

## The ECB already past the halfway mark

*The European Central Bank (ECB) is expected to cut rates again next week, for the 6<sup>th</sup> time to 2.5%. However, the tone could shift, to anchor the fact that the end of the rate-cutting cycle looms ahead, given the signs of improvement in the economy, the forthcoming rise in military spending and low unemployment. In addition, monetary policy may soon no longer be seen as restrictive. We therefore expect 3 rate cuts between now and the autumn, compared with 5 already made. The ECB's communication could also prove cautious in view of the new threats of increased US tariffs, which would pose a risk to both growth and inflation.*

**Market expectations have fallen.** The ECB's rate-cutting cycle was faster than that of the US Federal Reserve or the Bank of England. However, it was much slower than the previous ECB rate-cutting cycle (2008-09) and the rate-hike cycle that preceded the current easing cycle (2022-23).

Despite this, market expectations (and our own) remain moderate, with 3 further rate cuts between now and September (2 after next week). As a result, the rate at which the ECB would end its cycle would be 2% - much higher than that prevailing in the aftermath of the financial crisis.

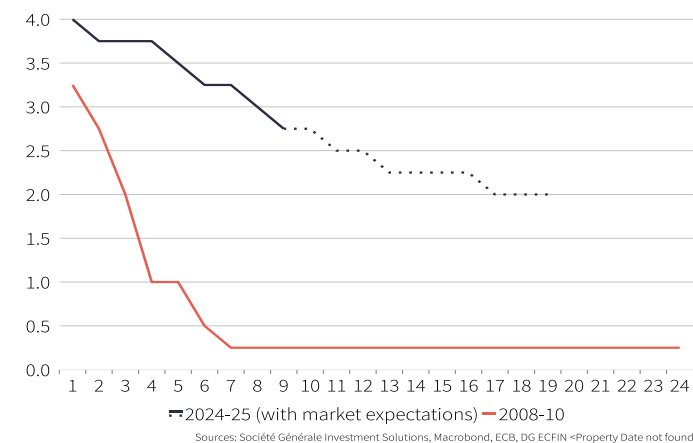
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**Growth: light at the end of the tunnel ?** After three difficult years, the euro area economy is showing signs of improvement. Household and business confidence surveys have stopped deteriorating, stabilising at low levels. Moreover, credit to the private sector has continued to pick up - proof that the ECB's rate cuts are beginning to take effect. In addition, according to the ECB's survey of lending conditions, banks no longer see the cost of credit as a major constraint on lending. Finally, the political situation has stabilised, and fiscal policy should prove more accommodating: a less draconian budget in France, a possible fund dedicated to military spending in Germany and a revival of military spending throughout Europe. Nevertheless, US trade policy remains a major risk for the European economy.

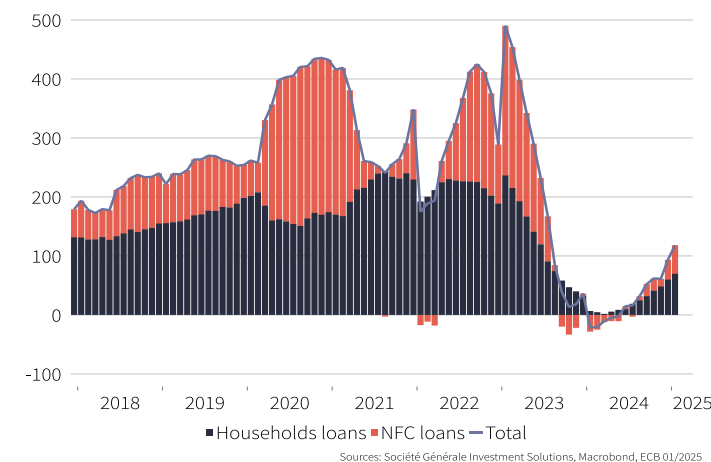
**Inflation: close to target, not below.** Euro area inflation has been close to the ECB's 2% target for the past year. But a sustained fall below this target seems unlikely. Tensions on the labour market have eased, but the unemployment rate is likely to remain low, largely due to the ageing of the population - limiting the degree of wage moderation. In addition, volatile energy prices and the implementation of protectionist policies should also keep inflation higher than in the last decade.

**Rates close to the neutral level.** The neutral rate is the rate that is neither accommodative nor restrictive, compatible with inflation at 2% and a balanced labour market. This rate cannot be calculated precisely, but the ECB has published a range of estimate between 1.75% and 2.25%, although it could be as high as 3%. At 2.5% expected next week, ECB rates would therefore be close to the zone where monetary policy could no longer be considered restrictive. Given the (expected) improvement in growth, the ECB should probably prefer to stay close to the neutral rate and, barring a marked recession, not move into the accommodative zone.

## ECB RATE CUT CYCLES



## EURO AREA – PRIVATE SECTOR CREDIT GROWTH (YEAR-OVER-YEAR)



# OUR MACRO COMMENTS

## Events of the week

### Q4 earnings season

Although the European markets have risen significantly more than the US markets since the start of the year (10% for the STOXX 600 and 1.5% for the S&P500), Q4 corporate results continue to argue in favour of the US (sales and earnings above expectations overall). In Europe, results are more mixed. The property sector is still suffering from high long-term interest rates and weak demand for mortgages.

