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Liquidity letter

n°103 I 02 May 2024

The Fed gives itself more time

The Fed keeps rates unchanged at 5.25%-5.50%

As expected, the US Federal Reserve maintained rates at their current level on Wednesday, noting the recent "lack of further progress" on the inflation front, but ruling out the possibility of a further rate hike. It also announced that it would start reducing the pace of asset sales on its balance sheet in June.

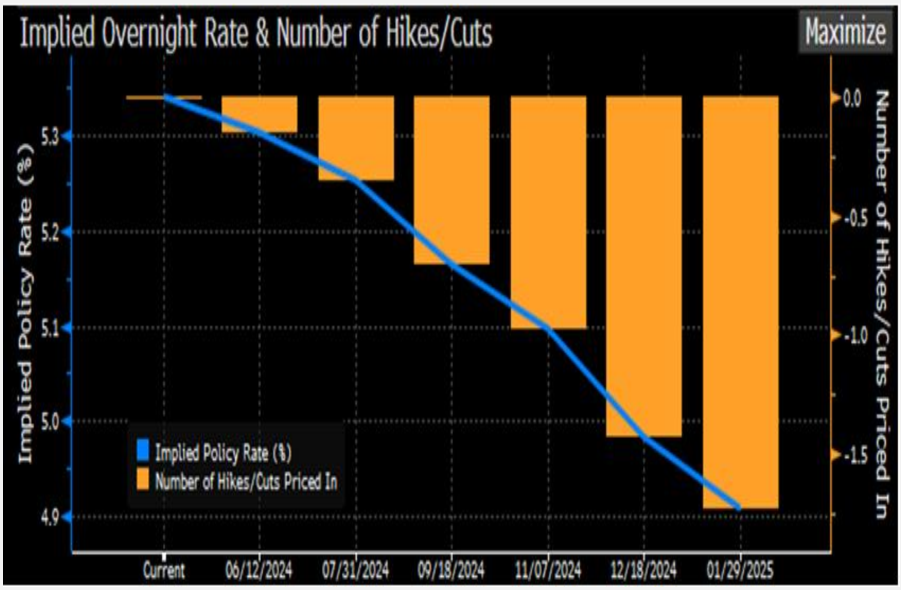
« It is likely to take longer for us to gain confidence that we are on a sustainable path down to 2 per cent inflation », explained Jerome Powell.

Indeed, since January, while the trajectory of price rises was on track to gradually reach the 2% target, it has started to rise again, to 2.7% year-on-year in March, according to the Fed's preferred PCE index, and to 3.5% according to the CPI index.

However, there is no question of raising rates. At a press conference, Jerome Powell ruled out the possibility of a rate hike in the near future.

In his opinion, it is *« unlikely that the next policy rate move will be a hike ».*

However, by announcing a slower pace of asset reduction (USD 25 billion per month compared with the current 60), the Fed is signaling the beginning of a loosening of its monetary policy. It has already reduced its portfolio by 1,500 billion since the start of rate hikes designed to fight inflation.



The 1st rate cut expected by the markets would not take place until November.

Source : Bloomberg

Number of the week

208K

Weekly jobless reports (United States), unchanged from March

Manufacturing activity slows down

US manufacturing activity slowed more than expected in April. It contracted again under the combined effect of a drop in orders and employment.

The index measuring this activity stood at 49.2% over the past month, compared with 50.3% in March, which marked the first month of growth in activity after 16 consecutive months of decline. The index thus fell back below the 50% mark, showing that activity is still contracting.

Demand is slowing slightly, which is reflected in a decline in orders, although the companies surveyed are optimistic in their comments.

The manufacturing industry has been suffering for almost two years now from the Fed's rate hikes to combat high inflation, by making credit more expensive in order to reduce demand.

United States: job creation exceeds expectations

The US private sector added 192,000 jobs in April, a sign of the strength of the labor market. This publication comes ahead of the next official report on non-farm payrolls.

Job creation in April was down on the upwardly revised figure of 208,000 in March. However, it was higher than the 175,000 jobs forecast by economists.

For March, the number of job offers was little changed at 8.5 million. Over 1 year, it is down by 1.1 million. Vacancies fell in construction (-182,000) and finance and insurance (-158,000), but rose in the local authority sector (+68,000). The employment rate remained stable at 5.1% in March.

