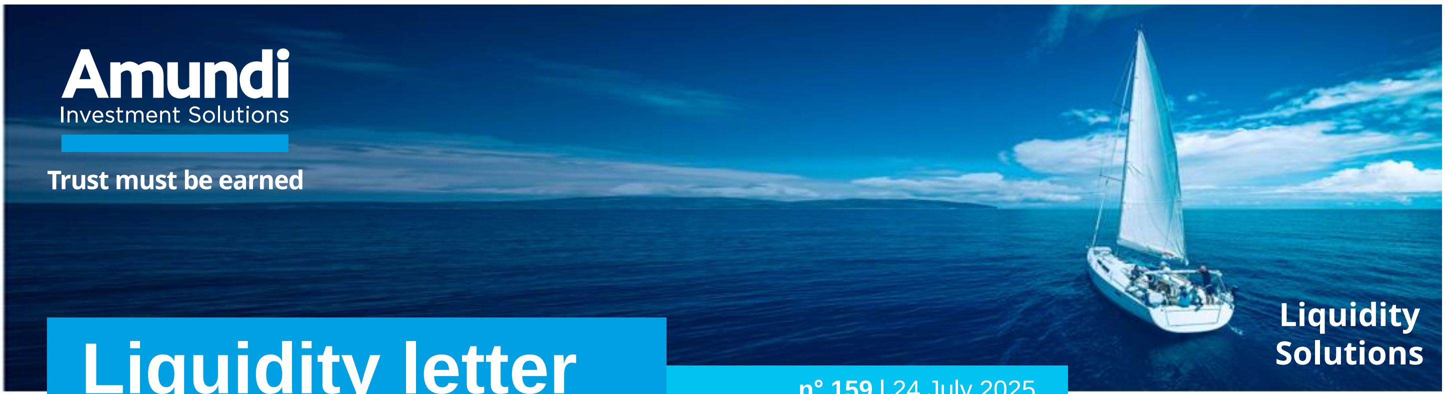


Liquidity letter

n° 159 | 24 July 2025

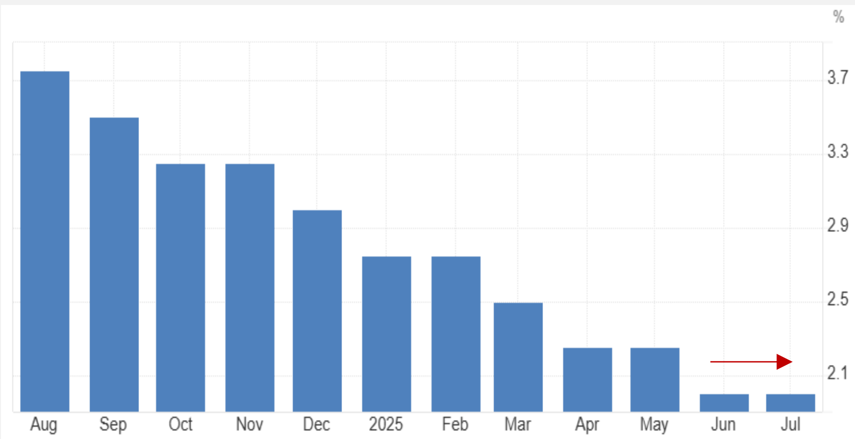
ECB takes a break

Interest rates unchanged for the first time in 8 meetings

No defined trajectory for future meetings

- **Interest rates** As expected, the ECB maintained its three key interest rates: 2.00% for deposits, 2.15% for principal refinancing and 2.40% for the marginal lending facility. Current inflation is at 2%, and wages are slowing, helping to ease price pressures.
- **Uncertain context** Despite a resilient European economy, uncertainties remain high, particularly due to international trade tensions. The ECB points out that previous rate cuts have already helped support activity.
- **Case-by-case approach** The Governing Council continues to follow a data-driven approach. Each rate decision will be assessed on a meeting-by-meeting basis, based on new economic and financial data, core inflation and monetary policy transmission.
- **Asset purchases** The APP and PEPP portfolios continue to gradually decline as reinvestments have ceased. In the event of market stress that threatens the smooth transmission of money, the Transmission Protection Instrument (TPI) remains activated.

