



Liquidity letter

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Towards a recovery in the euro zone?

PMI indices deliver a positive surprise

The composite PMI for overall activity in the eurozone came in at 51.4 in April, after 50.3 in March, against a consensus of 50.8. The PMI for services came in at 52.9 in April, against a consensus of 51.8, after 51.5 in March. The manufacturing PMI, expected at 46.5, failed to exceed 45.6 after 46.1 in March.

The decline of inflation over the past year, coupled with rising wages, has boosted consumption and kept the eurozone economy from sliding into recession.

The services sector is continuing to grow, giving France and Germany a slightly brighter economic outlook.

Conversely, the industrial sector is still struggling, with its PMI index falling again in April. The situation remains gloomy in the eurozone manufacturing sector, with order volumes down in April.

Despite the difficulties, Germany's composite PMI exceeded the 50 mark, reaching 50.5 for the first time in 10 months. In France, the index also improved, rising from 48.3 to 49.9, but still lagging slightly behind.

Markets are expecting the ECB to cut rates at its June 6 meeting. ECB Vice-President Luis de Guindos said in an interview published on Tuesday that it was now a "fait accompli" as long as price pressures remained under control.

Number of the week

3,4%

U.S. core inflation (1st quarter)



ECB optimistic but...

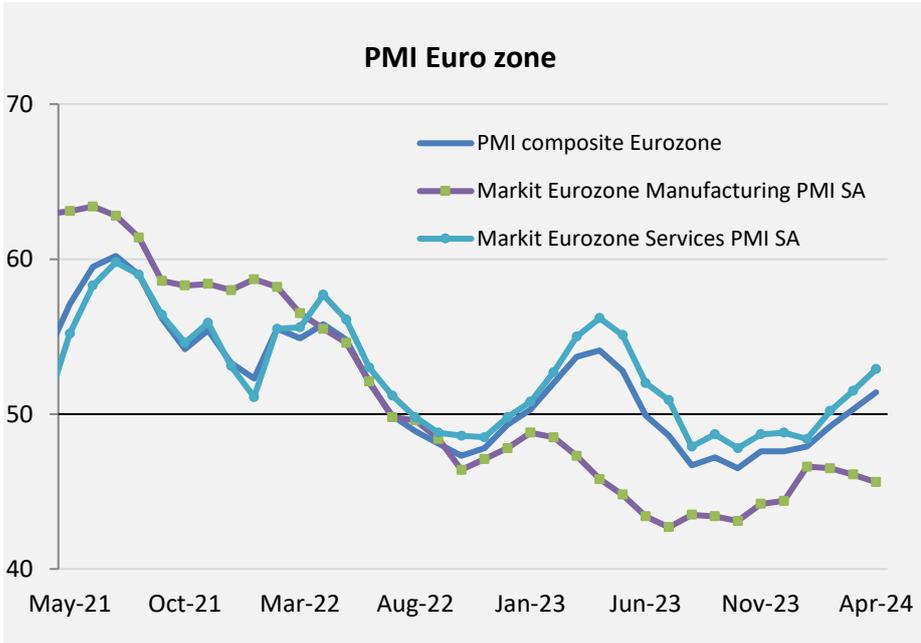
Joachim Nagel, President of the Bundesbank, said that inflation in the eurozone could still be persistent.

Joachim Nagel gave his assent to a rate cut in June, but expressed concern about inflation: *"Such a measure would not necessarily be followed by a series of rate cuts"*.

Given the current uncertainty, the ECB cannot commit itself prematurely to a rate path. According to Mr. Nagel, services inflation is still fuelled by strong wage growth, remaining more anchored than goods inflation.

"I'm not yet fully convinced that inflation will indeed return to target in a timely and sustainable manner".

The ECB has hinted at easing monetary policy at its next meeting on June 6, but officials are still debating the extent of future rate cuts.



The composite PMI index passed the 50 mark, showing that growth prospects for the eurozone economy are improving.

