

# Inflation back on the rise in the Eurozone

In the US, core inflation keeps the Fed under pressure

## Central banks ready to cut rates again

- ▶ **Inflation** is back on the rise in the eurozone. The end-October figure highlights the resilience of consumer prices, but should not alter the central bank's plans to cut rates.
- ▶ **Christine Lagarde** The President of the European Central Bank is satisfied with the trajectory of inflation, but does not consider that the battle has been won. The next rate cuts will be decided on the basis of the data available. The aim is to achieve sustainable inflation of 2%.
- ▶ **US inflation** Mixed data on US consumer price inflation. Core inflation rose to 2.7%, increasing the pressure on the Fed's monetary easing cycle. Headline inflation is down to 2.1%, converging towards the central bank's target.
- ▶ **The markets are** forecasting at least 5 rate cuts by the ECB before September 2025 and 4 by the Fed over the same period.
- ▶ **Japan** The central bank has decided to keep interest rates unchanged, but says that further rises are likely in the months ahead in view of steadily rising prices.

## Number of the week

**2,0%**

This is the estimate of the annualised inflation rate at the end of October for the Eurozone.



## Christine Lagarde

Despite the convergence of inflation towards the 2% target, the battle is not yet won, according to ECB President Christine Lagarde.

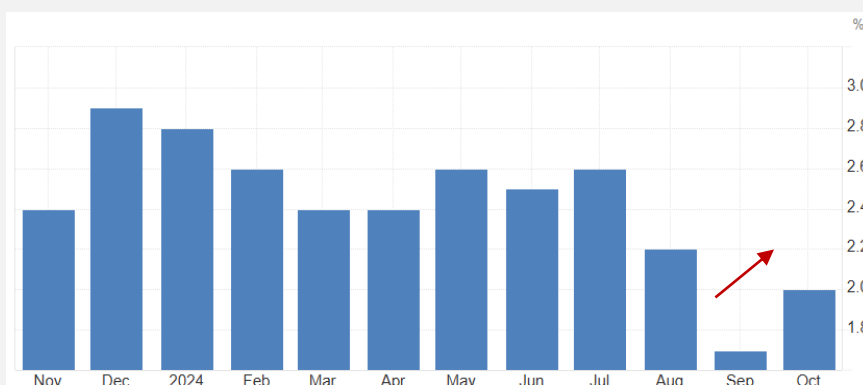
"The target is in sight, but I'm not going to tell you that inflation is under control. [...] We also know that inflation will rise in the coming months, simply because of base effects. [...] The extent and sequence of interest rate cuts will be determined by the economic data in the weeks and months ahead. I hope that the 2% target will be achieved on a lasting basis.

According to Christine Lagarde, in the absence of a major shock, this target will be achieved by 2025.

The ECB is expecting a consumer-led recovery.

"Based on the information and analyses we currently have, we do not expect a recession in 2024, 2025 or 2026.

## Inflation in the Eurozone



Source: EUROSTAT 31/10/24

Inflation in the eurozone accelerated to 2% in October 2024 after reaching 1.7% in September, the lowest rate since April 2021 (vs. forecasts of 1.9%), according to preliminary estimates. A rise in inflation in the final months of the year was already expected due to base effects. Prices rose faster for food, alcohol and tobacco (2.9% vs. 2.4%) and non-energy industrial goods (0.5% vs. 0.4%). Energy costs fell at a slower pace (-4.6% vs. -6.1%), but services inflation stabilised at 3.9%. Core inflation remains unchanged at 2.7%, the lowest rate since February 2022.

## F. Panetta (ECB): Low inflation risks call for further rate cuts

According to **Fabio Panetta**, the ECB must continue to reduce borrowing costs to prevent inflation from being underestimated". Monetary conditions are still tight and further cuts will be necessary", said the Governor of the Bank of Italy in Rome on Thursday.

While inflation is falling, we should focus on the sluggishness of the real economy: without a sustained recovery, inflation risks being pushed well below target, which would open up a scenario that monetary policy would find difficult to counter and which should therefore be avoided".

