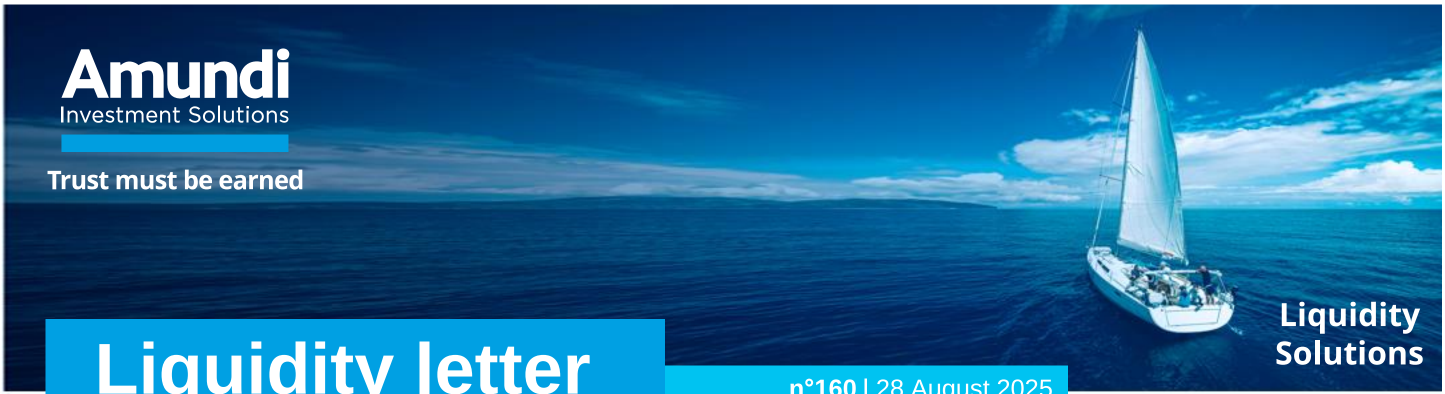


Liquidity letter

n°160 | 28 August 2025

Jerome Powell sends a strong signal

Towards monetary easing by the Fed?

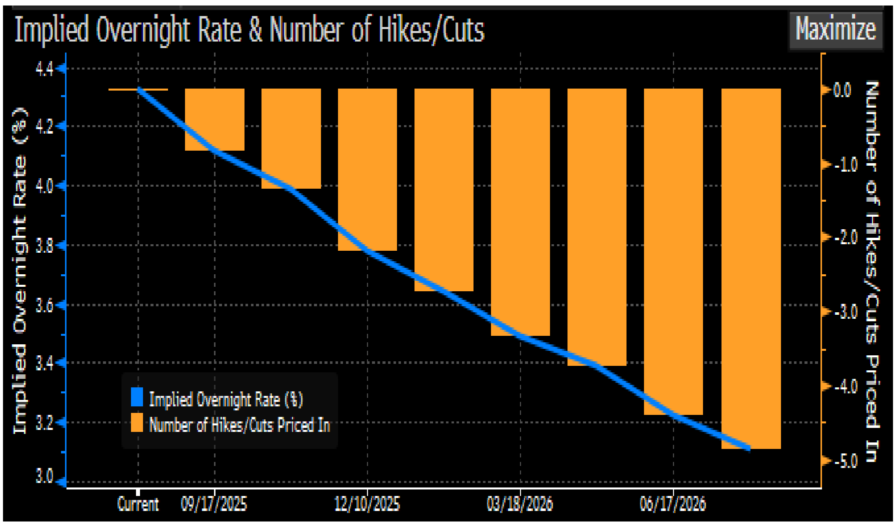
The markets were waiting for a signal from the chairman of the US Federal Reserve, and they got it. *"the balance of risks seems to be shifting,"* explained Jerome Powell on Friday, August 22, in the introduction to his speech in Jackson Hole, for the opening of the monetary institution's annual symposium.

