

Stubborn inflation in the United States

The figures for the end of March show no signs of weakness

A more complicated task for the Federal Reserve

- ▶ **Inflation** U.S. inflation rose as expected in February and is expected to continue rising in March amid the war with Iran, a trend that is likely to discourage the Federal Reserve from cutting interest rates for some time.
- ▶ **The minutes** of the March 17-18 Monetary Policy Committee (FOMC) meeting, released on Wednesday, showed that most officials were concerned that the conflict would weaken the labor market, justifying a rate cut. At the same time, many policymakers have highlighted the inflationary risk that could ultimately force rate hikes.
- ▶ **ECB** Pierre Wunsch believes that if the conflict with Iran drags on, the ECB may have to raise rates as early as April or by June, with possible additional hikes if the indirect effects of the crisis persist.
- ▶ **BoJ** Kazuo Ueda points out that, despite global monetary tightening, financial conditions in Japan remain very accommodative thanks to still negative real rates, which are supporting activity. However, he warns that an increase in public spending could crowd out private investment.

Figure of the week

3,0%

This is the core inflation rate in the United States. Slightly down on the previous month, in line with forecasts



Minutes of the Fed

Agrowing number of Fed officials were concerned that the war in Iran could further stoke inflation and wanted to make clear after their March meeting that the central bank may need to consider raising interest rates.

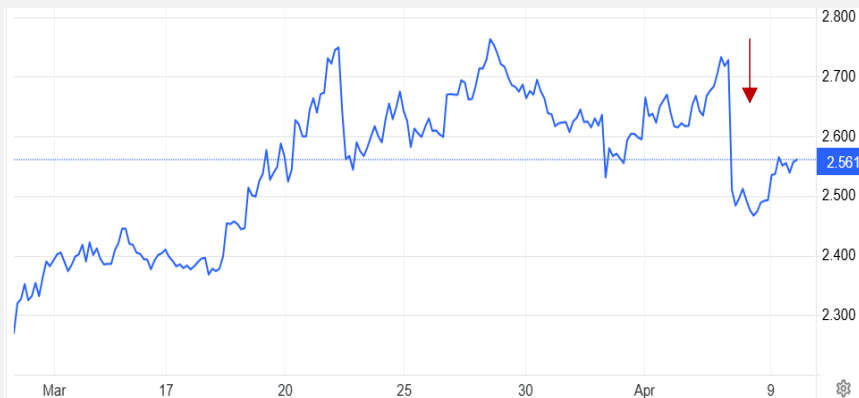
The minutes of the March 17-18 Federal Open Market Committee, released Wednesday in Washington, showed that policymakers were faced with widely divergent scenarios for the U.S. economy in the wake of the outbreak of war in Iran, as well as the political reactions that could ensue.

Most officials feared that a protracted war would hurt the labor market and justify a cut in interest rates.

At the same time, many policymakers have pointed to the risk of inflation that could ultimately justify rate hikes.

Officials who have been more worried about inflation urged their colleagues to consider adding language to their post-meeting statement that evokes the scenario of a rate hike under certain conditions.

Yield development on German 2Y bonds



Source: Trading Economics 09/04/26

The announcement of a two-week truce proclaimed by US President Donald Trump immediately caused the markets to fall in government bond yields, which welcomed the news, accompanied by a drop in the price of oil. On 8 April, German 2-year government bonds, which are very sensitive to money market developments, recorded a contraction in yields of more than 20 basis points before rising slightly at the opening of the markets on 9 April.

Wunsch (ECB): a series of rate hikes if the war in Iran persists

The ECB may have to raise interest rates several times if the conflict with Iran continues, Governing Council member Pierre Wunsch said.

I am approaching the April meeting with an open attitude in both directions," the governor of the National Bank of Belgium is reported to have said.

"Either this crisis ends pretty quickly, and you know if we raise rates, we can probably go back after a while. Or this crisis will last, in which case the first hike will be just the first of a likely series.

To put it plainly, if it's not resolved by June, I think we'll have

to raise rates, but I don't want to rule out a hike in April.

We will have to act at some point to control the indirect effects.

We will therefore focus on our medium-term vision, which remains uncertain.

Last time, we were a little late in acting.

So that's a lesson that we probably need to learn from now."

Wunsch was quoted as saying that any government support on energy prices should not stand in the way of the long-term decline in fossil fuel use.