Deposit Facility Rate evolution – Eurozone



Source: ECB, 24/07/2025

The interest rate on deposits in the euro area remained unchanged at 2% in July.

Historically, the interest rate on deposits in the euro area averaged 1.27% from 1999 to 2025, reaching a record high of 4% in September 2023 and a record low of -0.50% in September 2019.

Figure of the week

2%

This is the rate of the deposit facility in the Eurozone

Christine Lagarde

At the press conference on 24 July, Christine Lagarde confirmed the ECB's monetary status quo, stressing that inflation in the euro area has returned to 2%, in line with the medium-term objective.
She welcomed a slowdown in wage growth and an overall resilient economy, despite an uncertain global environment, particularly due to trade tensions.
Lagarde said that key rates remained unchanged, and that previous cuts were starting to take effect.
No trajectory has been defined for the next decisions.
She insisted on a "data-dependent" approach, meeting by meeting, with no commitment in advance.
The institution remains ready to adjust its tools if market tensions were to hamper monetary transmission in the euro area.
The tone remains cautious: despite encouraging indicators, the ECB remains vigilant and does not want to precipitate a new rate cut cycle.

The euro area's private sector is growing strongly

The eurozone's private sector grew at its fastest pace since last August, as the three-year slowdown in manufacturing comes to an end and the services sector gains momentum, despite the threat of a trade conflict with the United States.

The composite purchasing managers' index compiled by S&P Global rose to 51.0 in July from 50.6 in June, surpassing the 50 threshold that separates expansion from contraction.

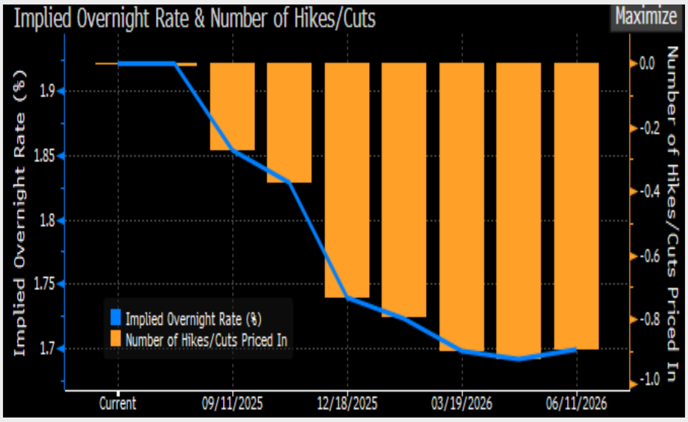
Analysts had forecast a result of 50.7 points.

While the manufacturing sector continued its recovery in line with expectations, recording its highest level since July 2022 and approaching the end of the contraction, the services sector saw a surprisingly strong increase, reaching 51.2 points.

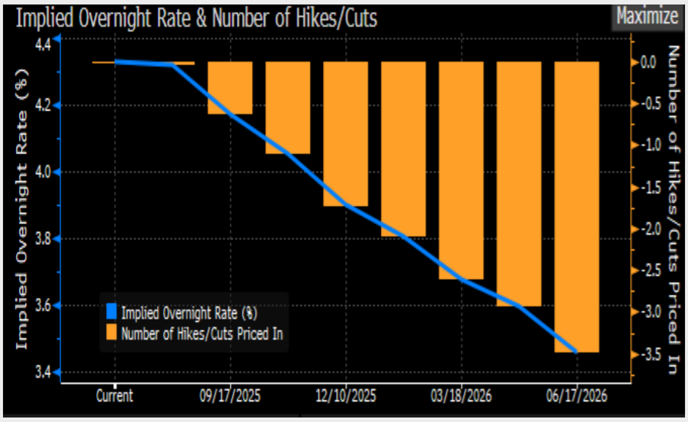
The figures were released hours before the European Central Bank set borrowing costs for the 20 eurozone countries.

