

Euro area: persistently high lending rates will encourage the ECB to go further

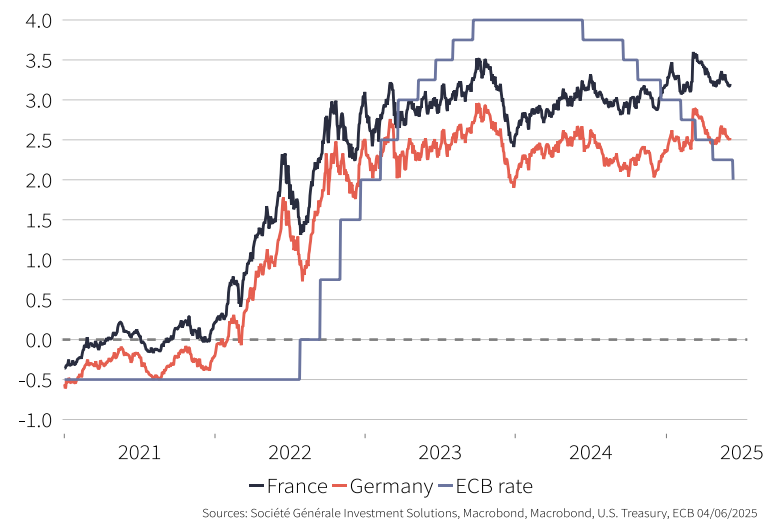
The European Central Bank (ECB) has been easing its monetary policy for a year now, with the key rate falling from 4% to 2% in 12 months. While this decline is massive, it has only been very partially transmitted to longer-term interest rates, both on the bond market and on bank loan rates. This low transmission moderates the impacts of monetary easing. The ECB will thus be encouraged to strengthen this easing by the end of the year, in a context of sharp decline in inflation and moderate growth.

The ECB is once again lowering rates and adopting a wait-and-see approach. At the June 5 meeting, the central bank's key rate was lowered by 25 basis points to 2.00%. In parallel with this new reduction, the ECB has updated its forecasts and revised its inflation forecast significantly downwards due to the decrease in the price of oil and the appreciation of the euro (inflation is now forecast at 2% for 2025, 1.6% for 2026 and 2% for 2027). However, it maintains its forecasts for core inflation (at 2.4% in 2025, 1.9% for 2026 and 2027) and growth (0.9%, 1.1% and 1.3%) almost unchanged and stresses that the central bank is now approaching the end of its rate cut cycle. The ECB has indeed started to cut rates a year ago and considers its current policy to be "well positioned", which suggests that - without a new shock - it could now keep its policy unchanged.

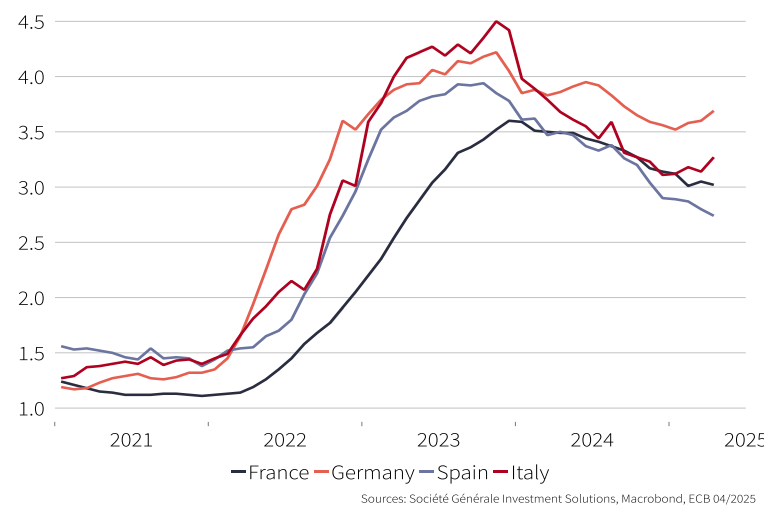
Low transmission at longer-term rates. Since the ECB began its short-term rate cutting cycle, yields on the sovereign bond markets have remained almost stable: German and French 10-year rates have been hovering around 2.5% and 3.2% respectively for more than a year. Several factors explain this stability. First, nominal growth remains higher than before COVID, with inflation close to the central bank's 2% target, which justifies a persistently higher level of equilibrium interest rates. Secondly, the sovereign bond market appears to be under pressure, with on the one hand an increase in supply, in a context of rising public debt (including in prospect in Germany with the planned support plan), and part of the demand decreasing, with central banks continuing their balance sheet reduction programs (Quantitative Tightening operations). These tensions go beyond the eurozone markets alone, with rates remaining high in the United States and rising in Japan. What stands out in the eurozone is that long-term sovereign rates remain high while the Central Bank has already cut rates significantly.

This is an incentive for the ECB to continue the easing. This maintenance of long-term reference rates at a high level moderates the easing of bank lending rates. For example, new mortgage rates have fallen since their highs at the end of 2023 (see chart) but are still significantly higher than before Covid. The recovery in bank lending also remains moderate, both on the household and corporate sides, limiting the smooth transmission of the more accommodative nature of monetary policy to economies. This partial transmission of the easing of monetary conditions could encourage the ECB to cut its key interest rate further, especially in a short-term context of weakened growth (before the effective implementation of the support plans) and a fall in inflation due to the fall in oil prices in euros.

10-YEAR SOVEREIGN RATES



INTEREST RATES ON NEW REAL ESTATE LOANS



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OUR MACRO COMMENTS

Events of the week

The OECD is revising its growth forecasts for the US downwards but maintaining those for the euro area.

