Liquidity letter

n°94 I 29 February 2024

It's all about trust

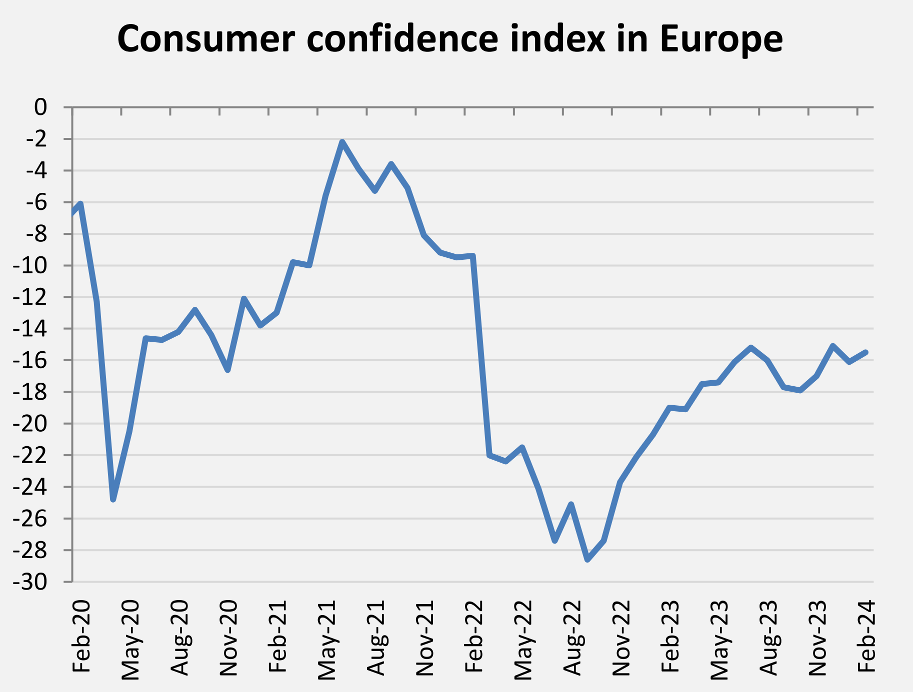
Household confidence at half mast

Household surveys were slightly disappointing in February. They show that confidence in developed countries has stopped rising after peaking at the beginning of 2022.

In the United States, the Conference Board survey shows that household confidence unexpectedly fell in February for the first time in 4 months. Nevertheless, it remains relatively high, but the survey indicates a slight deterioration in the labour market and its evolution. This does not suggest a reversal of growth in the US, but probably a weaker dynamic than in the second half of 2023.

In the eurozone, household confidence has been stagnating since the end of 2023, whereas it had rebounded sharply since mid-2023. This suggests that the recovery in the eurozone could be gradual in 2024, and therefore less marked than the ECB anticipates, especially as the volume of credit granted to businesses fell in January, whereas it had begun to improve at the end of 2023.

In Germany, household confidence remains very weak, while it is recovering slowly in France and improving more markedly in the rest of the zone. Momentum has been solid in Italy and Spain since the start of 2024.



Source: Bloomberg

Number of the week

2,4%

Annual inflation rate in the United States (Jan)

Further downward revisions...

Next week, the ECB will update its macroeconomic projections. Economists expect headline inflation to be revised downwards by 2024.

Inflation forecasts will be particularly closely watched by the markets.

The ECB is expected to revise its forecasts for headline inflation from 2.7% to 2.3% and core inflation from 2.7% to 2.6% for 2024.

This slight fall can be explained, among other things, by the indirect effects of lower gas prices.

For 2025, the ECB's forecasts should remain unchanged at 2.1% for headline inflation and a slight fall in core inflation from 2.3% to 2.2%.

France : Inflation falls back below 3% to 2.9%

France has seen a marked fall in inflation since the December dip to 3.7%, followed by 3.1% in January 2024.

Over one month, however, between January and February, prices rose by 0.8%. This rebound was due to higher prices for services, particularly rents and transport, as well as energy, manufactured goods and tobacco, according to INSEE. Food prices, on the other hand, fell slightly over the month.
The fall in inflation over a year, despite the sharp rise in prices over the last month, is due in particular to "base effects", says INSEE, as prices rose sharply in February 2023.