> *"The outlook for inflation is more uncertain than usual"*
>
> *Christine Lagarde, 24 July 2025*

ECB



FED



Source: Bloomberg 24/07/25

Following the ECB's July 24 meeting, which decided to pause rate cuts after eight consecutive meetings, market expectations still point to a good chance of a final rate cut before the end of this monetary policy easing cycle.

According to the markets, the probability of a rate cut by the end of the year is 73%, while it increases to 92% at the ECB meeting on 30 April.

To date, the markets do not expect any further cuts for the Frankfurt-based institution.

In the United States, market forecasts are somewhat different.

For the Fed, which has decided in several meetings to suspend rate cuts due to the uncertain economic situation caused by the Trump administration's tariffs and their impact on inflation, markets are pricing in at least three rate cuts by the first half of 2026.

The first reduction should take place at the end of the year.

TURKISH CENTRAL BANK RATE CUT

The Turkish central bank lowered its key rate by 300 bps, to 43%, resuming a downward momentum interrupted since March. This decision comes after a period of political and financial turbulence linked to the arrest of the mayor of Istanbul, President Erdoğan's main opponent. The calming of the markets and the partial rebound in foreign exchange reserves seem to have confirmed the bank's decision. The central bank says its policy will remain "tight until price stability", while leaving the door open to further cuts, decided on a meeting-by-meeting basis, depending on the evolution of inflation.

It fell to 35% in June, from a peak of 75% last year, but remains one of the highest in the world. The end-of-year target is set at 24%. Despite this movement, political risks persist, with tensions around the opposition and several ongoing legal cases.

PMI in France at 11-month high

The flash HCOB **composite PMI for France** rose to **49.6** in July 2025 from 49.2 in the previous month, beating market expectations of 49.3, according to flash estimates.

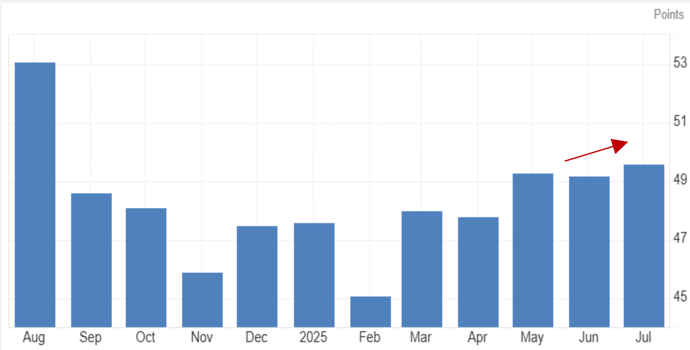
While this marks the eleventh consecutive month of contraction, it was the most moderate decline in the series, as the slowdown in the manufacturing (48.4 vs. 48.1 in June) and services (49.7 vs. 49.6) PMIs eased.

Despite the slight improvement in the headline figure, demand conditions deteriorated in both sectors, particularly in the manufacturing sector.

In addition, French companies continued to reduce their workforce in July.

On the price side, July data point to moderate inflationary pressures, as input costs and producer prices rose at rates below their respective long-term averages.

Indice PMI composite - France



Source: S&P, July 24, 2025

French companies' outlook for the year ahead fell to its lowest level since November last year, with manufacturers and service providers reporting a significant drop in morale.

Topicality

Germany | The manufacturing PMI rose to 49.2 at the end of June. It was expected at 49.4

France | The manufacturing PMI in increase at the end of June to 48.4 vs. 48.1 for the month previous.

Agenda

July 30 l Federal Reserve Decision on interest rates

31 July l Publication of the rate of inflation in Germany, France and the United States at end of July

Authors

Daniele CURCI
Head of Investment Specialists Liquidity Solutions and Business Development

Denis DUONG
Investment Specialist Liquidity Solutions

Follow

Amundi Investment Solutions
Trust must be earned