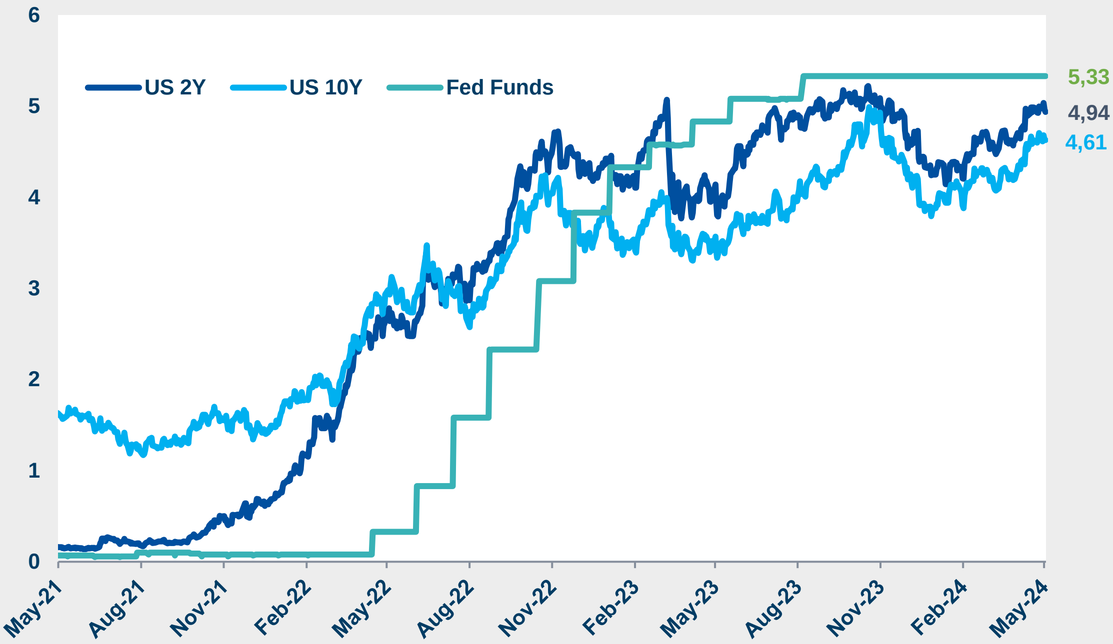
Job vacancies

Source : Bureau of Labor Statistics

> *In recent months inflation has shown a lack of further progress toward our 2 percent objective*
>
> *Jerome Powell, President of the Federal Reserve, May 2024*

Market Impact

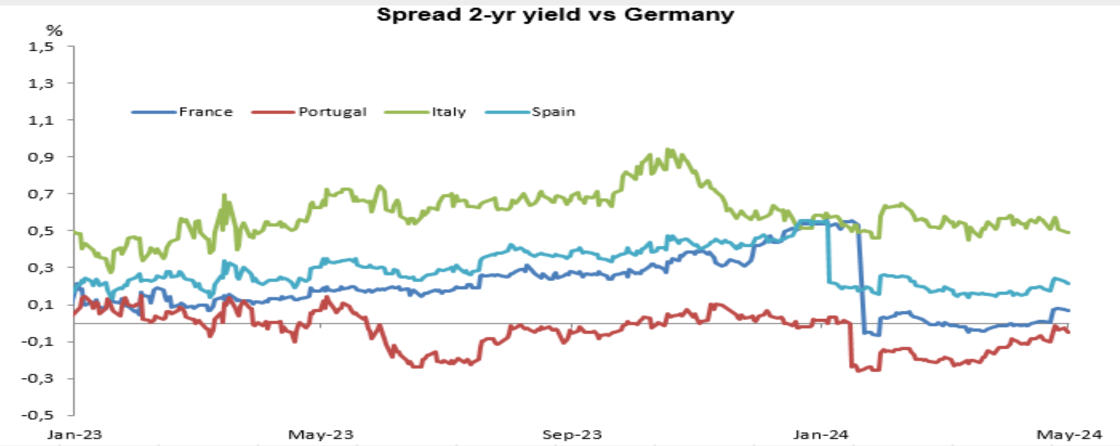
US 2-year, 10-year and Fed Funds rates (in %)



The markets were reassured by Jerome Powell's statements at the May 1st press conference.

The 2-year and 10-year yields fell by 7 bp and 5 bp respectively.

Source : Bloomberg



Reduction in interest rate spreads between eurozone countries.

Source : Bloomberg

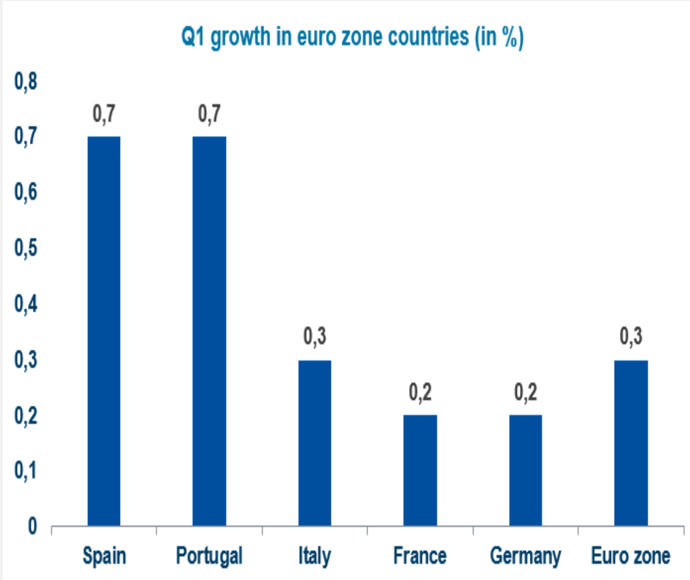
Euro zone escapes recession

Inflation remained stable in April at 2.4% year-on-year, in line with expectations. The good news came from core inflation, which continued to fall to 2.7%, after 2.9% in March.

On another positive note, economic growth rebounded more than expected in Q1, with GDP up 0.3% on the previous quarter, according to Eurostat. Germany regained momentum, with GDP up 0.2% after a 0.5% decline in the previous quarter. France is also doing well, with GDP also up 0.2%, buoyed by household consumption (+0.4%) and better than expected business investment..

Inflation in France continued to slow in April, according to provisional results from Insee. It stood at 2.2% year-on-year, compared with 2.3% in March and 5.9% a year ago.

This slight fall was due to a slowdown in food prices (+1.2% year-on-year after +1.7% in March), tobacco prices (+9% after +10.7%), and a slight downturn in manufactured goods prices (-0.1% after +0.1%). Conversely, energy prices accelerated (+3.8% after +3.4%).



Italy saw its GDP rise by 0.3%, while Spain and Portugal stood out with a +0.7% increase. This performance was achieved thanks to strong growth in exports, investment and solid household consumption. Spain on track to exceed 2% for the year.

Source : Eurostat

News

- **Spain** | Annual inflation at 3.3% (April)
- **Euro zone** | PMI manufacturing down to 45.7 in April from 46.1 in March

Agenda

- **3 May** l Publication of US unemployment rate (April)
- **6 May** l Publication of S&P composite PMI (April)

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