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Liquidity letter

No. 217 I 19 November 2026

Liquidity Solutions

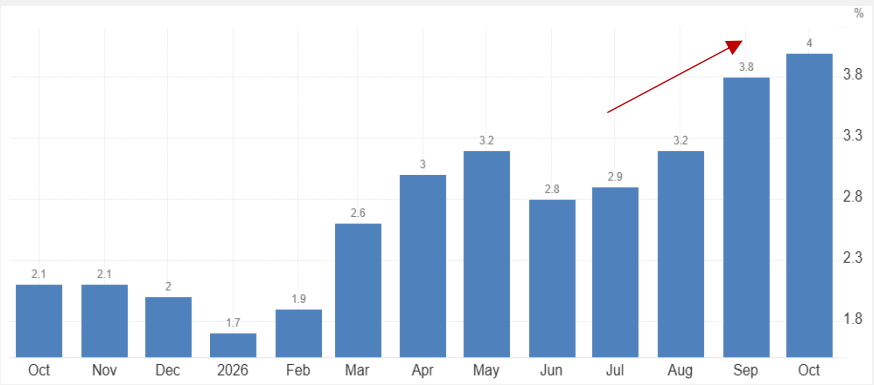
Inflation continues to climb

In the euro area, it has reached its highest level since 2023

A trajectory pointing to a rate hike in December

- **Inflation** Annual euro area inflation reached 4.0% in October 2026, its highest level since September 2023, mainly due to a sharp rise in energy prices. Core inflation was also revised upwards to 2.6%.
- **ECB** Two candidates have been proposed to succeed Christine Lagarde as head of the ECB: Pablo Hernández de Cos and Klaas Knot. Official consultations are expected to begin on 26 November, as France and Germany finalise an agreement on key positions.
- **FED** Christopher Waller believes inflation remains too high and is calling for a 50-basis-point hike in December to strengthen the Fed's response. He believes a more gradual approach would work only if accompanied by a clear signal of another hike in January.
- **UK** inflation reached 3.6% in October, its highest level in a year, driven by rising fuel and energy prices, increasing pressure on the Bank of England.

Evolution of inflation in the euro area



Annual euro area inflation reached 4.0% in October 2026, its highest level since September 2023 and double the ECB's 2.0% target.

This increase is mainly due to a sharp surge in energy prices amid ongoing conflict in the Middle East, with energy inflation jumping to 21.0%, its highest level since December 2022.

Price pressures also intensified in the services sector and among unprocessed food products.

Meanwhile, core inflation, excluding energy and food, was revised slightly upwards, from 2.5% (preliminary estimate) to 2.6%, its highest level since May.

Figure of the week

4.0%

This is euro area inflation as of the end of October 2026.

ECB presidency

Two candidates have been proposed to succeed Christine Lagarde as head of the ECB, an EU official said on Friday.

The Spanish newspaper El País also reported that France and Germany were finalising an agreement on key positions at the central bank, with Spain's Pablo Hernández de Cos the favourite to become the next president.

The official did not reveal the identities of the two candidates, but, as Euronews had already reported, they are Pablo Hernández de Cos and former Dutch central bank governor Klaas Knot.

The Eurogroup confirmed the two nominations last week. European Council President António Costa informed leaders on Friday morning and plans to begin consultations with the European Parliament and the ECB's Governing Council at the European summit on 26 November, the official said.

Germany to nominate Markus Brunnermeier for the post of ECB chief economist

Germany will nominate Markus Brunnermeier for the post of chief economist at the European Central Bank, according to sources familiar with the matter.

Chancellor Friedrich Merz and Finance Minister Lars Klingbeil have agreed to nominate the Princeton University economics professor as the country's candidate for the ECB Executive Board, the sources said, speaking on condition of anonymity because the discussions are confidential.

Mr Brunnermeier, 57, holds a PhD from the London School of Economics. According to his website, he has advised institutions including the US Congressional Budget Office, the Bank for International Settlements and the Bundesbank.

His research focuses, among other areas, on international financial markets and monetary theory.

A book co-authored by Mr Brunnermeier in 2016 on the euro area, entitled The Euro and the Battle of Ideas, highlighted the main fault lines in economic thinking within the euro area. In 2015, he co-authored a paper with Isabel Schnabel, an outgoing member of the ECB Executive Board,

on 400 years of speculative asset price bubbles.

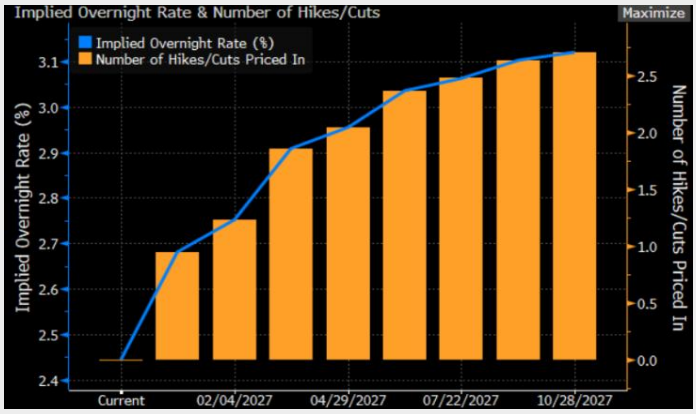
Mr Brunnermeier's appointment suggests that Germany will support Pablo Hernandez de Cos

for the position of ECB President.