After defending his cautious monetary policy in recent months, the Fed chairman placed more emphasis on slowing growth and the labor market. The job creation figures are not good, even if the number of unemployed has not risen sharply due to the drastic drop in immigration. *According*to him , *"this unusual situation suggests that the risks of a deterioration in employment are increasing. If these risks materialise, they can quickly manifest themselves in the form of a sharp increase in layoffs and unemployment."*

The effect of tariffs on consumer prices is just beginning to be felt, he said, and will *"amplify in the coming months."*

Jerome Powell's cautious stance has not dampened the enthusiasm of the financial markets, but everything seems to indicate that the next economic data will be decisive for the outcome of the monetary policy meeting on 16 and 17 September. The August employment report will be particularly eagerly awaited after the poor figures in July.

Expectations of Fed rate cuts



Markets are pricing in a 25bp rate cut in September with an 84% probability.

Figure of the week

229k

Weekly US jobless claims (August)

The Fed under pressure

The impact of Donald Trump's policies on the US economy was central to Jerome Powell's speech. He dwelt on the "unusual" situation of the labour market, which sees both fewer new job creations, but also fewer active people looking for a job.

Jerome Powell, on the other hand, has remained largely aloof from the debates on the independence of the central bank. "*FOMC members will make their decision based solely on their assessment of the data and its implications for the economic outlook and the balance of risks*," he said.

Despite political pressure, including from Donald Trump, who regularly calls for more aggressive rate cuts, Jerome Powell has remained on an independent and measured line, refusing to be drawn into a direct confrontation.

Source: Amundi, Bloomberg

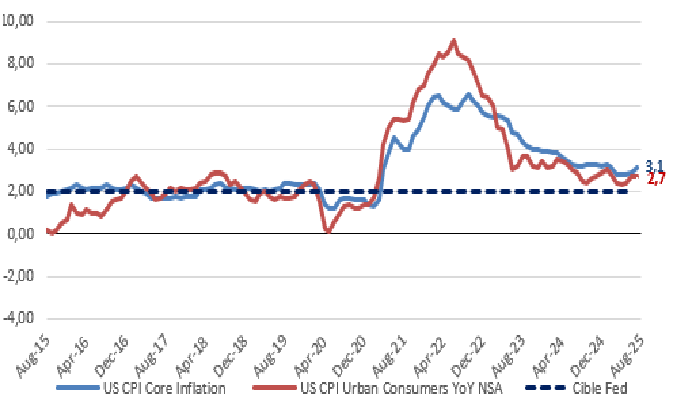
United States: Persistent risks

At the mention of a possible rate cut, the relief was perceptible on the bond markets. The Fed's credibility remains intact, and markets have reacted positively to this cautious but open stance. Expectations of a 25 basis point rate cut as early as September are strengthening, especially as the latest inflation data show a slowing trend.

This inflation remains slightly above target, but the Fed wants to keep a pragmatic approach, deciding on a meeting-by-meeting basis, without committing to a trajectory.

Nevertheless, an easing of monetary policy is not yet entirely certain, and will depend on the next indicators on unemployment and inflation.

US inflation rate (%)