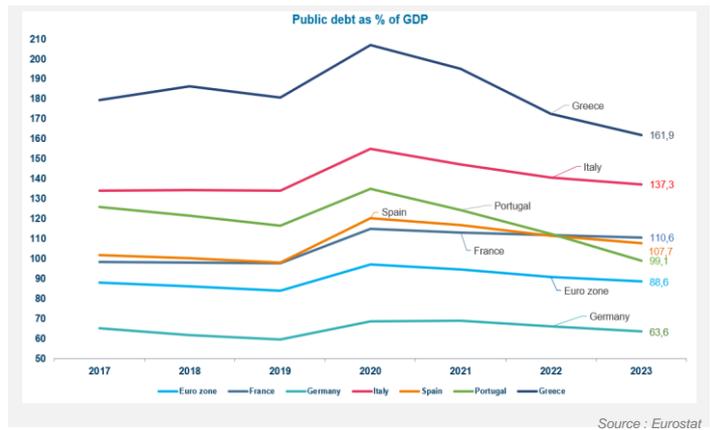
Source : Bloomberg



Euro zone: public debt declines

According to Eurostat, the weight of public debt continued to fall in the eurozone last year, mainly thanks to inflation. The ratio of public debt to GDP fell from 90.8% at the end of 2022 to 88.6% at the end of 2023.

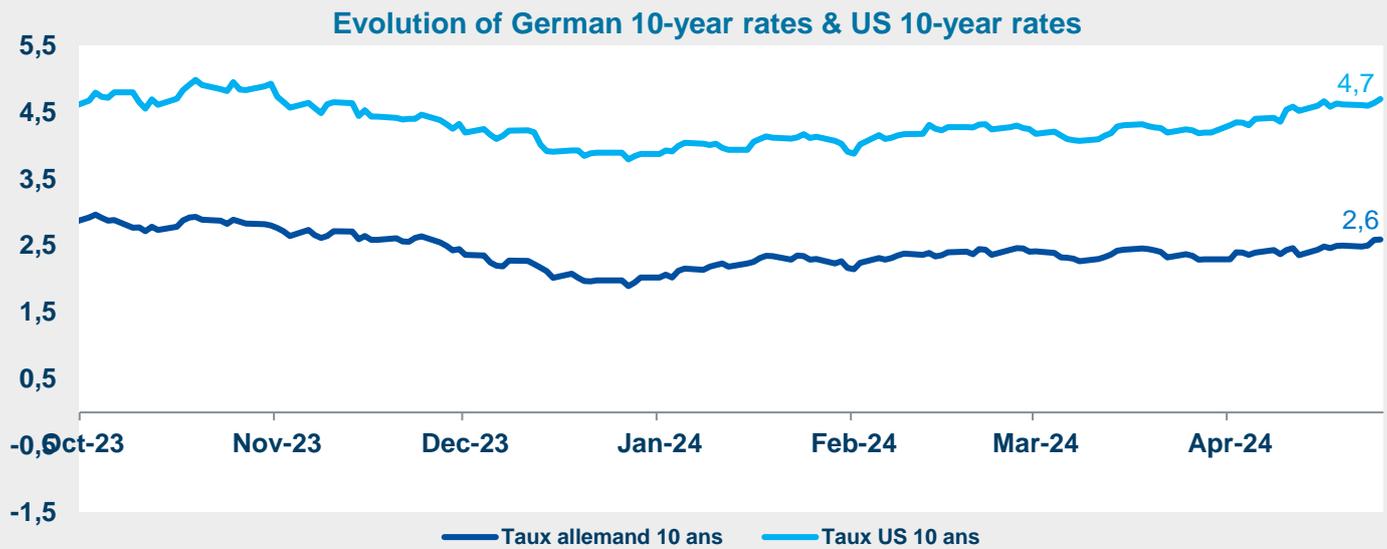
As a result, the ECB's key rate hikes have not led to any slippage in Europe's public finances. It was the southern European countries that saw the biggest reduction in their public debt. Portugal, Greece and Spain saw the weight of their public debt fall by 13, 11 and 4 points respectively. This decline is due to inflation, which has boosted tax revenues and led to an increase in GDP. In addition, the economies of these 3 countries experienced relatively strong growth in 2023, thanks to the tourism sector.