On the other hand, industrials, buoyed by defence, and financials performed well. Overall, the fundamentals continue to argue in favour of maintaining a positive weighting in US equities, despite the high valuation, even if this week's fall in consumer confidence reminds us of the uncertainties surrounding inflation.

### THE WEEK IN DATA

Country	Data	Actual	Last	Forecast
Germany	Gfk Consumer confidence	-24,7	-22,4	-21
	Ifo Business Climate	85,2	85,2	85,5
France	Inflation HCPI rate February	0,90%	1,70%	1,10%
United States	Durable Goods orders MoM January	3,10%	-1,80%	2,20%
Spain	Inflation HCPI rate February	2,90%	2,90%	2,90%

Source: Macrobond, February 28, 2025. The colors in the 'Actual' column correspond to the difference from the forecast

### German elections: hopes for a coalition before Easter

As expected, the CDU/CSU came out ahead in the general elections in Germany (28.60%). The far-right party AfD (Alternative for Germany) won 21% of the vote. The SPD of outgoing Chancellor Olaf Scholz only won 16.5%. Friedrich Merz, the leader of the CDU/CSU alliance, is due to start the negotiations to forming a grand coalition government with the SPD (328 seats between them, i.e. 52% of the seats in the Bundestag) by Easter.

Negotiations have also been initiated to rapidly launch a special defence fund dedicated. Regarding a reform of the debt brake allowing a revival of public investment, the CDU/CSU-SPD coalition and the Greens would not be numerically large enough (416 seats required against 413 for these 3 parties).

### KEY EVENTS NEXT WEEK



#### Monday

**China** Manufacturing PMI February  
**Euro area** Inflation rate February  
**United States** ISM Manufacturing February

#### Wednesday

**United States** ISM Services February

#### Thursday

**Euro area** ECB monetary policy decision

#### Friday

**United States** -Non farm payrolls  
 -Unemployment rate

#### Saturday

**China** Inflation rate February

# MARKET PERFORMANCES

## Interbank rates

%	26/02/2025	28/01/2025	28/11/2024	01/01/2024	28/02/2024
US SOFR	4.353	4.33	4.68	5.34	5.32
Euro area €ster	2.665	2.92	3.16	3.88	3.91
UK SONIA	4.455	4.70	4.70	5.19	5.19
Switzerland SARON	0.447	0.45	0.96	1.70	1.69
Japan TONAR	0.477	0.48	0.23	-0.04	-0.01

## 10Y Government rates

%	27/02/2025	28/01/2025	28/11/2024	01/01/2024	28/02/2024
US Treasuries	4.29	4.55	4.25	3.88	4.27
France OAT	3.10	3.28	2.95	2.55	2.93
Germany Bund	2.42	2.53	2.13	2.02	2.46
Italy BTP	3.49	3.64	3.35	3.70	3.88
Spain Bonos	3.09	3.17	2.84	2.98	3.34
Switzerland	0.45	0.44	0.31	0.66	0.85
UK Gilts	4.52	4.58	4.28	3.60	4.18
Japan JGB	1.36	1.22	1.06	0.62	0.69

## Credit

%	27/02/2025	28/01/2025	28/11/2024	01/01/2024	28/02/2024
United States IG	5.12	5.28	5.11	5.06	5.42
United States HY	7.14	7.22	7.19	7.59	7.88
Europe IG	3.32	3.55	3.38	3.72	4.07
Europe HY	5.41	5.80	5.81	6.80	6.69
Emerging FX	6.14	6.31	6.21	6.77	6.96

## Equity indices

27/02/2025 vs	-1w	-1m	-3m	01/01/2024	-1y
World	-1.75	-1.585	-0.066	21.44	15.45
United States	-2.56	-3.715	-2.908	23.33	16.52
Euro area	0.44	5.217	13.266	21.53	15.82
France	-0.41	2.575	12.798	10.81	6.00
Germany	1.17	5.680	15.317	31.25	26.98
United Kingdom	1.04	2.624	5.338	16.42	16.88
Japan	-0.03	-0.704	2.002	18.27	4.68
Emerging	-1.56	3.119	4.594	17.38	15.07
China USD	-0.68	15.918	20.485	39.01	43.04
India USD	-2.46	-3.683	-12.935	1.57	-4.17
Latin America USD	-2.89	1.563	2.948	-19.36	-15.34

## Foreign exchange rates

	27/02/2025	28/01/2025	28/11/2024	01/01/2024	28/02/2024
EUR/USD	1.04	1.04	1.06	1.11	1.08
GBP/USD	1.26	1.24	1.27	1.27	1.27
EUR/CHF	0.94	0.94	0.93	0.93	0.95
USD/JPY	149.90	155.73	151.57	141.03	150.77
USD/CNY	7.28	7.25	7.24	7.08	7.20

## Commodity prices

	27/02/2025	28/01/2025	28/11/2024	01/01/2024	28/02/2024
Brent, USD/BL	73	77	73	77	82
Copper, USD/Metric ton	9,416	8,891	8,851	8,476	8,341
Gold, USD/Troy oz	2,877	2,764	2,638	2,063	2,035
Silver, USD/Troy oz	32	30	30	24	22
Palladium, USD/Troy oz	922	959	987	1,136	918
Platinum, USD/Troy oz	957	939	935	1,000	884

Source : Bloomberg on 28 February 2025, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change, Equities; total return in local currency. Government bonds = 10 year returns. Figures are rounded.



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