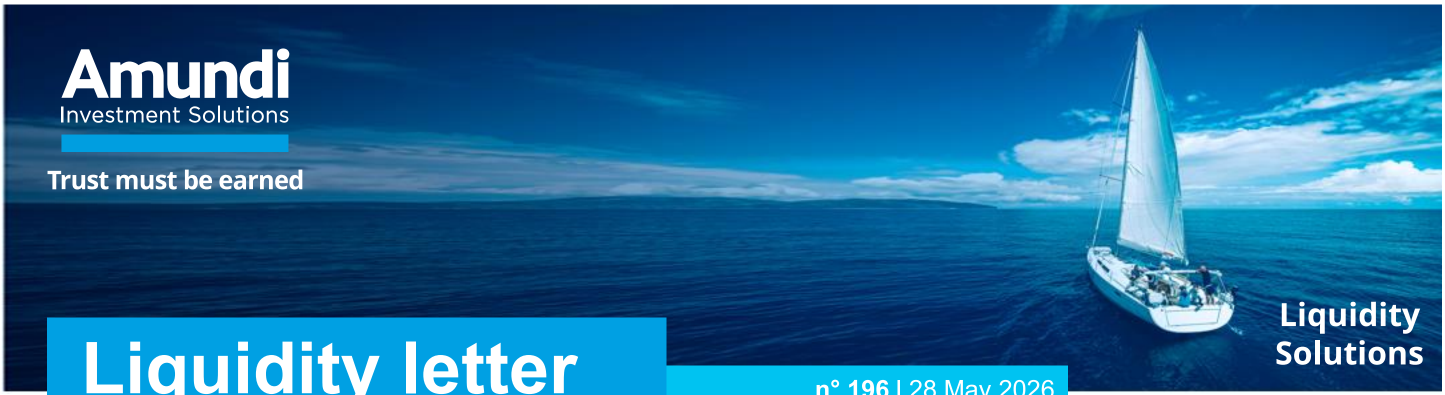


Liquidity letter

n° 196 I 28 May 2026

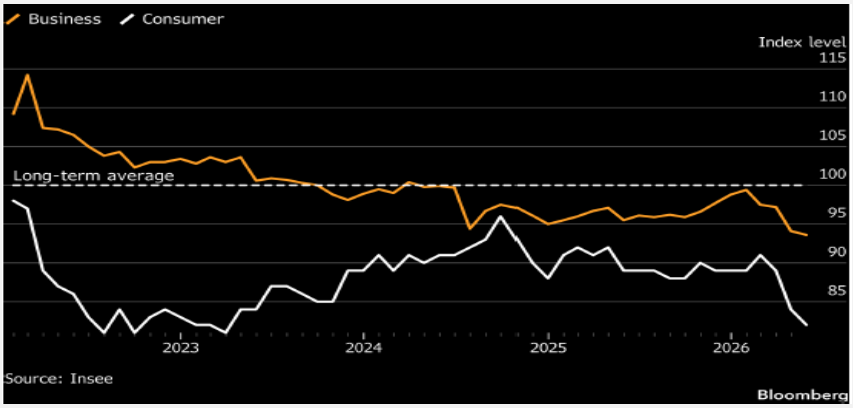
ECB prepares to raise rates

According to the markets, there is no doubt about a hike in June

Another rate hike is expected before the end of the year

- **ECB** Markets are anticipating further rate hikes by the ECB: +25 bps from 11 June, then at least one more hike by the end of 2026, with a probability of a third by early 2027, bringing the deposit rate to at least 2.5%.
- **FED** in the United States, expectations have changed: the Fed could raise rates towards the end of the year, but a second hike by the 1st quarter of 2027 remains unlikely.
- **Interest rates** According to Yannis Stournaras and Martins Kazaks, a cautious tightening of monetary policy would be justified to contain inflation without excessively dampening economic activity.
- **Lisa Cook** believes that inflation is moving in the wrong direction and says she is ready to raise rates if the expected disinflation does not materialise. Risks remain tilted to the upside, particularly due to persistent inflation and tensions in energy markets related to the conflict in Iran.
- **BoE** Markets are betting on fewer rate hikes from the Bank of England, thanks to lower oil prices and optimism around negotiations with Iran.

French consumer confidence



Source: INSEE / Bloomberg 28/05/26

French consumer confidence fell more than expected in May, highlighting risks to the eurozone's second-largest economy as the fallout from the war in Iran is felt. INSEE's monthly indicator fell by 2 points to 82, its lowest level since the beginning of 2023.
This figure is lower than the median estimate of 83 from a Bloomberg poll. France is under increasing pressure from the fallout from the war in Iran, with companies losing confidence and increasingly considering raising prices.

Figure of the week

4,2%

This is the inflation rate in Australia at the end of April, down from the previous month (4.6%)

Yannis Stournaras

An interest rate hike by the European Central Bank in June is the most likely scenario, as the Middle East conflict and the resulting rise in energy prices prove more durable than expected, Governing Council member Yannis Stournaras told the Kathimerini newspaper.

"The most likely scenario is an interest rate hike in June. If there is a significant but temporary overshoot of the inflation target, the response must be balanced," the Greek central bank governor said, adding that "a cautious adjustment of monetary policy in a more restrictive direction is likely to limit the intensity of secondary effects, without disproportionately affecting economic activity."

Martins Kazaks, Latvia's central bank governor, also said the war had kept energy prices high for longer than expected, making an interest rate hike likely.