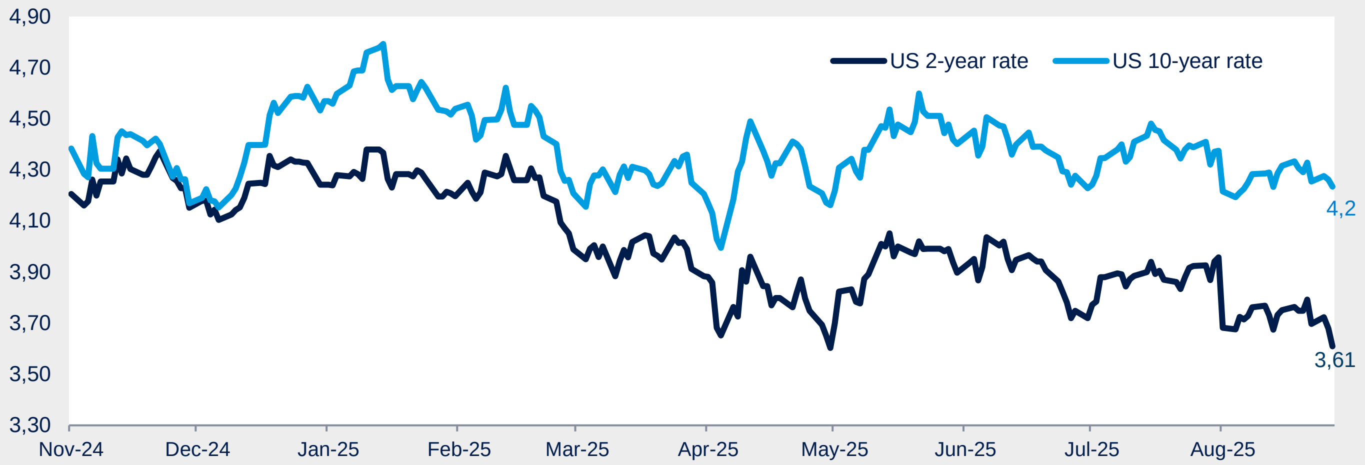


Source: Amundi, Bloomberg

> *The time has come for an adjustment of monetary policy*
>
> *Jerome Powell, Fed Chair, 2208/2025*

Market Impact

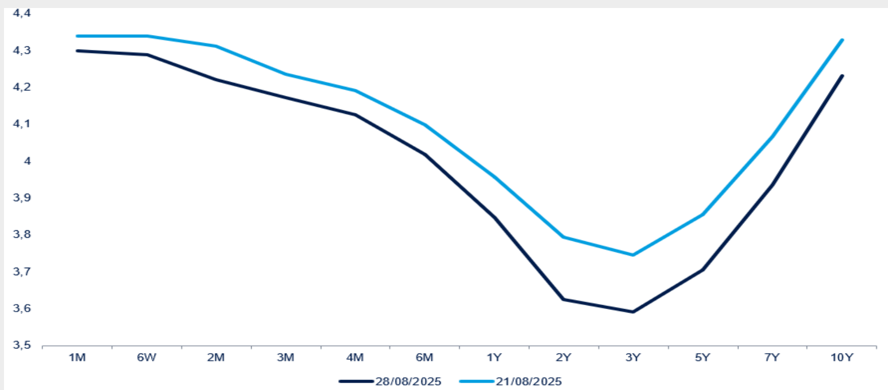
Evolution of US 2-year and 10-year rates (%)



The gap between long-term and short-term rates is widening. Indeed, Jerome Powell's statements paving the way for a rate cut have pushed down short-term rates, while the entry into force of customs tariffs, the economic situation in the United States, and the pressure exerted on the Fed are worrying investors and keeping long-term rates at a still high level.

Source: Amundi, Bloomberg

US yield curve (%)



Over the week, US rates fell significantly.

The decline is more marked (-16 bp over the 2-year) on the short end of the curve than on the long end of the curve.

The steepening continued.

On the 1M-3Y part, the curve is always strongly inverted.

Source: Amundi, Bloomberg

France: the shadow of a financial crisis looms

French debt is under increased pressure, against a backdrop of persistent political instability. Indeed, markets fear a prolonged period of political deadlock, which would make it difficult to reduce the budget deficit.

Pressure has also intensified on bond markets. Thus, the 10-year France-Germany spread widened by 3 bp on Tuesday, to 79 bp, after having climbed by 5 bp on Monday, following the Prime Minister's announcement to seek a vote of confidence in the National Assembly on 8 September.

In addition, the spread between French and Italian 10-year debt narrowed to less than 9 bps, with the French 10-year rate reaching 3.5% compared to 3.6% for the Italian 10-year rate. Spain, Portugal and Greece are already borrowing at lower rates than France regardless of the maturity, 2-5-10 years. Soaring interest rates are a threat to France, which risks plunging it into a vicious circle where the debt burden would continue to rise, requiring new borrowing and further increasing the burden borne by the country.

For the moment, investors have not turned away from French debt, but the situation could change quickly, as the rating agency will make its decision on 12 September.

French & Italian 10-year rates

Source: Amundi, Bloomberg

Topicality

NEWS

- **Germany** | IFO Climate Index Business up to 89 (August)
- **United States** | 2nd quarter GDP up to 3,3%

Agenda

- **29 August** I Publication of the inflation Rate in France, Spain, Italy, Germany, Portugal (August)
- **02 September** I Publication of the rate Eurozone inflation (August)

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