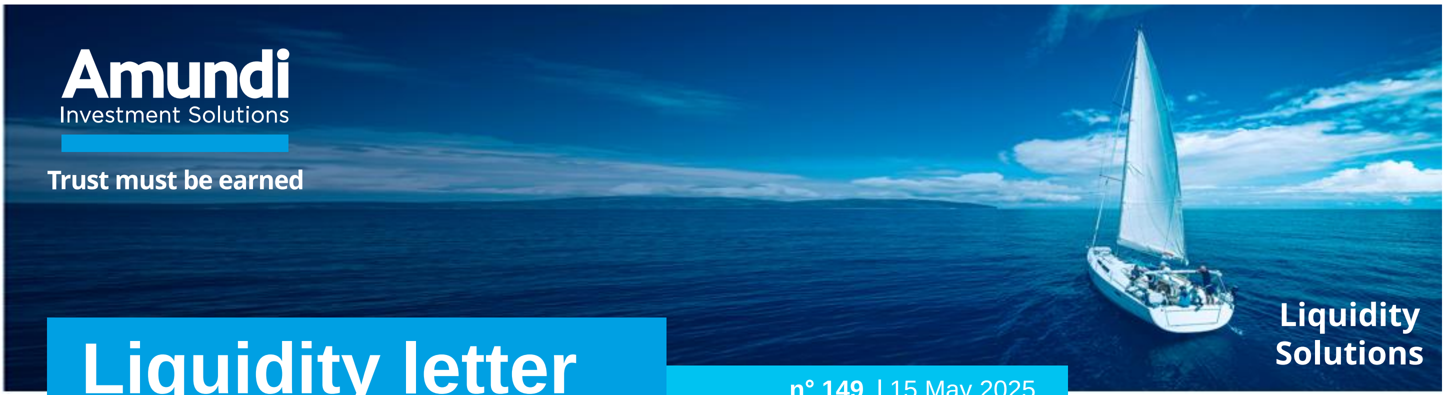


Liquidity letter

n° 149 I 15 May 2025

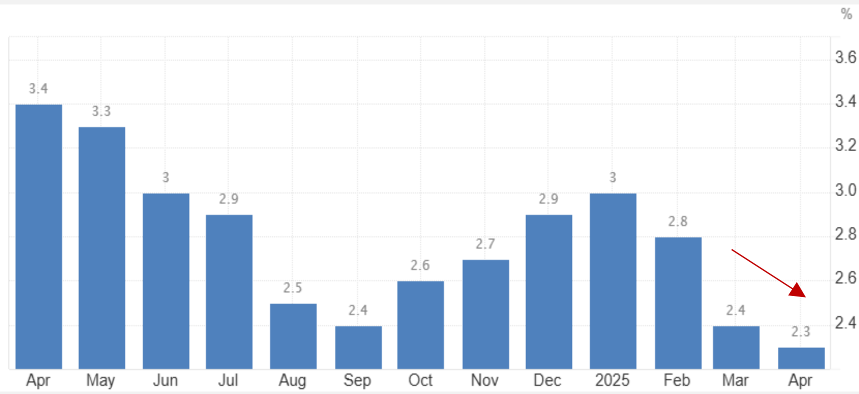
Inflation (and Trump) puts the Fed under pressure

Inflation down in the US in the month Trump imposes his tariffs

The US president calls for lower interest rates

- **The Fed** is under double pressure: on the one hand, falling inflation and, on the other, President Trump's calls to cut interest rates. In this context, the Fed governors favour a cautious approach.
- **U.S. inflation** rate declined to 2.3% in April 2025, the lowest since February 2021, down from 2.4% in March. Several product categories saw their prices fall, including energy (3.7%).
- **Eurozone** Economic growth in the eurozone has been revised downwards to 0.3% for the first quarter of 2025, affected by US tariffs. The European Central Bank (ECB) plans to continue cutting interest rates, with a high probability of a further cut at the next meeting in June.
- **Nagel** The German member of the ECB the introduction of tariffs will not be able to produce positive results for the US economy.
- **Bank of England** According to Huw Pill, chief economist, higher interest rates may be needed to control inflation, which may not return to the 2% target.

Evolution of the inflation rate in the United States



Source: BLS 15/05/25

The annual inflation rate in the United States fell to 2.3% in April 2025, the lowest since February 2021, from 2.4% in March and below the forecast of 2.4%. Energy costs fell 3.7%, more than the 3.3% decline in March. Inflation also slowed for food (2.8% compared to 3%) and transport (2.5% compared to 3.1%) and stabilised for housing (4% compared to 4%).
On the other hand, prices rose faster for used cars and trucks (1.5% vs. 0.6%) and new vehicles (0.3% vs. 0. Meanwhile, the annual core inflation rate stabilized at 2.8 percent as expected.

Figure of the week

2,3%

This is the inflation rate in the United States at the end of April, down from March

Joachim Nagel

ECB Governing Council member Joachim Nagel said financial markets were close to collapse after last month's U.S. trade announcements, highlighting their vulnerability to erratic economic policies.

"Disruptive is a nice description of what I had in mind after April 2," Nagel said of the situation after President Trump introduced reciprocal tariffs, which included a collapse in global stocks and a weakening dollar.

Speaking Wednesday, he said he did not see how raising barriers to free trade would produce positive results for the United States.

"I'm hoping that there will also be a learning curve on the U.S. side in the coming weeks and months because, if it doesn't, uncertainty will remain and all we know about the economy is that uncertainty is not a good thing."