Inflation in France

Source: INSEE

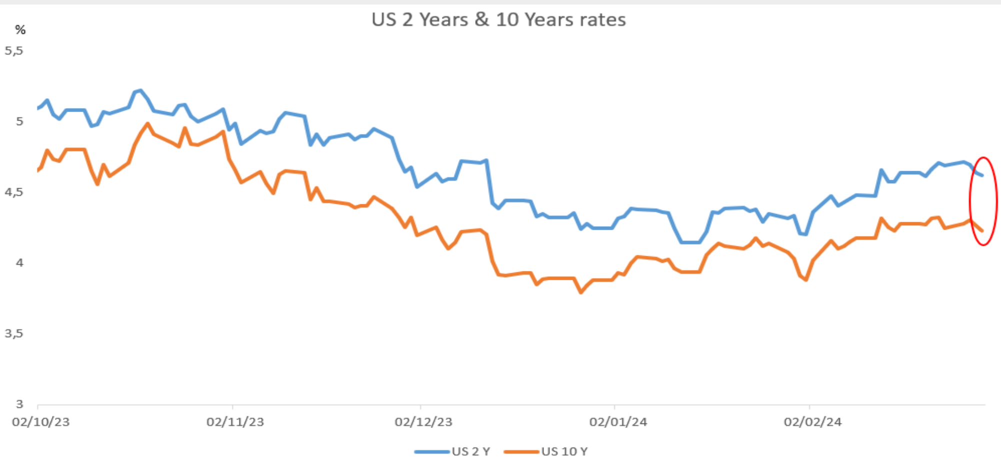
> *Looking forward, we expect inflation to continue slowing down, as the impact of past upward shocks fades and tight financing conditions help to push down inflation.*
>
> *Christine Lagarde, President of the ECB , 26th February 2024*

Market Impact

Addressing the European Parliament in Strasbourg, Christine Lagarde said that wage growth remained strong in the eurozone, reviving fears that inflation would be more persistent than expected. Against this backdrop, interest rates rose again.

German and French 2-year yields rose by 7 bp and 6 bp respectively over the week.

Source: Bloomberg



Following the publication of the inflation rate at 2.4% in January compared with 2.6% in December, US sovereign yields eased.

The 2-year and 10-year yields lost 7 bp and 8 bp on 29 February.

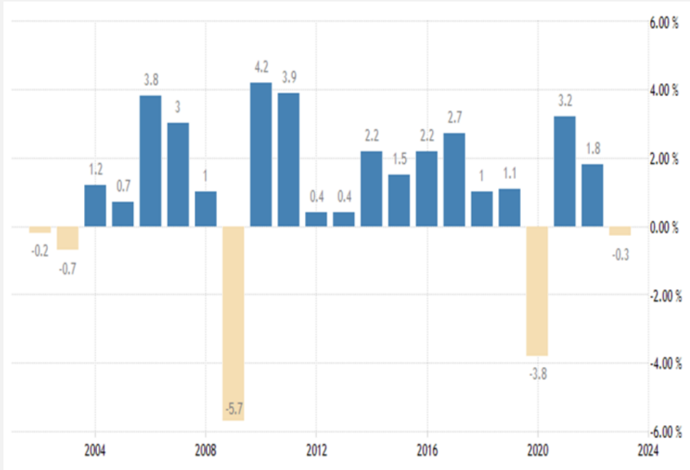
Source: Bloomberg

Germany : in turbulence

At the start of this year, the German economy is still in a difficult situation. Germany has sharply lowered its economic growth forecast for 2024, expecting GDP to rise by 0.2% compared with 1.3% in the last forecast in autumn 2023.
According to Eurostat, German GDP had already fallen by 0.3% by 2023, while that of the eurozone and the EU rose by 0.5%. If these forecasts prove accurate, the last two years will be the worst for German growth since 2012/2013 (with the exception of 2020 during the global health crisis).
This crisis is caused by a multitude of factors that are impacting the main engine of the German economy, the industrial sector.

Since the war in Ukraine, German industry has been suffering from high energy costs, with Russian gas supplies coming to an end, and high interest rates holding back demand for credit and investment.

German GDP growth since 2002



Source: Eurostat

News

- **Germany** | Inflation rate at 2.5% (Feb)
- **France** | Inflation rate at 2.9% (Feb)

Agenda

- **1st March** I Publication inflation rate in the eurozone
- **7th March** I ECB meeting