

# Liquidity letter

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## Fed, ECB: two opposing choices

### The Fed keeps rates steady

The US Federal Reserve left its key rates in their current range of **3.50% to 3.75%** on Wednesday at the first meeting chaired by its new chairman, Kevin Warsh. Inflationary pressures triggered by the war in the Middle East have radically changed the outlook for monetary policy.

The central bank's new quarterly projections show that nine Fed officials now expect a rate hike by the end of 2026.

The framework agreement announced on Sunday by Washington and Tehran to end the conflict, which provides for the reopening of the Strait of Hormuz, has had the effect of easing energy markets, but the recent surge in prices continues to spread to global inflation. The data shakes up previous forecasts of monetary easing and points to a more hawkish approach from the central bank.

The White House hopes that Kevin Warsh will favor monetary easing, after exerting strong pressure on his predecessor Jerome Powell for months.

On Wednesday, Donald Trump was dovish towards the Fed.

The monetary status quo? *"It's OK, it doesn't matter,"* he reacted from France.

### Figure of the week

**226K**

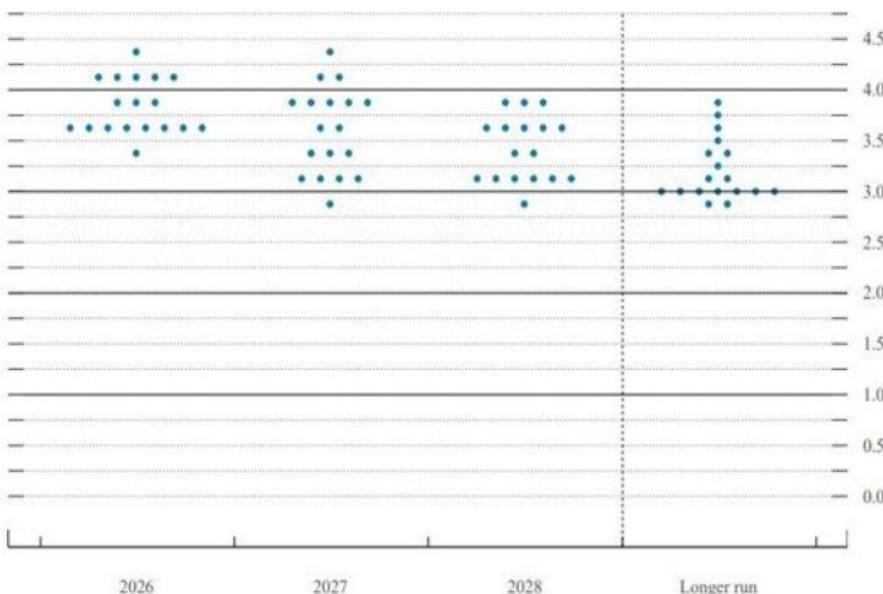


Weekly US jobless claims



### What trajectory for 2026?

Dot plot



Source: Federal Reserve

The "dot plot", a dot plot that groups together the expectations of the various members of the institution on interest rates over the next two years, suggests a rate hike for 2026.

The new economic projections point to higher inflation expectations, unsurprisingly given the impact of the Middle East conflict on energy prices, to 3.6% for this year. Core inflation is expected to be around 2.7% for 2026. These two figures are expected to fall to 2.23% and 2.2% respectively in 2027.

GDP growth is estimated at 2.2%, compared to 2.4%.

Despite the recent decline in oil prices, half of FOMC members expect rate hikes as early as this year, given the strength of the labor market and inflation.