“ In June, we will reduce our restrictive monetary policy...beyond that, I prefer to be cautious. ”

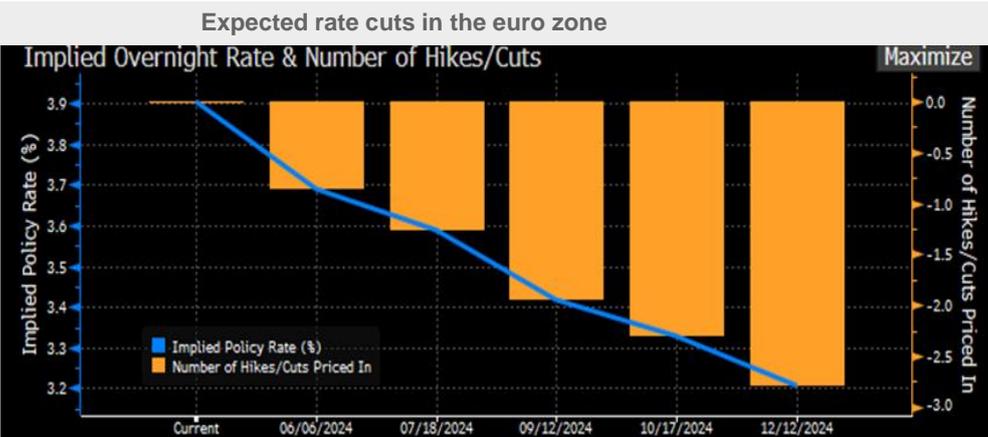
Luis de Guindos, Vice-president of the ECB, April 2024

Market Impact



Even before the first monetary policy decisions were taken, long rates began to diverge on both sides of the Atlantic. Whereas in mid-January, the spread (the difference in yield) between US 10-year government bonds and their German equivalents was just 170 bp, last week it jumped by almost 50 bp to 210 bp. A record since December 2019.

Source : Bloomberg



The probability of a 25 bp rate cut at the ECB meeting on June 6 is almost 86%.

The markets anticipate that the FED is unlikely to act before November or even December. It will probably only ease rates once in 2024, far from the 6 or 7 anticipated by the markets at the start of the year.

Source : Bloomberg



The IMF raises its growth forecasts

Supported by the US economy and certain emerging countries, such as India and Brazil, the global economy should perform better than expected, according to the latest IMF report published on April 16. The institution now expects global growth to reach 3.2% in 2024, revised slightly upwards from its January estimate of 3.1%.

However, this trend is not mirrored in the other advanced economies, and in particular in the Eurozone, whose already weak growth is revised down slightly to 0.8% (-0.1%). This is due to the fragility of the zone's two leading economies, Germany and France, whose growth is both revised downwards, to 0.2% and 0.7% respectively.

Italy should continue to slow down, also to 0.7%, while Spain should see a much more positive trend, up 0.4% to 1.9%.

Outside the European Union, the UK economy is also likely to remain sluggish, with growth forecast at just 0.5% (-0.1%).



Growth is rebounding in the eurozone this year, but unlike in the US, there is no sign of the economy overheating. The ECB will therefore have to be cautious about its shift towards an easing of monetary policy.

Source : IMF

News



▶ **Germany** | IFO index (89.4 vs. 87.9) shows business climate improving in April

▶ **Australia** | Annual inflation down to 3.6% (April)

Agenda



▶ **29 April** | German inflation figures released (April)

▶ **30 April** | Euro zone inflation figures released (April)

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