In the US, the growth forecast for 2025 is significantly lower than the March estimate, reaching 1.6% compared to 2.2% initially forecast. The OECD explains this decline by the effect of customs duties as well as the uncertainty related to the government's action in general, which is causing a weakening of consumption and a reduction in investment. Inflation is expected to rise sharply to 3.9% in 2025 (compared to 2.8% initially forecast), before falling back in 2026.

Regarding the euro zone, the OECD maintains its growth forecasts of 1% in 2025 and 1.2% for 2026. Activity will be supported by the easing of financial conditions, the decline in energy prices and the support of the NextgenEU plan. The inflation estimate also remains unchanged, around 2% for 2025 and 2026.

US: ISM declines in the manufacturing and services sectors

The ISM manufacturing index fell to 48.5 in May, below the 50-point threshold that signals a contraction in activity. This is the third consecutive month that the index has been in contraction territory. In detail, the weakness of the index is explained by the new orders sub-component, which remains in contraction territory at 47.6 and the employment sub-index at 46.8. In the service sector, the situation is also deteriorating. The ISM services fell to 49.9, against the consensus of 52. The new orders index also moved into negative territory at 46.4, probably as a result of the reduction in front-loading effects (expectations of purchases ahead of the tariff increase) linked to customs duties and the high uncertainty about the direction of economic policy.

Employment remains stable in the United States

The labour market remains robust in the United States. The unemployment rate remained at 4.2%, in line with consensus expectations. On the other hand, wage growth was stronger than expected, at 0.4% month-on-month.

EVENTS OVER THE NEXT FEW MONTHS

5 June: ECB monetary policy meeting

18 June: Fed monetary policy meeting

July: Announcements of the French government's budgetary guidelines

Early July: End of the suspension of US tariffs

25 July: ECB monetary policy meeting

EVENTS AND KEY FIGURES TO COME

Monday

China	Inflation rate (May)
China	Trade balance (May)

Tuesday

United Kingdom	Unemployment rate (April)
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Wednesday

United States	Inflation rate (May)
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Thursday

United Kingdom	Growth rate (April)
United States	Producer prices (May)

Friday

United States	Household confidence (Michigan)
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MARKET PERFORMANCES

Interbank rates

%	04/06/2025	06/05/2025	06/03/2025	01/01/2025	06/06/2024
US SOFR	4,306	4,35	4,35	4,53	5,33
Euro area €ster	2,173	2,17	2,67	2,91	3,91
UK SONIA	4,211	4,46	4,46	4,70	5,20
Switzerland SARON	0,203	0,19	0,44	0,45	1,45
Japan TONAR	0,477	0,48	0,48	0,23	0,08

10Y Government rates

%	04/06/2025	06/05/2025	06/03/2025	01/01/2025	06/06/2024
US Treasuries	4,37	4,30	4,29	4,58	4,28
France OAT	3,20	3,25	3,60	3,18	3,04
Germany Bund	2,52	2,53	2,89	2,36	2,55
Italy BTP	3,48	3,62	3,95	3,52	3,87
Spain Bonos	3,11	3,18	3,55	3,06	3,28
Switzerland	0,24	0,34	0,65	0,32	0,81
UK Gilts	4,62	4,51	4,71	4,55	4,20
Japan JGB	1,48	1,28	1,50	1,08	0,95

Credit

%	05/06/2025	06/05/2025	06/03/2025	01/01/2025	06/06/2024
United States IG	5,21	5,26	5,15	5,33	5,37
United States HY	7,42	7,79	7,30	7,49	7,88
Europe IG	3,41	3,43	3,62	3,44	4,03
Europe HY	5,58	6,05	5,67	5,70	6,55
Emerging FX	6,19	6,34	6,21	6,40	6,87

Equity indices

05/06/2025 vs	-1w	-1m	-3m	01/01/2025	-1y
World	0,68	5,46	3,58	3,57	12,64
United States	0,61	6,24	3,99	1,22	13,69
Euro area	0,78	4,48	2,67	15,54	14,06
France	0,52	2,55	-2,28	8,68	2,02
Germany	1,36	4,60	4,02	22,22	30,19
United Kingdom	0,43	3,09	3,16	9,52	10,43
Japan	-1,54	2,60	1,40	0,04	1,42
Emerging	1,79	4,60	3,18	7,14	13,71
China USD	2,89	3,08	-3,26	16,46	27,39
India USD	0,30	3,11	13,83	1,83	10,58
Latin America USD	1,81	4,44	14,83	26,06	5,86

Foreign exchange rates

	05/06/2025	06/05/2025	06/03/2025	01/01/2025	06/06/2024
EUR/USD	1,15	1,13	1,08	1,04	1,09
GBP/USD	1,36	1,34	1,29	1,25	1,28
EUR/CHF	0,94	0,93	0,96	0,94	0,97
USD/JPY	143,51	142,84	148,17	157,00	156,03
USD/CNY	7,18	7,27	7,25	7,30	7,25

Commodity prices

	05/06/2025	06/05/2025	06/03/2025	01/01/2025	06/06/2024
Brent, USD/BL	65	62	69	75	80
Copper, USD/Metric ton	9 834	9 500	9 654	8 706	9 930
Gold, USD/Troy oz	3 353	3 431	2 911	2 606	2 376
Silver, USD/Troy oz	36	33	32	29	30
Palladium, USD/Troy oz	1 014	961	947	909	929
Platinum, USD/Troy oz	1 134	983	972	913	993

Source : Bloomberg on 6 June 2025, 1W = 1 week change, 3M = 3 month change, 12M = 12 month change, YTD = year to date change, Equities; total return in local currency. Government bonds = 10 year returns. Figures are rounded..



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Private Banking

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