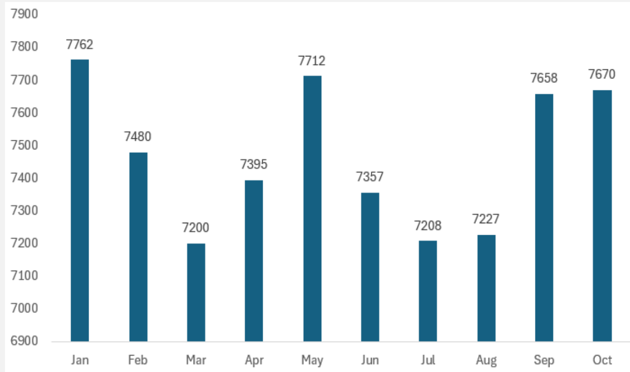
U.S. job openings rose marginally in October, hiring remained modest as employers priced in an uncertain economic backdrop.

According to the Job Openings and Labor Turnover Survey (JOLTS) report released Tuesday by the Bureau of Labor Statistics (BLS), job openings, an indicator of labor demand, increased by 12,000 to 7.670 million at the end of October.

Hiring fell by 218,000 to 5.149 million in October. The report also incorporates data from September, which was cancelled due to the federal government's 43-day shutdown.

This stagnation in the labour market is attributed to a decline in the supply of labour, as a result of a reduction in immigration.

Jobs in the United States in 2025

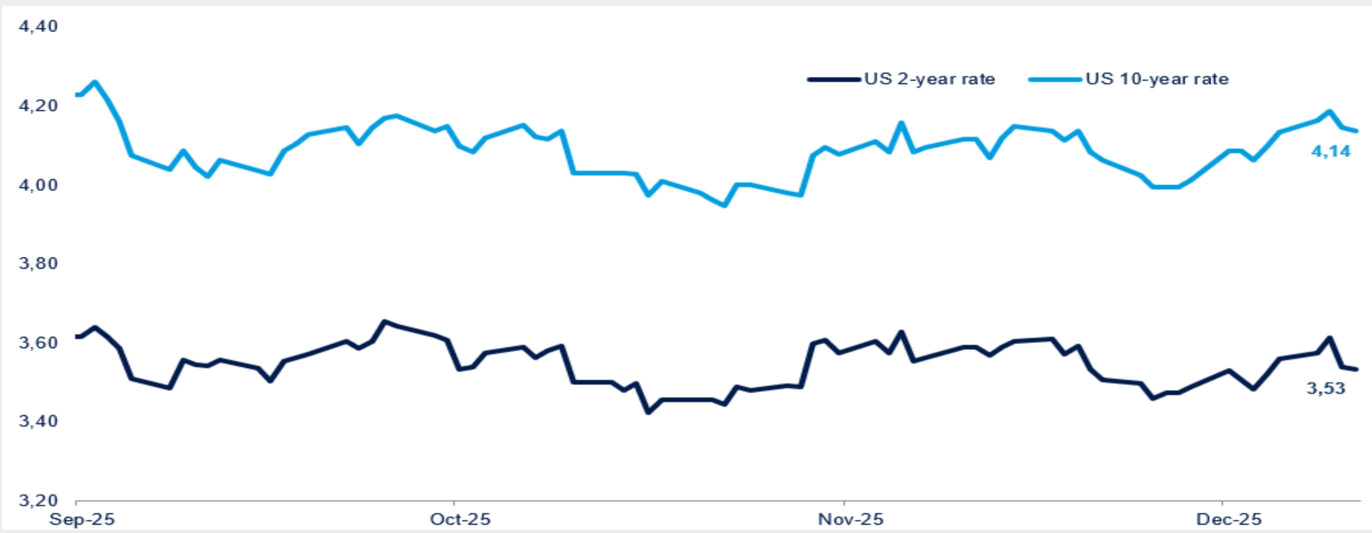


Source: BLS Amundi

> *All FOMC members agree that inflation is too high and we want it to come down*
>
> *Jerome Powell, Fed Chair, 10/12/2025*

