

The Fed will remain cautious in the face of uncertainties.

February's inflation shows the pursuit of the easing towards the Federal Reserve (Fed) 2% target. However, tariffs hikes, the high uncertainties regarding possible retaliations and the restrictive migration policy are already translating into a significant increase in the inflation expectations of households and businesses alike. As activity is expected to remain favourable in the coming months, supported by a still strong labour market, the Fed should keep its key rate range at 4.25%-4.50% and maintain a cautious tone in its post-March policy meeting press conference.

Inflation: Continued slowdown. CPI inflation continued to slow gradually in February. Headline inflation reached 2.8% year-on-year, down slightly from January, while core inflation (excluding food and energy) reached 3.1%. In addition, the main sub-components of inflation are well oriented and consistent with a gradual return to the central bank's 2% target. First, rental inflation, which accounts for 34% of the index, continued to slow to 4.3%, from a peak of 8% in 2023, and advanced rental data suggests that this slowdown will continue. Second, non-rent services inflation, a measure closely followed by the Fed to estimate underlying inflationary pressures, also slowed to 3.2%, its lowest level since 2021.

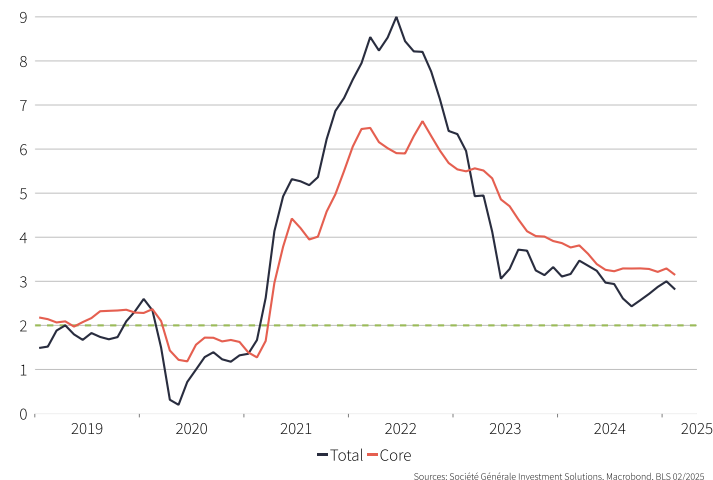
Finally, the producer price index continued to slow to 3.2% year-on-year in February, with however healthcare price still high, thus confirming the only gradual disinflation trend.

But inflation expectations are rising sharply due to economic policy uncertainties. However, it is likely that the inflation figures in the coming months will show a reacceleration. Indeed, the February figures do not take into account the increase in customs duties on Chinese imports or those on steel and aluminum, which came into force in March. In addition, the confidence indices among companies and households show a clear rise in inflation expectations. The inflation subcomponent of the ISM PMI purchasing managers' survey rose to a level of 62, the highest level since 2022, in both the manufacturing and services sectors. In addition, according to the New York Fed's survey, households' one-year inflation expectations rose to 4.3%. In a context where the high uncertainties over US trade policy are likely to persist and where they are added to a very restrictive migration policy, inflation expectations are expected to remain high.

A Fed that will remain cautious. Economic policy uncertainties are also being felt in activity surveys, which makes investors fear a marked slowdown in the economy. Thus, long-term interest rates (*Treasuries*) fell sharply, from 4.8% in January to 4.2%. However, we continue to consider that while activity could slow down compared to the sustained pace of 2024, it will remain dynamic. Indeed, the labour market remains resilient, with a low unemployment rate, at 4.1% in February. In this context, we believe that the Fed will keep its benchmark interest rate in the 4.25%-4.50% range at its meeting on 19 March. In addition, it is expected to maintain its cautious bias on future decisions, favouring the risk on inflation rather than the risk of a slowdown in activity.

UNITED STATES: INFLATION RATE

% , year-over-year



HOUSEHOLD'S 1 YEAR INFLATION EXPECTATIONS ACCORDING TO THE NEW YORK FED SURVEY



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OUR MACRO COMMENTS

Events of the week

United States: steel tariffs come into force

The U.S. government has implemented a 25% tariff rate on all steel and aluminium imports. This new increase is in addition to i) the 20-point increase in tariffs on all Chinese products, and ii) the implementation of 25% tariffs on Canadian and Mexican imports that do not meet the USMCA treaty rules.

In addition, Donald Trump also announced the implementation of 25% customs duties on European Union imports by 2nd April. In this context, Canada and the European Union have already announced retaliatory measures on a series of American goods. Trade tensions are expected to remain high and are expected to persist over the coming months.

German plans: awaiting validation by the Bundestag and Bundesrat

Friedrich Merz, Germany's future chancellor, announced last week his desire to loosen the "debt brake" and to create a special fund of €500 billion over ten years to modernise infrastructure.