Eurozone: growth revised downwards to +0.3%

The eurozone economy grew lower than initially forecast at the beginning of 2025, even taking into account the US tariffs that are expected to weigh on activity in the coming months.

First-quarter output rose 0.3% from the previous three months, below the previous estimate of 0.4%, Eurostat said on Thursday. However, this figure is still higher than economists' forecasts at the time of the publication of the initial report.

The region's outlook has been clouded by the announcement of U.S. tariffs last month and the erratic measures that followed. Even though President Donald Trump has reversed some measures, businesses and households face high uncertainty about global trade, which threatens to dampen investment and consumption.

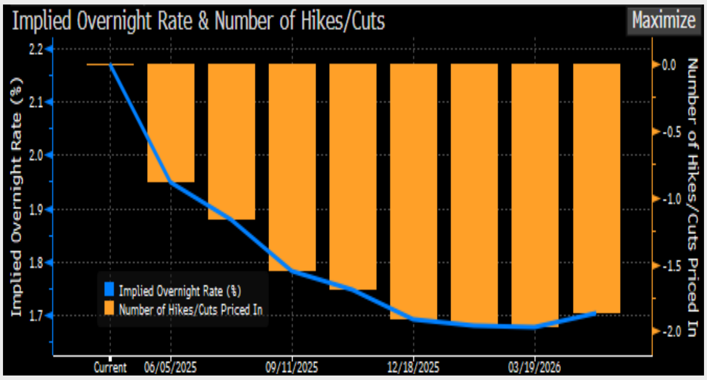
ECB officials are considering further cuts on top of the seven interest rate cuts already decreed since June 2024.

In addition, many expect economic growth projections to be revised downwards when they are updated next month. However, the labour market continues to do well.

Employment rose 0.3% in the first quarter, up from 0.1% at the end of last year, according to Eurostat.

> *The Fed needs to cut rates, as Europe and China have done. What's wrong with Too Late Powell?"*
>
> *Donald Trump, May 13, 2025*

ECB



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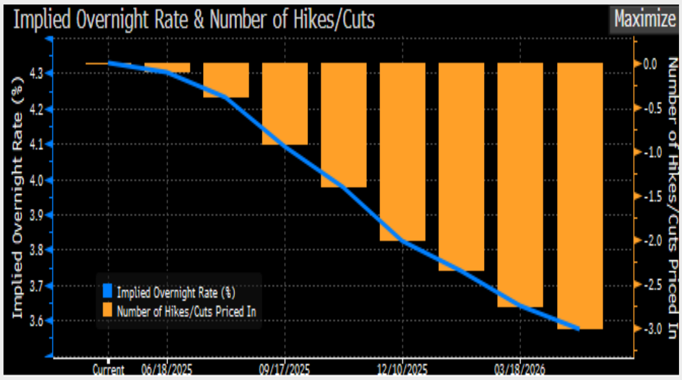

Source: Bloomberg 15/05/25

The European Central Bank's (ECB) interest rate expectations confirm that the downward cycle in the euro area is not yet over.

According to the latest data, there is an 88% chance that a further cut, the eighth in a row, will take place at the ECB's next monetary policy meeting on June 5.

A further cut in interest rates is most likely expected by the end of the year, which would take the deposit facility rate to 1.75%, currently seen as a potential terminal rate by markets.

On the Fed side, the rate path expected by the markets seems slightly different. In the US, the economy remains resilient. The impact of the Trump administration's implementation of tariffs could have significant consequences on inflation. For these reasons, central bank members prefer to act more cautiously.

As a result, the first rate cut expected by the markets is not expected to take place before September 17.

A total of 3 rate cuts are expected by May 2026.

D.TRUMP: THE FED MUST LOWER ITS INTEREST RATES

U.S. President Donald Trump took advantage of the latest lower-than-expected inflation report to call, once again, for the Federal Reserve to cut key rates.

On his Truth Social network, Donald Trump once again mocked Fed Chairman Jerome Powell's caution, once again calling him "Too Late Powell" and urging the US central bank to follow the example of Europe and China, where rates are lower.

"There's no inflation, and the prices of gasoline, energy, food, and pretty much everything else, are going down! The Fed needs to cut rates. It's not fair to America, which is ready to flourish."

The Labor Department's report published on Tuesday indicates a limited increase of 0.2% in the consumer price index (CPI) in April, a third consecutive month below analysts' forecasts.

Huw Pill: Interest rates likely to remain high

Huw Pill, chief economist at the Bank of England, believes that interest rates could remain high.

Inflation in Britain could be higher than the central bank expected. This is why interest rates are likely to remain higher than investors' expectations.

According to Pill, inflation may struggle to return to the BoE's 2% target. During his speech, he said that "the monetary policy response needs to be a little more aggressive or more persistent in itself, to ensure that we return to the target in a reasonable cycle."

Last week, Pill voted against cutting the BoE's interest rate by a quarter point.

In his comments on Tuesday, he said investors should not assume that the BoE's latest forecast — that inflation would return to its target level in early 2027 based on recent market prices — was a direct endorsement of their bets on future interest rate cuts.

Huw Pill, Head Economist Bank of England

"I remain concerned that we have seen some kind of structural shift in pricing and wage-setting behavior, perhaps driven by the kind of elements that were involved in the patterns of the inflation process of the 1970s and 1980s"

Topicality

- **Germany** | ZEW Sentiment Index is on the rise (25.2 vs. – 14.0 at the end of March)
- **Spain** | Inflation at the end of April remains stable at 2.2%, in line with the previous month

Agenda

- **19 May** I Publication of the inflation rate in the euro area at the end of April
- **May 22** I Publication of PMIs manufacturing and services for USA

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