

Liquidity letter

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Some clouds, but no storm

France: markets react moderately

The markets had already factored in the scenario of no majority in the French National Assembly before the second round of parliamentary elections.

The fragmented Parliament provides no room for voting on the toughest measures proposed by the extreme parties (right and left), nor for adopting a confrontational stance with the European Union.

However, the absence of an absolute majority - and even of a possible natural coalition - prolongs the political uncertainty in France. Forming a new government is likely to take time, and three options are on the table: a center-left minority government, a center coalition led by the presidential party, and a technical government.

In any case, there will be little room for manoeuvre, and stagnation is likely to prevail.

Moody's, which currently rates France Aa2 with a stable outlook, has warned that the rating could be downgraded to negative depending on the impact of political negotiations on the budget path.

This should keep the risk premium on French debt at high levels for some time to come.

Number of the week

3%

US inflation (June)



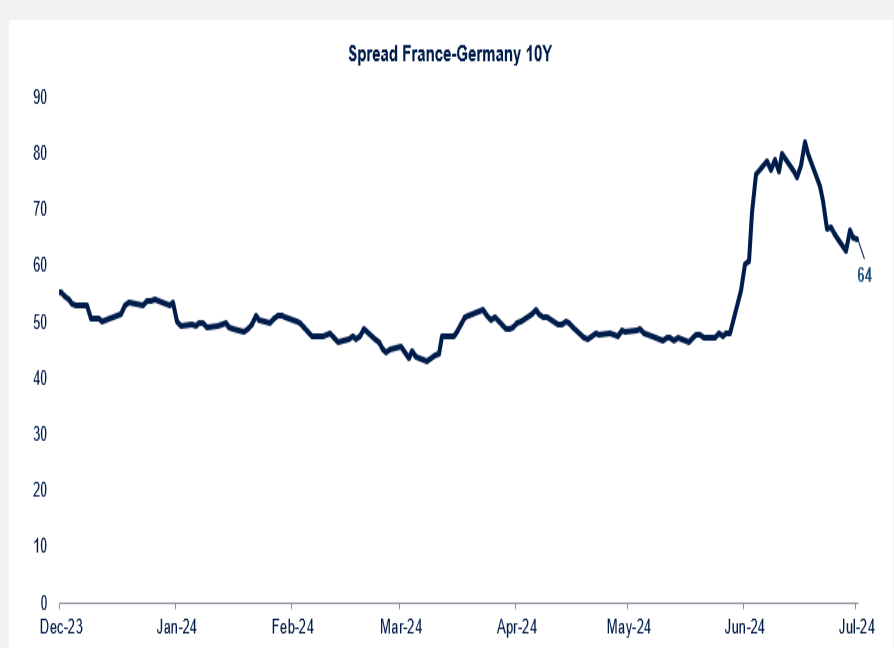
French economy should remain resilient in 2024

GDP growth should come out at 1.1% in 2024, the same as last year, according to an initial estimate by Insee.

In spite of the political crisis, INSEE has nevertheless revised its first-half growth forecast upwards. In fact, the French economy should benefit from the effects of the Olympic Games and a rebound in household consumption thanks to wage increases that are outpacing price rises.

Exports were buoyant in late 2023 and early 2024, buoyed by the upturn in world trade. Between now and the end of 2024, they will grow in fits and starts, in line with aeronautical and naval deliveries. On average, over 2024, they will grow (+3.5%) significantly faster than imports (+0.8%).

Business investment should be stable, but caught between a slightly improved outlook for demand, in an uncertain environment, and difficult financial conditions.



The France-Germany 10-year spread remains at a high level (64 bp), but has not moved sharply apart following the results of the parliamentary elections.

Source : Amundi, Bloomberg



US inflation continues to fall

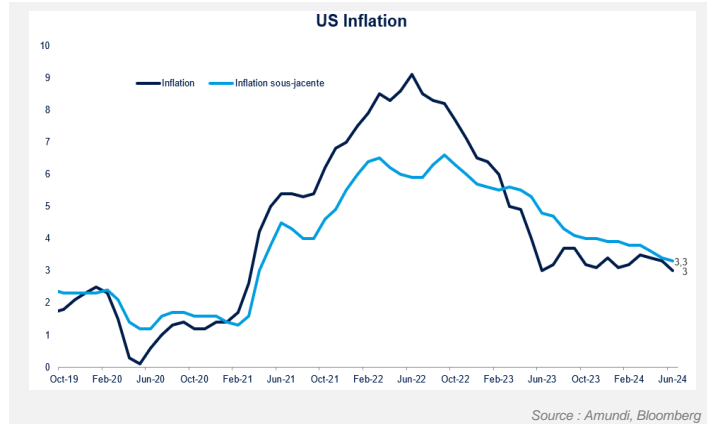
It fell faster than expected to 3% in June, an encouraging sign for the Fed as it ponders the pace at which to cut interest rates.

The data also show that consumer prices fell by 0.1% on a monthly basis, whereas economists were expecting an increase of 0.1%.

This is the first time since 2020 that these prices have fallen.

Core inflation, which excludes volatile food and energy prices, came out at 3.3% on an annual basis, lower than the 3.4% expected.