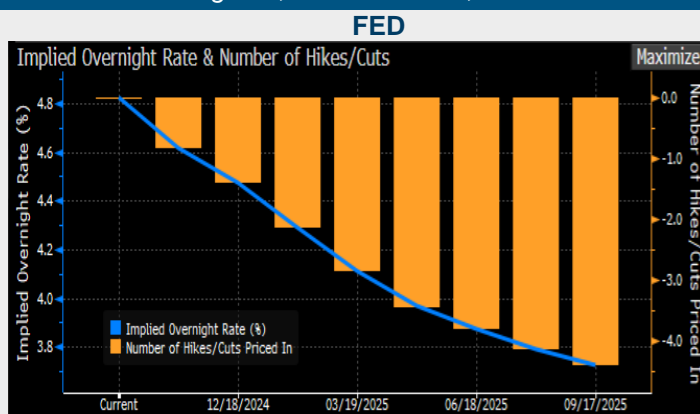
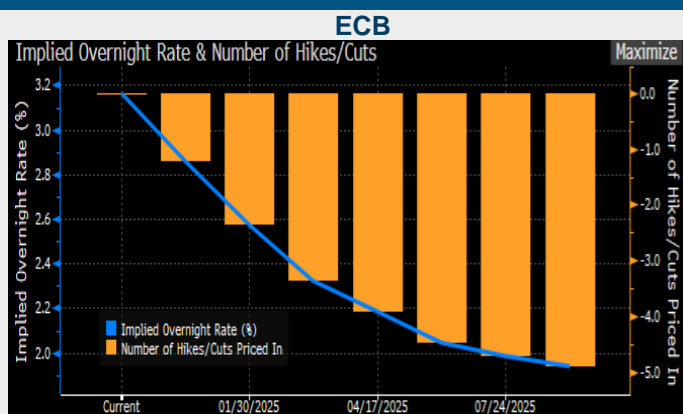
The ECB is considering how quickly it will cut rates after making its third rate cut of the year this month. President Christine Lagarde said last week that the pace of easing had not yet been decided, although the direction of monetary policy is clear.

Investors are more confident about the outcome of the cycle. They anticipate a series of measures until the deposit rate reaches 2% in the middle of next year. Inflation, however, seems largely under control: the 2% target is within reach at the beginning of next year, not at the end of 2025 as previously thought.



*I want the 2% target to be achieved in a sustainable way*

*Christine Lagarde, President ECB, 31 October 2024*



Source: Bloomberg 31/10/24

Market expectations for interest rates in the eurozone make a further cut at the next monetary policy meeting on 12 December, the last in 2024, virtually certain.

Current forecasts are for a rate cut of around 25 basis points for each of the next five meetings of the European Central Bank.

According to this scenario, the €STR rate could fall below 2% by July 2025, which is slightly higher than last week's forecasts.

On the US side, there are still two Federal Reserve meetings to go before the end of the year, the next of which will take place on 7 November.

Forecasts indicate an 83% probability of a further rate cut at the November meeting, and at least four in total between now and September 2025.

This figure is lower than last week's forecasts, when a further fall was expected.

According to these forecasts, the federal funds index could fall as low as 3.7%.



### Inflationary pressures in the US

US core inflation recorded its biggest monthly rise since April, strengthening the case for a slowdown in the pace of interest rate cuts.

This index, which excludes volatile food and energy products, rose by 0.3% in September and by 2.7% year-on-year.

However, headline inflation fell to 2.1%, the lowest level since early 2021 and just above the Fed's 2% target. These figures cap a month of positive surprises in key economic reports that should encourage a cautious approach to interest rate cuts in the months ahead.

The Fed is expected to authorise a second rate cut at its meeting on 6 and 7 November, after cutting rates by 50bp in September.

## Interest rates unchanged in Japan

The Bank of Japan (BoJ) held short-term interest rates steady on Thursday, but signalled that further increases were still on the horizon as prices continued to rise.

The unanimous decision by the Japanese central bank's Monetary Policy Committee to maintain its target rate at around 0.25% was widely expected, with some analysts now predicting a rate rise as early as the BoJ's December policy meeting.

BoJ Governor Kazuo Ueda confirmed that the bank would not be deterred by the recent political turmoil in Japan and would continue to raise rates if wages and prices continued to evolve in line with forecasts.

"If the outlook for the economy and prices materialise, I think we will have to continue to raise interest rates and adjust the level of monetary easing accordingly".

The bank's decision to maintain rates came against a backdrop of unusually high political uncertainty in Japan.



Kazuo Ueda, Governor BoJ

*"The BOJ must pay due attention to future developments in foreign economies, particularly the US economy, and to developments in financial markets".*

### News



▶ **Spain** | Annualised inflation at the end of October was 1.8%, up on the previous year. previous month (1.5%)

▶ **Germany** | Annualised inflation at the end of the year October was up (2.0%). It was 1.6% to end September

### Agenda



▶ **5 November** | Presidential election American

▶ **7 November** | Decision on rates Federal Reserve and the European Central Bank. Bank of England

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