# MARKET COMMENTARY

## Higher energy prices and good activity trigger rate hike

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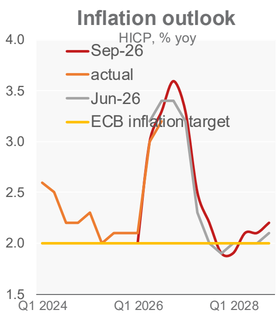
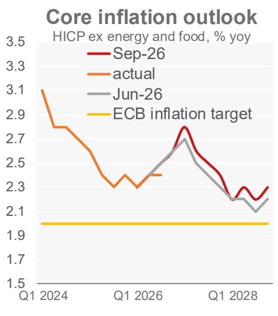
**September 10, 2026**

- **The Governing Council unanimously raised the key rate by 25 bps to 2.50%, as widely expected, citing the Middle East conflict as the main driver.**
- **The updated projections lifted the 2026-27 inflation path by a cumulative 0.4 pp and core inflation by 0.2 pp, with 2028 forecasts at 2.1% and 2.3%, respectively. The cumulative GDP growth outlook was also raised by 0.3 pp.**
- **In the Q&A, President Lagarde adopted a hawkish tone by stressing that inflation will stay "well above target for an extended period" with risks "to the upside". She also warned that uncertainty could change the picture almost overnight while maintaining the data-dependent, no-pre-commitment language.**
- **Markets now price in one additional 25 bps hike this year and two more next year.**
- **Baring a prolonged escalation of the Iran war, we expect another hike in December but no further hikes next year: rising bond yields are already tightening financing conditions, inflation expectations remain contained, and there are still no major signs of wage-driven second-round effects.**

**Door open for further hikes.** The ECB lifted its key rates by 25 bps to 2.50% today. This move came along with a hawkish message leaving the door open for further rates hikes. We look for another 25 bps hike in December. However, we deem market expectations of additional hikes in 2027 overdone.




*Source: ECB, Datastream, GenAM*

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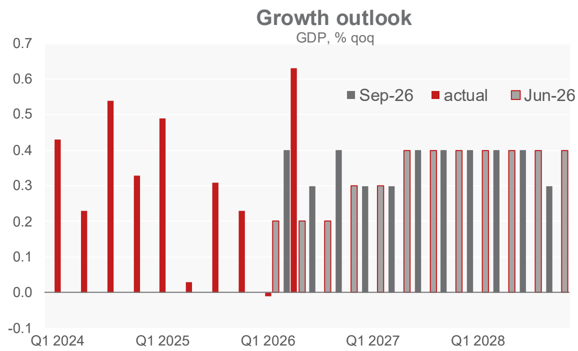
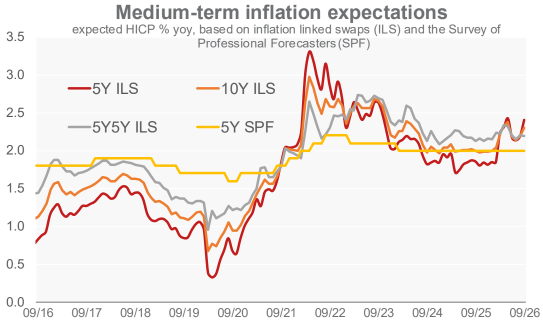



*Source: ECB, Datastream, GenAM*

**A more inflationary macro outlook.** The base case of the updated macro projections incorporates the latest geopolitically induced rise in energy prices, mainly through higher gas-price assumptions. The ECB lifted its assumed annual average gas price for 2026/27/28 from EUR/MWh 45.6/37.5/27.9 to 51.0/43.3/30.3, while revising oil-price expectations down from USD/barrel 96.9/82.2/77.1 to 89.5/78.0/73.6. At the same time, recent data confirmed the ECB's constructive growth outlook, prompting a modest upward revision to annual GDP growth for 2026-28 to 0.9%/1.4%/1.5%, from 0.8%/1.2%/1.5%. Major wage-driven second-round effects are not incorporated. Overall, the inflation outlook was revised up cumulatively by 0.4 pp for headline inflation, with annual rates for 2026-28 now at 3.0%/2.5%/2.3%, from 3.0%/2.3%/2.0%, and by 0.2 pp for core inflation, with annual rates now at 2.5%/2.6%/2.3%, from 2.5%/2.5%/2.2%.