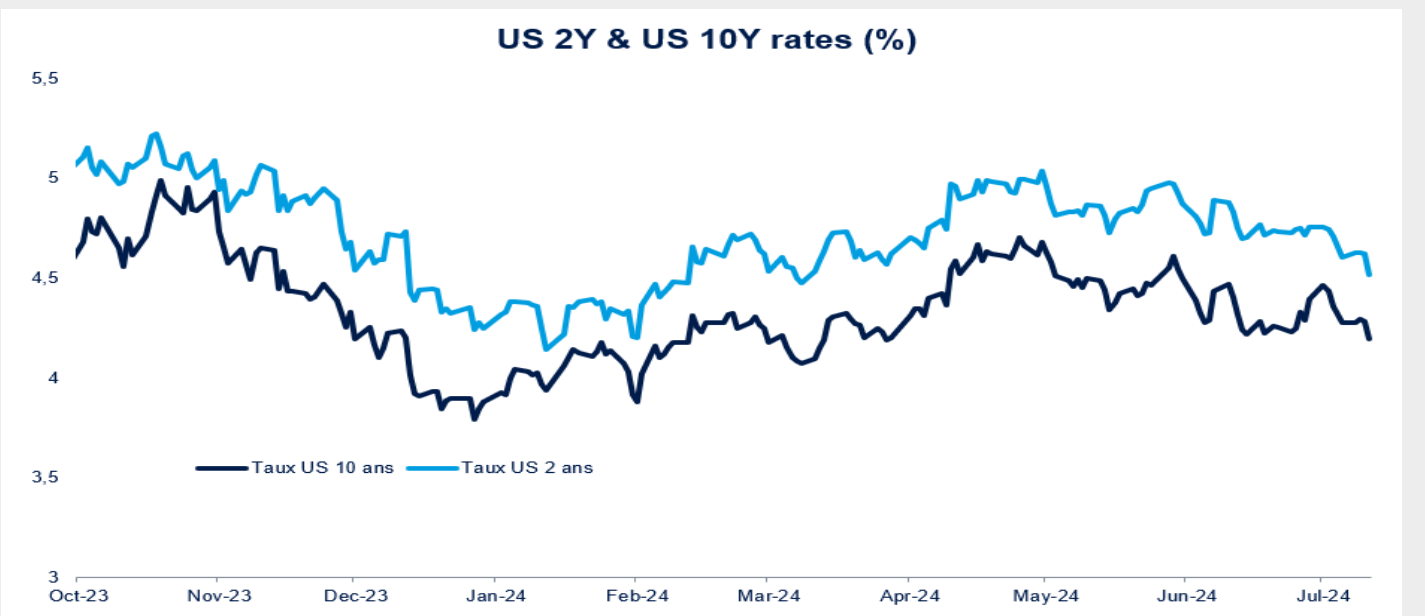
Following the publication of these data, the probability of the Fed cutting rates in September now exceeds 85%, compared with 73% the previous day.



“ As we make progress on inflation [...], we begin to ease policy at the right time ”

Jerome Powell, President of the Fed, 9 July 2024

Market Impact



In reaction to the lower than expected inflation figures, the yield on the US 10-year sovereign bond plunged by more than 8 bp on Thursday, hitting its lowest level since last March at 4.19%.



In the European credit market, political uncertainties in France continue to dominate the news.

The latter doesn't seem to be overly concerned, having now cancelled almost all of the post-dissolution widening movement of the National Assembly on June 9.



United States: Jerome Powell welcomes "progress" on inflation

During a hearing on Tuesday before a Senate committee, Jerome Powell noted that *"recent inflation data show further, modest progress"* by the US economy.

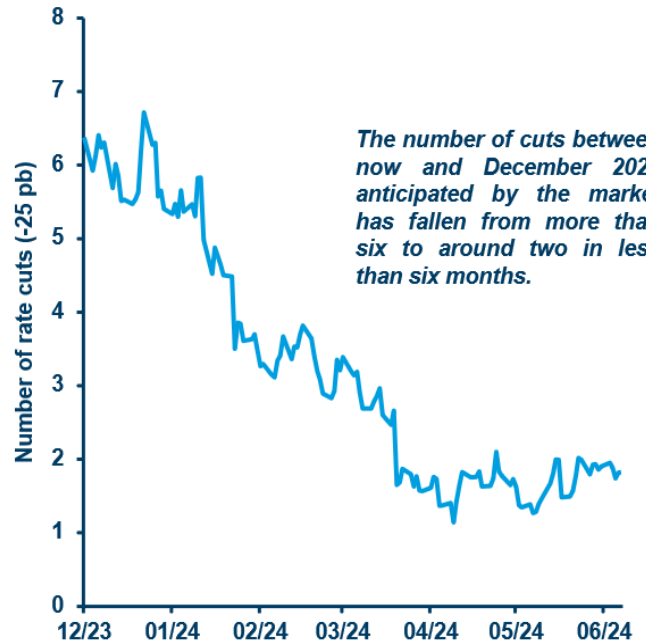
This is the second time he has expressed confidence in inflation trends in recent months, following similar comments at the central bankers' forum in Sintra on July 2.

These comments reinforce market confidence in the likelihood of a first rate cut as early as the September meeting (85%).

Overheated since the end of the Covid-19 pandemic, the US job market is showing signs of slowing, with the unemployment rate now above 4%, at 4.1%, but with job creation still above expectations.

A total of 206,000 jobs were created over the past month, compared with 218,000 the previous month. Jerome Powell added that the labor market had *"cooled but remained strong"* and that economic growth had moderated after a strong expansion in the second half of last year.

Fed rate cuts in 2024 priced in by the market



Source : Amundi, Bloomberg

Actualité



▶ **USA** | Weekly jobless claims 222 000

▶ **Germany** | Inflation rate at 2.2% (June)

Agenda



▶ **12 July** | Publication of final French inflation figures (June)

▶ **16 July** | Publication of final Euro Zone inflation figures (June)

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