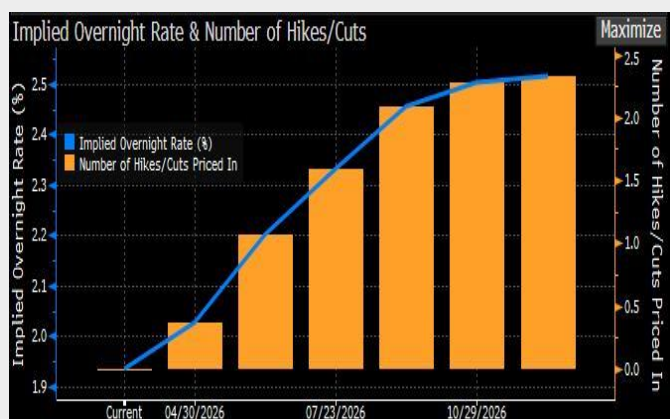


Last time, we were a little late in acting

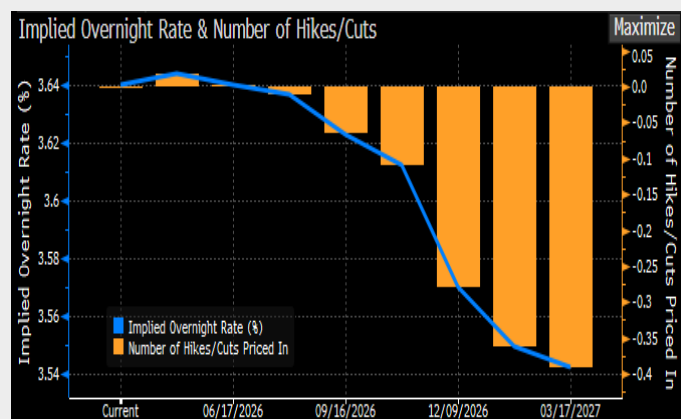


Pierre Wunsch (ECB), 9 April 2026

ECB



FED



Source: Bloomberg 09/04/26

Market expectations for interest rate developments in the euro area continue to point to at least two rate hikes by the end of the year.

The first hike is expected at the European Central Bank's meeting in June. The geopolitical turbulence linked to the situation in the Middle East has maintained a stable scenario in recent weeks, despite the two-week respite granted by the United States to reach an agreement between the parties to end the conflict. Updated inflation data in the eurozone is expected next week.

In the United States, which is less directly affected by the

geopolitical consequences and the surge in energy prices, the situation remains stable according to the markets.

There is no certainty about further interest rate cuts by the Fed and the chances of another one are around 40% by the end of the year.

However, during the week, several FOMC members were keen to make divergent statements, including some concerned about the high level of inflation that would require rate hikes instead.

NEW ZEALAND: INTEREST RATES UNCHANGED

New Zealand's central bank on Wednesday kept its key interest rate at 2.25% for the second meeting in a row, buying time to assess the impact of the war in the Middle East, while signaling that it would act decisively if inflation were to accelerate. In the short term, the central bank warned that the conflict would stoke inflation and dampen growth, as global policymakers readjust their response to the energy shock that is impacting economies.

"The Committee's decision to maintain the policy rate (OCR) weighs the potential benefits of a preemptive response to the risk of higher inflation over the medium term against the cost of an unnecessary drag on the economic recovery," the RBNZ said in its monetary policy statement. The pause comes after an aggressive easing campaign, with the RBNZ cutting rates by 325 basis points since August 2024 as inflation slowed and economic growth faltered.



Anna Breman, RBNZ

BoJ: Accommodative financial conditions

Bank of Japan Governor Kazuo Ueda reiterated that, despite the changes in global monetary policy, Japan's domestic financial conditions remain deeply accommodative.

At the heart of this analysis is the fact that real short- and medium-term interest rates are still clearly in negative territory. This persistent gap ensures that borrowing costs for businesses and households continue to support growth, even as the Bank of Japan maintains a restrictive stance.

Ueda warned that increased fiscal spending risked "crowding out" private investment.

This phenomenon occurs when massive government borrowing increases the demand for loanable funds, driving up market interest rates and making it more expensive to finance private companies' projects.

He also acknowledged that the current negative real rate environment provides sufficient support for private investment spending.



Kazuo Ueda (Bank of Japan)

The market is pricing in two rate hikes by the end of the year, with a 51% probability of a hike as early as this month.

News



United Kingdom | Services PMI declines less than expected at the end of March (48.8 vs. 49.6 the previous month)

United States | The Non-Manufacturing PMI ISM lowers expectations to 54.0 vs 56.1 registered at the end of February.

Agenda



15 April | Publication of the inflation rate in France at the end of March

16 April | Inflation rate released for the Eurozone at the end of March

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