Market Impact

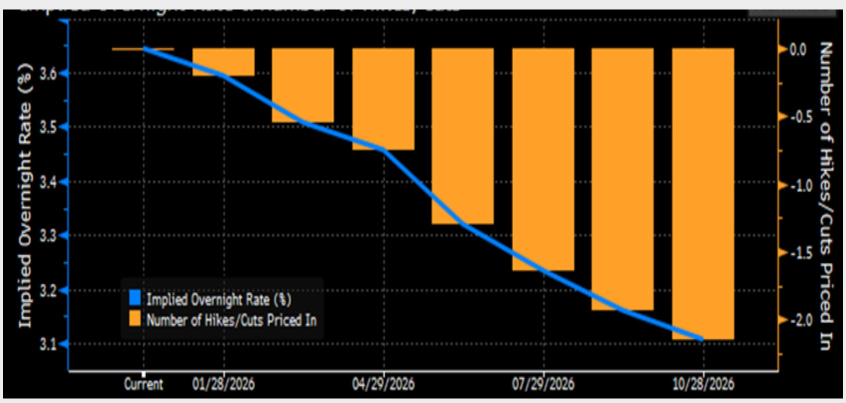
US 2-year and 10-year rates (%)



After the Fed announced a 25bp cut, the yield on the 2-year yield, which is the most sensitive to monetary policy decisions, fell 8bp to 3.53%.

Source: Amundi, Bloomberg

Projections of Fed rate cuts



Markets are anticipating around 50bp of reduction in 2026, i.e. 2 rate cuts.

Source: Amundi, Bloomberg

Eurozone, towards a rate hike in 2026?

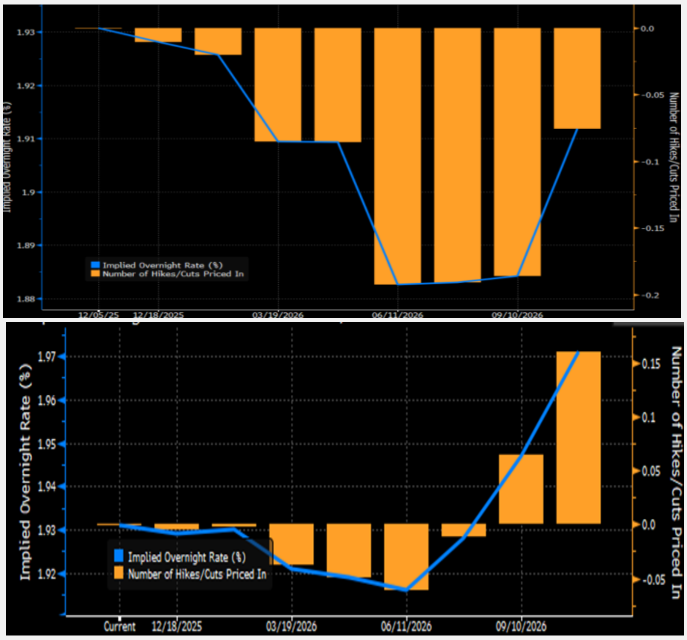
The European Central Bank's next move could be an interest rate hike, rather than a cut as some still predict, but that won't happen in the near future, Schnabel said in an interview published on Monday.

Schnabel stressed that risks to growth and inflation are tilted to the upside compared to the ECB's forecasts, partly because the European economy has weathered the US tariffs better than expected.

It also noted that the decline in core inflation came to a halt as the economy recovered and fiscal policy became more expansionary, creating conditions for price increases to accelerate.

This shift to a more restrictive policy has helped push bond yields higher. Thus, the German 10-year yield rose by 7 bp to 2.87% on Monday.

ECB rate expectations



Variation in market expectations on the ECB's monetary policy following Isabel Schnabel's statement.

Source: Amundi, Bloomberg

News

Canada | BoC keeps rates steady
Directors unchanged at 2.25%

Germany | Trade balance
€16.9 billion (Oct.)

Agenda

December 16 I S&P Index release
Global France Composite PMI (Dec)

18 December I ECB Meeting

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