

Liquidity letter

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Inflation rebounds in the eurozone

The inflation data makes it easier for the ECB.

In the meantime, the Fed is preparing to cut rates.

- **Inflation** in the euro area rebounded slightly to 2.2% in November (vs. 2.1% in October), driven by the acceleration in services (3.5%) and a smaller decline in energy prices (-0.5%).
- **Christine Lagarde** said that inflation in the euro area is expected to remain close to the 2% target despite uncertainties related to tariffs, with underlying pressures remaining consistent with this medium-term objective.
- **FED** After more than a point of cuts, the Fed is divided on the end of the cycle: unprecedented disagreements over the terminal rate and the dilemma between supporting employment and fighting inflation, with the value of the neutral rate remaining uncertain.
- **UK** Megan Greene (BoE) wants to see further weakening in the labour market before supporting a further rate cut, noting a stabilisation in employment and job vacancies data.
- **OCDE** forecasts two more BoE rate cuts, to 3.5% by June, and revises the UK's growth upwards (1.2% in 2026, 1.3% in 2027) after Rachel Reeves' second budget with tax hikes.

Figure of the week

2,2%

This is the inflation rate in the Eurozone at the end of November



Christine Lagarde

ECB President **Christine Lagarde** has indicated that inflation in the euro area is likely to remain close to the 2% target for the time being, even if the outlook is clouded by tensions over tariffs.

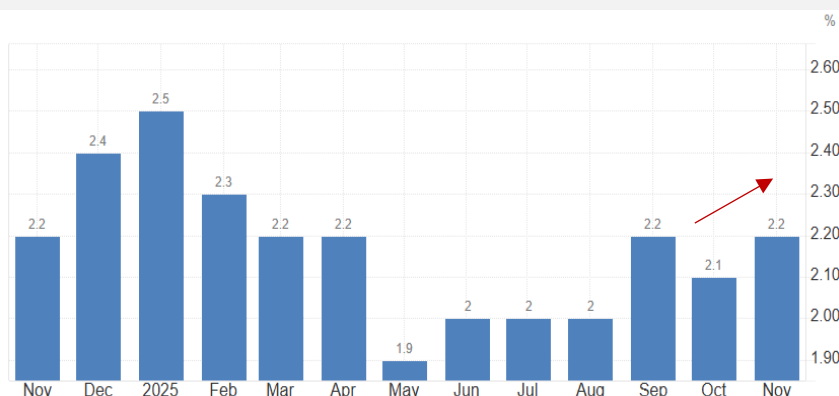
It stressed that consumer price inflation is currently around 2% and that the underlying pressures observed are consistent with achieving this medium-term objective.

The ECB, it recalled, had projected in September an average inflation of 1.6% for the first quarter of 2026, and estimated that the sustainable return to 2% would not occur until the following year.

Lagarde also stressed the ambivalent nature of the risks to these forecasts: uncertainty is higher than usual, in particular due to the volatility of global trade policies.

The latest available data show that, in November, prices rose by 2.2% year-on-year, a slight decline compared to previous months; Core inflation remained at 2.4%.

Evolution of the inflation rate in the euro area



Source: EUROSTAT 03/12/25

Eurozone inflation reached 2.2% in November vs. 2.1% in October, slightly above market forecasts of 2.1%.

Services inflation accelerated from 3.4% to 3.5%, its highest level since April, while energy prices fell at a slower pace (-0.5% vs. -0.9% in October). Core inflation, which excludes energy, food, alcohol and tobacco, remained stable at 2.4%, slightly below the forecast of 2.5%.

Among Europe's largest economies, Germany saw its inflation rate accelerate to 2.6%, its highest level since February and above the 2% target.

The Fed has never been so divided on the evolution of interest rates

After cutting rates by more than a percentage point, Fed officials are now wondering where to stop.

Over the past year, their projections on the terminal level of rates have diverged as not at any time since 2012, reflecting very different macroeconomic views.

This dispersion is fuelling an unusual public divide over whether a further cut next week is appropriate and the future direction of monetary policy. Jerome Powell acknowledged "very divergent views" within the committee,

divided between prioritizing price stability and supporting full employment.

The dilemma is concrete: should we inject additional support for the labour market, or slow down cuts because inflation is above target and tariffs could increase it?

At the heart of the debate is the "neutral" rate — the level that neither accelerates nor slows the economy — which the Fed still struggles to estimate, which complicates decision-making.