## ECB raises rates and reassures markets

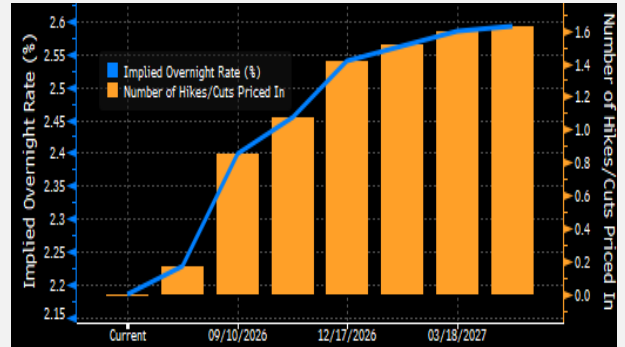
On 11 June, the ECB raised interest rates by 25 bps, bringing its deposit, refinancing and lending facility rates to **2.25%**, **2.40%** and **2.65%** respectively, in response to the energy shock caused by the Middle East conflict.

The widely expected and unanimous decision marks the ECB's first hike since September 2023 and brings rates down to a level not seen in a year.

In line with the ECB's approach, based on meeting-by-meeting rate decisions, Lagarde refrained from giving a clear indication of the next guidance.

For the supporters of this monetary tightening, it is above all a question of the credibility of the institution. It is unthinkable in their eyes to repeat the mistake of 2022. The rebound in post-Covid inflation and the invasion of Ukraine was then considered transitory.

ECB rate hike expectations



Markets are pricing in another 25bp rate hike in October.