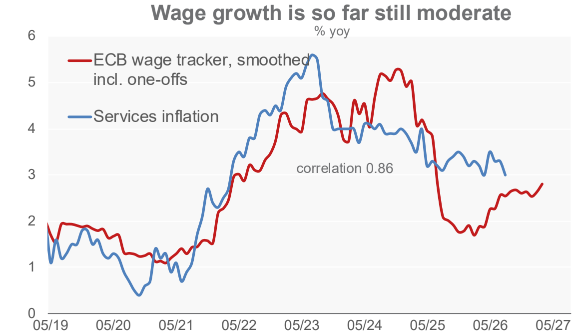
**Inflation risks stay on the upside, growth risks on the downside.** The GC is well aware that the outlook is "highly uncertain", with risks clearly asymmetric: inflation risks are tilted to the upside, while growth risks point to the downside. President Lagarde also stressed that, in the current environment, uncertainty could change things almost overnight. To illustrate the uncertainty around its September baseline, ECB staff present three updated Middle East conflict scenarios that vary the size and persistence of the energy shock, uncertainty, price pass-through and international spillovers, with policy held unchanged. In the milder scenario, a swift resolution (oil ~$75/bbl, gas ~€50/MWh) sees inflation undershoot 2% in 2027-28 and growth edge up. The adverse scenario assumes a prolonged conflict (~$100/bbl, gas ~€75/MWh) with stronger pass-through, lifting 2027 inflation to 3.2% and cutting growth to 1.1%. The severe scenario envisages a large, persistent shock (oil ~$130/bbl, gas above €130/MWh), driving 2027 inflation to a 5.4% peak and growth to just 0.4% before a wage-supported rebound. Overall, the scenario analysis reinforces the hawkish policy bias: the inflation threat is immediate and material, while the growth damage emerges mainly in the more adverse paths.

**Medium-term inflation expectations**




*Source: Datastream, GenAM, ECB*

**Wage growth is so far still moderate**




*Source: Datastream, GenAM*

**A hawkish tone prevailed at the press conference.** President Lagarde left little doubt about the direction of travel: inflation is set to stay "well above target for an extended period," risks remain "to the upside," and the energy shock "could intensify further" and feed more strongly into core prices and wages. That message was reinforced by upwardly revised core inflation projections, a wage tracker that is still moderate but ticking towards 2.7% in Q1/27, still-elevated short-term inflation expectations and greater-than-expected economic resilience. The hawkish tilt was only lightly tempered by the familiar data-dependent, no-pre-commitment language and the reassurance that longer-term expectations remain anchored near 2%.

**Geopolitics still hold the key.** President Lagarde said today's policy decision was unanimous, a no-brainer and robust across all alternative scenarios, but she again avoided giving a clear policy signal. She revealed that the entire discussion focused on today's decision, while stressing that the case for further hikes will depend mainly on whether the energy shock generates persistent second-round effects in wages, core inflation and inflation expectations — which, in turn, depends heavily on geopolitics. With higher medium-term inflation forecasts, upgraded growth projections and repeated references to upside inflation risks, the ECB has kept the door clearly open to additional tightening if the energy shock proves persistent.

**One further hike should be enough.** Barring a prolonged escalation of the Iran war, we expect another hike in December but no further hikes next year: rising bond yields are already tightening financing conditions, inflation expectations remain contained, and there are still no major signs of wage-driven second-round effects. We therefore expect a final 25 bps hike to 2.75% by December. Market expectations of additional hikes to 3.25% in 2027 look overdone, although risks remain clearly tilted towards further tightening.