Mr Cook (FED): ready to raise rates if inflation in the US persists

Fed Governor Lisa Cook said inflation was heading in the wrong direction and would be prepared to raise interest rates if that trend continued.

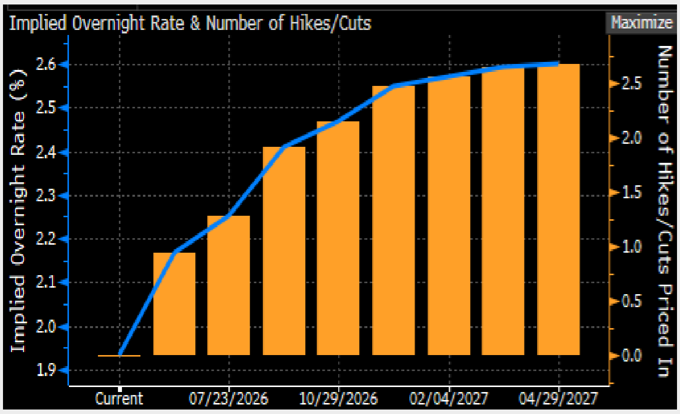
While Cook has spoken out in favor of keeping borrowing rates at their current level and expects price inflation to slow further in the coming months, her comments align with a number of Fed officials who have indicated that accelerating inflation is now a more important policy concern than the labor market.

"I want to be clear about my risk assessment: the risks remain oriented towards higher inflation."

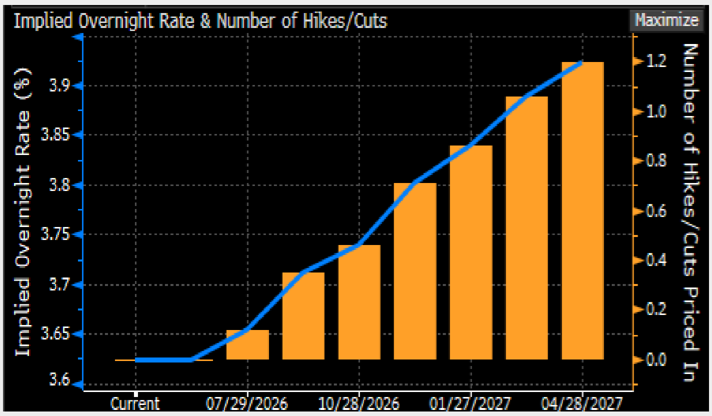
Cook said five years of inflation above the Fed's 2% target carries the risk that price pressures will become entrenched in pricing and wage-setting behaviors. "As such, I am prepared to raise rates if the expected disinflation does not materialize in time." The US-led war in Iran continues to disrupt energy markets, putting upward pressure on inflation.

> *What should guide us is not a date, but the data*
>
> *François Villeroy de Galhau*

ECB



FED



Source: Bloomberg 28/05/26

Market expectations for interest rate developments in the euro area continue to indicate that the European Central Bank will raise rates further at its upcoming monetary policy meetings.

According to experts, the first 25 basis point hike is expected at the next meeting scheduled for June 11.

Another hike is expected by the end of the year and there is at least a 50% chance that a third hike will take place by the first quarter of 2027.Under this scenario, the deposit rate would be at least 2.5%.

On the American side, the situation has changed slightly in recent weeks.

While previously no rate moves were expected from the Federal Reserve, markets are now pricing in a rate hike towards the end of the year, reversing a trend that had been little affected by the evolution of the conflict in Iran and the rise in energy prices.

It seems unlikely at this time to see a second rate hike by the first quarter of 2027.

TRADERS REDUCE BETS ON A BOE RATE HIKE

Traders lowered their forecasts for the size of the Bank of England's interest rate hikes this year, driven by falling oil prices and optimism over signs of progress in negotiations between the United States and Iran.
Money markets briefly priced in hikes of 36 bps by the end of the year — the lowest level in more than a month — which represents a quarter-point increase with less than a 50% chance of another one to follow, according to swaps linked to the dates of monetary policy meetings.
The British two-year yields, which are sensitive to changes in monetary policy, fell eight basis points to a one-month low of 4.22%.
The UK's reliance on energy imports has left it vulnerable to an economic shock from the Middle East war, with disruptions to energy supply chains threatening to trigger a new wave of inflation.
This latest development follows the Iranian media report that it had obtained an unofficial copy of a draft agreement to end the war.

BoJ: Oil shock impacts inflation regime

BoJ Governor Kazuo Ueda stressed the need to remain vigilant about the impact of oil price spikes on the underlying trend of inflation, but did not give a clear indication of how this dynamic could influence decisions at next month's monetary policy meeting.

"Japan's experience shows that oil shocks are tests for the entire inflation regime," Ueda said Wednesday in a speech at the opening of a two-day international banking conference in Tokyo. The governor traced the impact of oil shocks back to the 1970s and noted, "We are actually facing a fifth oil shock."

The governor refrained from sending explicit signals on the stance of monetary policy. However, reflecting concerns about the effects of higher oil prices, his comments are likely to fuel widespread market speculation about the prospect of an interest rate hike at the next monetary policy meeting on June 16.

"The boundary between temporary and persistent inflation is not mechanical. A temporary shock can become persistent if it changes wages, expectations and pricing behaviours."

News

- **Australia** | Inflation is falling more than expectations at the end of May (4.2% vs. 4.6% the month previous)
- **United Kingdom** | The Investor Confidence Index at the end of May (82 vs. 84 at end of April)

Agenda

- **2 June** I Publication of the inflation rate in the euro zone at the end of May
- **3 June** I PMI release of the ISM services in the United States

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