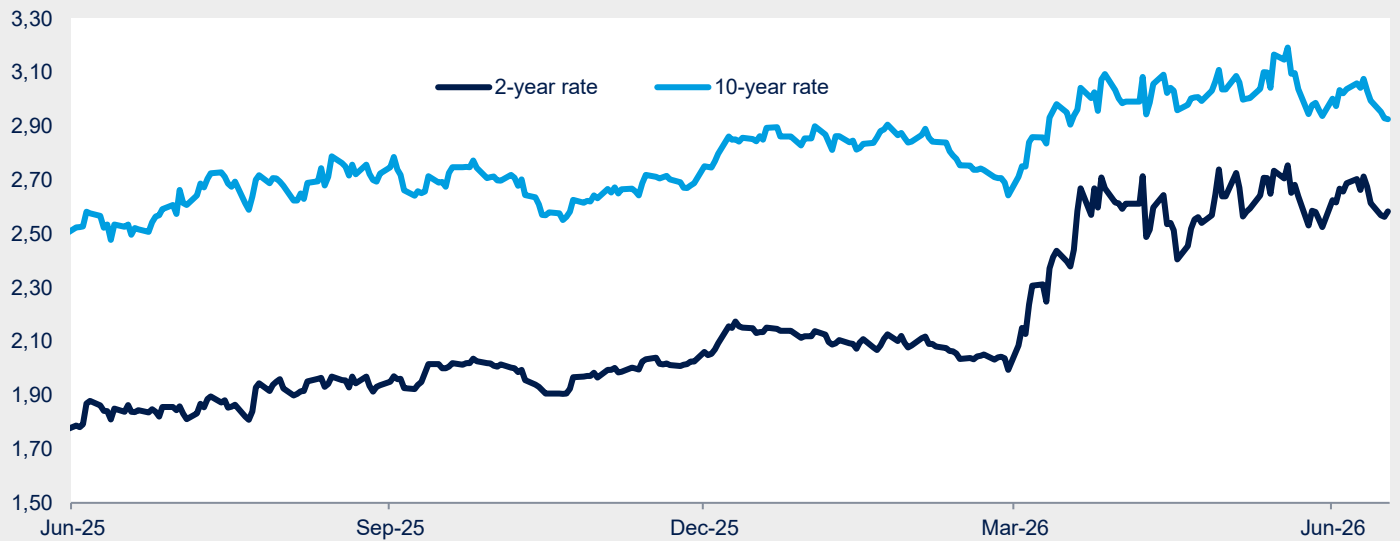
Source: Bloomberg

*“ We are starting to see a generalization of inflation across the economy ”*

Christine Lagarde, President of the ECB, 11/06/2026

## Market impact

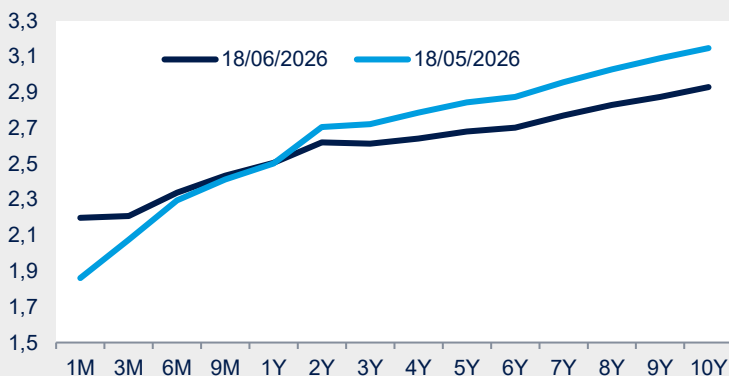
German sovereign rates (%)



2-year and 10-year yields eased after the ECB meeting. They fell by 13 bp and 15 bp respectively over the week.

Source: Amundi, Bloomberg

German yield curve (%)



Rates fell over the month thanks to the proposal of a peace plan by the two parties, Iran and the United States.

From 2-year maturities, there is a significant flattening of rates, up to -21 bp on the 10-year market.

Source: Amundi, Bloomberg



## Euro area: macroeconomic projections

The ECB raised its inflation forecasts for 2026 and 2027, and cut its growth forecasts.

According to its projections, headline inflation, as measured by the Harmonised Index of Consumer Prices (HICP), is expected to peak at 3.4% in the third and fourth quarters of 2026 and remain above 3% until the beginning of next year, due to soaring energy prices.

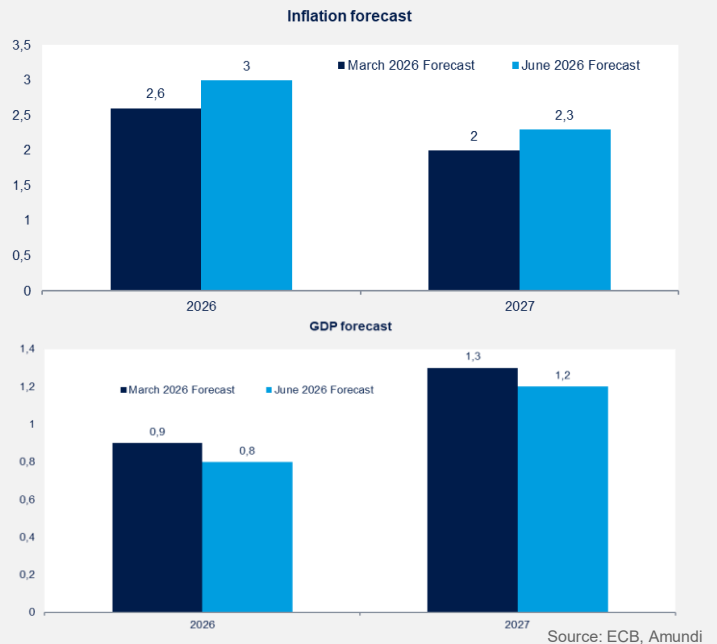
As most of the effects of the war on energy prices fade, headline inflation is expected to decline sharply to 2.3% in the second quarter of 2027 and hover around 2% thereafter.

The central bank expects growth of 0.8% this year and 1.2% in 2027, slightly lower than its last forecast in March.

All this information points in the direction of an economy that is running out of steam. Surveys of business leaders suggest a slowdown in activity, particularly in the service sector.

Finally, the euro zone's public deficit will peak at 3.7% in 2027, but this increase is caused by the increase in interest payments, by around 0.5 points of GDP.

### ECB macroeconomic forecasts



### News



▶ **Japan** | The BoJ has raised rates by 25 bp

▶ **Eurozone** | Final inflation rate at 3.2% (May)

### Agenda



▶ **June 23** | Release S&P Composite PMI Global in the euro zone (June)

▶ **June 23** | Release S&P Composite PMI Global in the US (June)

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