These measures still have to be approved next week in the German parliament, the Bundestag on Tuesday, and the Bundesrat (Senate) on Friday. Merz is planning to organise the vote before the new parliament starts, but he could have more difficulty obtaining the necessary two-thirds of the votes. Discussions with the Greens (whose votes are needed in the Bundestag) and the Free Voters of Bavaria Party (in the Bundesrat) are underway and should lead to changes to the plan compared to the initial proposal.

EVENTS OVER THE NEXT FEW MONTHS

25 March: German fiscal plan adoption deadline by the former Parliament

2 April: Planned effective date of US tariffs against EU products

17 April: ECB monetary policy meeting

7 May: Fed monetary policy meeting

8 May: BoE monetary policy meeting

KEY EVENTS NEXT WEEK



Monday

China Retail sales, industrial production, etc. (February)
United States Retail sales (February)

Tuesday

United States Industrial production and housing starts (February)
Germany Bundestag to vote on fiscal plans

Wednesday

United States Fed monetary policy decision
Japan BoJ monetary policy decision

Thursday

United Kingdom BoE monetary policy decision
Employment report

Friday

Euro area Consumer confidence (March)
France INSEE Business survey (March)
Germany Bundesrat to vote on fiscal plans

MARKET PERFORMANCES

Interbank rates

%	12/03/2025	14/02/2025	13/12/2024	01/01/2024	14/03/2024
US SOFR	4,350	4,34	4,60	5,34	5,32
Euro area €ster	2,412	2,67	3,17	3,88	3,91
UK SONIA	4,455	4,45	4,70	5,19	5,19
Switzerland SARON	0,450	0,45	0,45	1,70	1,70
Japan TONAR	0,479	0,48	0,23	-0,04	-0,01

10Y Government rates

%	13/03/2025	14/02/2025	13/12/2024	01/01/2024	14/03/2024
US Treasuries	4,27	4,47	4,40	3,88	4,29
France OAT	3,55	3,12	3,02	2,55	2,86
Germany Bund	2,85	2,42	2,24	2,02	2,42
Italy BTP	3,93	3,51	3,38	3,70	3,67
Spain Bonos	3,49	3,09	2,91	2,98	3,22
Switzerland	0,77	0,41	0,30	0,66	0,70
UK Gilts	4,69	4,49	4,38	3,60	4,08
Japan JGB	1,50	1,34	1,04	0,62	0,75

Credit

%	13/03/2025	14/02/2025	13/12/2024	01/01/2024	14/03/2024
United States IG	5,22	5,26	5,17	5,06	5,40
United States HY	7,67	7,19	7,19	7,59	7,78
Europe IG	3,62	3,36	3,34	3,72	3,93
Europe HY	5,88	5,46	5,57	6,80	6,60
Emerging FX	6,23	6,23	6,22	6,77	6,91

Equity indices

13/03/2025 vs	-1w	-1m	-3m	01/01/2024	-1y
World	-3,41	-7,45	-5,802	15,80	7,99
United States	-4,36	-10,23	-9,674	15,89	7,21
Euro area	-2,22	-1,57	8,100	19,45	11,39
France	-2,27	-2,51	8,053	8,80	2,32
Germany	-2,08	0,28	10,772	31,01	23,43
United Kingdom	-1,51	-1,66	3,483	14,10	12,88
Japan	-0,36	-2,36	-1,449	16,41	3,71
Emerging	-1,76	-1,49	0,346	15,45	11,30
China USD	-2,89	2,76	17,137	38,40	38,32
India USD	-1,68	-2,61	-16,232	1,03	-4,11
Latin America USD	-0,47	-4,15	4,794	-18,94	-14,26

Foreign exchange rates

	13/03/2025	14/02/2025	13/12/2024	01/01/2024	14/03/2024
EUR/USD	1,09	1,05	1,05	1,11	1,09
GBP/USD	1,29	1,26	1,26	1,27	1,27
EUR/CHF	0,96	0,94	0,94	0,93	0,96
USD/JPY	147,73	152,10	153,67	141,03	148,20
USD/CNY	7,24	7,25	7,28	7,08	7,19

Commodity prices

	13/03/2025	14/02/2025	13/12/2024	01/01/2024	14/03/2024
Brent, USD/BL	70	75	74	77	85
Copper, USD/Metric ton	9 703	9 812	8 989	8 476	8 792
Gold, USD/Troy oz	2 989	2 883	2 649	2 063	2 162
Silver, USD/Troy oz	33	33	31	24	25
Palladium, USD/Troy oz	945	992	965	1 136	1 079
Platinum, USD/Troy oz	982	998	927	1 000	929

Source : Bloomberg on 14 March 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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