

ECB remains on alert

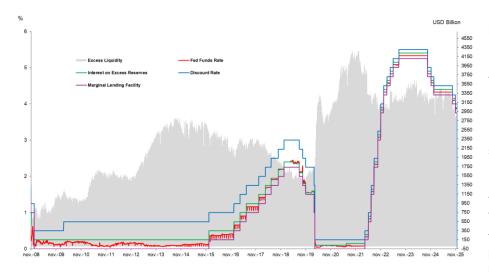
Economic situation in the United States worries the ECB

The ECB is sounding the alarm: US instability is becoming a major risk factor for financial stability in the euro area. In its half-year report published on Wednesday, the institution points to a combination of high government deficits, a weakened dollar and a possible bubble in the US technology sector, boosted by the euphoria around artificial intelligence.

The first subject of concern is the size of American deficits, which have reached levels rarely seen outside of a period of crisis. The United States has "persistently high budget deficits" requiring massive financing in a context of still tight interest rates. For the ECB, this is fuelling doubts about the sustainability of the federal debt. It points out that these concerns, "combined with market concerns about the independence of central banks, [...] have weakened the safe-haven role of U.S. Treasuries and the U.S. dollar." A weaker dollar is likely to "amplify the effects of US tariffs on eurozone exporters", the ECB warns, by eroding their competitiveness in the US market.

While "the risk of a trade war has been averted," said Vice President Luis de Guindos, the report points out that markets remain buffeted by "tariff announcements, pauses and reversals" that maintain chronic volatility.

Excess liquidity in the United States



The Fed is seeking to stabilise the size of its balance sheet, but it could also restart its purchases of financial securities.



The second area of concern for the ECB is the dependence of European banks on dollar financing.

To deal with possible difficulties, the ECB recommends that banks strengthen their liquidity buffer: "A capital margin may be necessary to absorb increased currency volatility and counterparty credit risk". She adds that "banks should hold liquid assets in US dollars to offset capital outflows and act as stabilizing intermediaries."

If balance sheet imbalances remain "limited", a shock cannot be ruled out: "In an extreme scenario, dollar outflows could limit their ability to raise liquidity". At the end of 2023, banks in the euro area held €681 billion in dollar assets for €712 billion in loans in the same currency.

The last point of concern is the fear of a bursting bubble in US tech valuations, fuelled by optimism related to artificial intelligence.



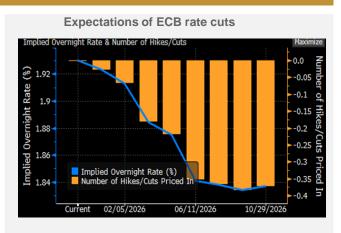


The ECB maintains its inflation projection at 2%

The ECB is expected to keep interest rates unchanged for the fourth time in a row at its last monetary policy meeting of the year in December. Most officials are confident that inflation will not deviate too sharply from their target, with Vice President Luis de Guindos saying the risk of a slippage was "limited".

For his part, Mr. Lane believes that the economy is growing and unemployment is at an all-time low. He notes that wage growth is slowing down, with the euro appreciating. "The general trend of inflation, which remains around the target, remains subject to the influence of these various factors," he said.

If price growth in the services sector has exceeded 3%, this is partly explained by wages continuing to catch up with the rise in post-pandemic inflation.

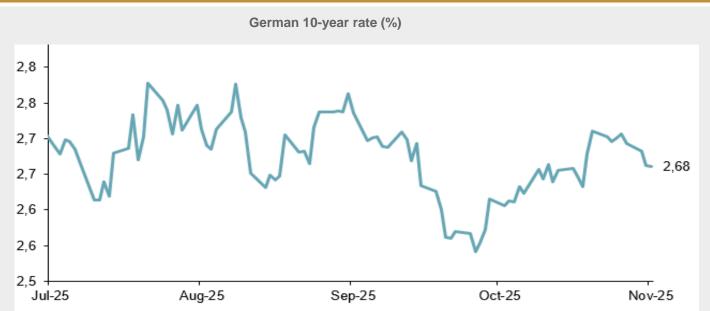


Source: IMF. Amundi

To achieve 2% inflation, European wages need to rise by 2.5% or 3%

Philip Lane, ECB Chief Economist, 26/11/2025

Market Impact



In the wake of the various sovereign rates, the German 10-year yield continued to fall below the 2.7% mark.

Source: Amundi, Bloomberg



- Yield curve normalization continues.
- From the 1-year maturity, rates continue to steepen.

Source: Amundi, Bloomberg





Beige book

The US labour market has weakened slightly this month. Some employers have lowered their hiring intentions or reduced their employees' working hours, while others have cut jobs, according to the Fed's latest Beige Book.

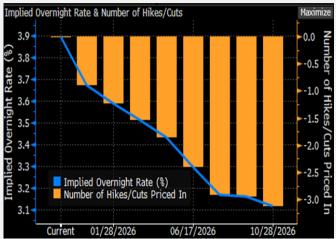
Consumer spending slowed and price pressures persisted, sending mixed signals to Fed members ahead of the last FOMC of the year on Dec. 10.

Fed governors have been very divided in recent weeks regarding the monetary policy to be pursued due to the lack of macroeconomic data following the shutdown.

The report also noted that prices have "risen moderately", despite tariffs contributing to widespread pressure on raw material costs among manufacturers and retailers.

It is difficult to determine the extent to which this will be reflected in consumer prices and reflected in inflation data.

Projections of Fed rate cuts



The probability of a 25bp cut in the Fed Funds rate is around 90% for the December meeting.

Source: Amundi, Bloomberg

News



France | Confidence Index of consumers at 89 (Nov.)

Germany | IFO, business climate at 88.1 (Nov.)

Agenda



28 November I Publication of the rate inflation in France, Germany, Spain, Italy, Portugal (Nov.)

2 December I Publication of the rate Eurozone inflation (Nov.)

Authors



Daniele CURCI
Head of Investment Specialists Liquidity
Solutions and Business Development



Denis DUONGInvestment Specialist Liquidity Solutions

Disclaimer

This publication is intended for institutional clients only and may not be reproduced, in whole or in part, or communicated to third parties without our permission. Published by Amundi Asset Management, Société par Actions Simplifiée SAS, with a capital of €1,143,615,555 - 437 574 452 RCS Paris. Asset Management Company approved by the AMF Autorité des Marchés Financiers) n°GP 04000036. Registered office: 91 93, boulevard Pasteur 75015 Paris France. The information contained in this publication is not intended for dissemination to, or use by, any person or entity in any country or jurisdiction where such dissemination would be contrary to law or regulation, or which would subject Amundi or its affiliates to registration obligations in such countries. Not all products or services are necessarily registered or authorized in all countries or available to all customers. The data and information contained in this publication are provided for informational purposes only. Nothing contained in this publication constitutes an offer or solicitation by any member of the Amundi group to provide investment advice or services or to buy or sell any financial instruments. The information contained in this publication is based on sources that we believe to be reliable, but we do not warrant that it is accurate, complete, valid or up-to-date and should not be relied upon as such for any purpose.