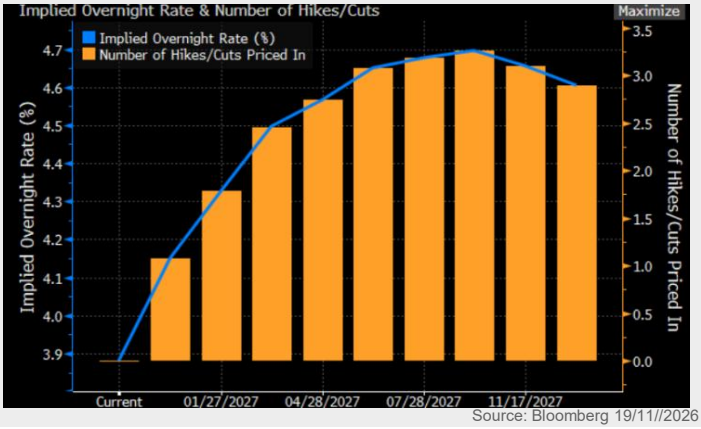
We need to be a little more aggressive with our rate hikes to try to bring inflation down

Christopher Waller, 18/11/2026

ECB



FED



Source: Bloomberg 19/11//2026

Interest rate forecasts for the euro area show that the ECB's journey is far from over.

Markets expect the ECB to approve two more 25 bp rate hikes by the first half of 207, the first of which will almost certainly take place at the year's final monetary policy meeting on 17 December.

There is also a strong probability (currently estimated at 67%) of a third hike by the end of 2027.

In the US, market expectations are following a similar trajectory to those in the euro area.

Up to three 25 bp rate hikes are expected by the end of 2027, the first of which is expected to be approved, as with the ECB, at the 9 December meeting.

Under this scenario, the federal funds rate could reach 4.6%.



Christopher Waller, Fed

C. Waller believes the Fed should consider a rate hike

Federal Reserve Governor Christopher Waller said inflation is still moving in the wrong direction and called on the Fed to consider a larger, 50 bp rate hike at its December meeting.

In his view, the latest data point to an annualised pace close to 3.5%, well above the 2% target.

He explained that a strategy of smaller hikes would be effective only if the Fed sent markets a "clear and credible signal" of another hike in January.

Without that, he warned, a 50 bp hike in December would be necessary to strengthen the central bank's impact and credibility.

The Fed left rates unchanged last month after an initial hike in September, and officials remain in agreement on the need for further hikes, even as they differ on the pace.

UK inflation reaches 3.6%

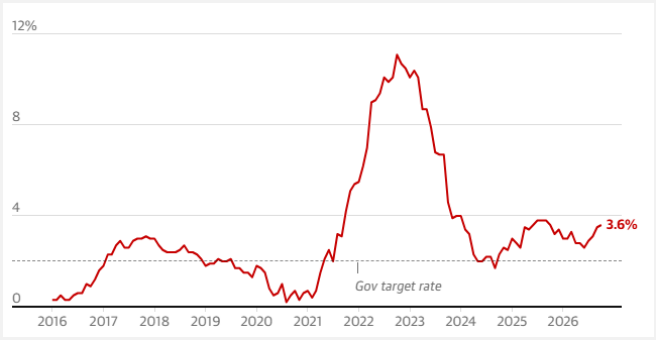
In the UK, inflation reached 3.6% in October, following a rise in petrol prices and diesel prices hitting a record high, amid the fallout from the war in the Middle East.

Figures from the Office for National Statistics (ONS) show that the headline inflation rate, as measured by the Consumer Prices Index, rose from 3.5% in September, in line with City economists' forecasts.
As households prepare for the harsher winter months amid soaring gas and electricity bills, the latest figures take headline inflation to its highest level in a year.

In a statement highlighting the pressure on the Bank of England to raise interest rates, the ONS said that fuel prices were the main driver of the increase.

Annual costs for materials and goods leaving factories also continued to rise, driven by higher energy and crude oil prices amid sanctions against Iran.

UK inflation



Source: ONS, 19/11/2026

Andrew Bailey said that the longer the conflict continued, the more likely rate increases would become necessary, despite the recent fall in global energy prices since the US midterm elections.
In his view, inflation would be "probably a little below" the 5% forecast by the Bank earlier this month.

News

- **Canada |** Annual core inflation fell to 2.0% at the end of October, from 2.2% the previous month
- **Germany |** The ZEW Economic Sentiment Index rose to 35.6 points in November, up from 28.1 in October

Calendar

- **23 November |** Index releases PMI for France
- **25 November I** Release of data on US inflation at the end of October

Authors



Daniele CURCI
Head of Investment Specialists and Business Development
Liquidity Solutions and French Networks



Alexis MELON
Investment Specialist
Liquidity Solutions

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