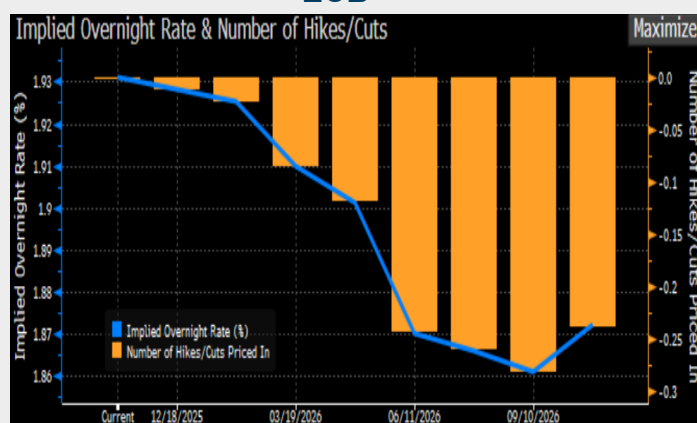


We expect inflation to remain close to our target of 2% in the coming months

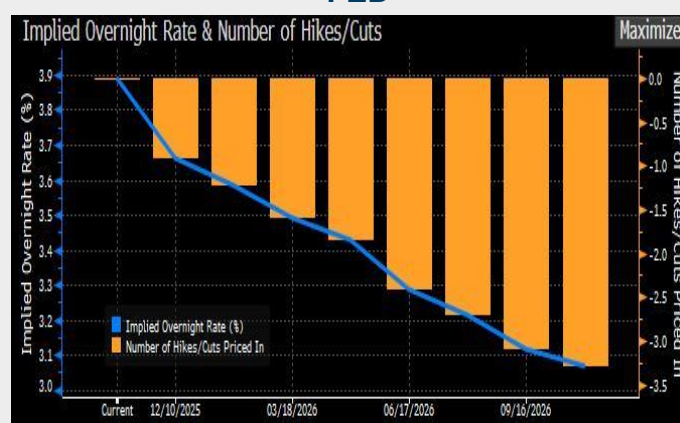


Christine Lagarde, 2 December 2025

ECB



FED



Source: Bloomberg 04/12/25

Ahead of the ECB's last meeting of the year before the end of the year, market expectations about the evolution of interest rates in the euro zone have not changed.

There would be no likelihood that the European Central Bank would cut rates before the end of the year, or even before the first half of 2026.

As for the end of 2026, the probabilities are now less than 30%. Therefore, depending on the markets, the ECB may have completed its monetary policy easing cycle.

On the US side, the situation remains different and almost in line with what has been observed in recent weeks.

A rate cut seems almost certain next week, at the Federal Reserve's last meeting of 2025 (91% probability). For the coming months, two more 25 basis point cuts are planned.

Under this scenario, the Fed's terminal rate could be slightly above 3%.



Megan Greene, BoE

MR. GREENE (BOE): THIS IS NOT THE TIME TO CONTINUE THE RATE CUT

BoE member Megan Greene said the labor market needed to weaken further before she could sustain another interest rate cut. Greene pointed to signs of "stabilization" in jobs and job vacancies data in remarks that suggest she will continue to oppose further monetary policy easing.

She said a planned recovery in consumer spending that doesn't materialize could also change her view on borrowing costs.

"I would like to see the labour market deteriorate further, and that should be reflected not only in the unemployment data, but also in the employment data. If the consumer outlook turns out to be much weaker than expected, that could also change my view.

Greene voted against the BOE's latest rate cut in August and is expected to remain in the central bank's hawkish camp at a crucial meeting later this month.

BoE terminal rate at 3.5% according to the OECD

The **Bank of England** will cut interest rates twice more to 3.5% by June, before the end of monetary easing, the Organisation for Economic Co-operation and Development (OECD) said on Tuesday as it revised upwards its growth forecast for the United Kingdom.

In its latest economic outlook, less than a week after Chancellor Rachel Reeves presented her second budget with tax hikes, the European think tank raised its growth forecast for 2026 to 1.2%, from 1% in September, and forecasts 1.3% in 2027, placing the UK third and fourth among the fastest growing economies in the G7, respectively.

Reeves welcomed the upward revision, after saying in recent days that it would exceed the UK's growth forecasts. Nevertheless, the OECD's forecasts remain lower than those of the Office for Budget Responsibility, the British body responsible for overseeing public finances.



The OECD lowered its inflation forecast for next year to 2.1%, close to the Bank of England's 2% target, and said the current high rate of 3.6% would prove "transitory" as higher taxes dampen growth and increase unemployment.

Topicality



▶ **Germany** | Manufacturing PMI declines more expectations at the end of November (48.2 vs. 49.6 in the previous month)

▶ **United States** | The the ISM fell to 48.2. Markets were waiting an increase to 49.0

Agenda



▶ **9 December** | Decision on rates of interest to the Royal Bank of Australia

▶ **26 November** | Decision on rates of interest to the Federal Reserve and the Bank of Canada

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