

MARKET COMMENTARY

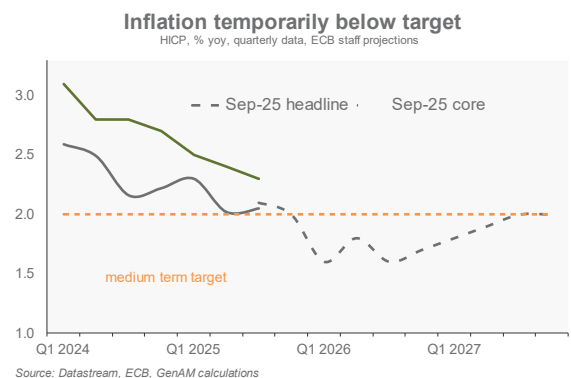
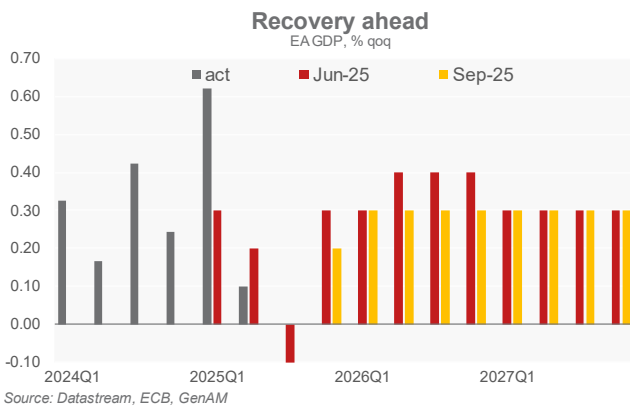
ECB still in a good place, cutting cycle likely over

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September 11, 2025

- At today's meeting the ECB's Governing Council (GC) unanimously decided to keep its key rate unchanged at 2.0%, in line with market expectations.
- The updated macro projections show "a picture of inflation similar to that projected in June" with less inflation undershooting near-term (2025/26: 2.1%/1.7% vs 2.0%/1.6%) but somewhat weaker inflation in 2027 (1.9% vs 2.0%).
- Growth is set to be more frontloaded (2025: +0.3 pp to 1.2% vs 2026: -0.1 pp to 1.0%) but the 2027 expectation of 1.3% was left unchanged. Growth risks were seen as more balanced than in June, mainly due to less trade uncertainty.
- In the Q&A President Lagarde reiterated that the ECB was "in a good place", again emphasized its data-dependent meeting-by-meeting approach but stating that minimal deviation from target do not necessarily imply policy action.
- All in all, we think that unless some downside risks materialize the ECB will have terminated its cutting cycle and stays on hold at 2.0% for the time being.

ECB kept key rate unchanged today: At today's meeting the GC left its key rate, the deposit rate, at 2.00%. It continues with fully non-reinvestments of its APP and PEPP purchases.



A prevailing constructive macro-outlook: The updated macro projections confirmed the constructive view painted in the previous projections amid some adjustments. Following a surprisingly strong first half of 2025, GDP is set to expand by 1.2% in 2025 (from 0.9%) whereas the outlook for 2026 is reduced somewhat (to 1.0% from 1.1%) while the 2027 projection of 1.3% in 2027 stayed unchanged. While activity clearly benefitted from frontloaded purchases ahead of tariffs in early 2025, President Lagarde

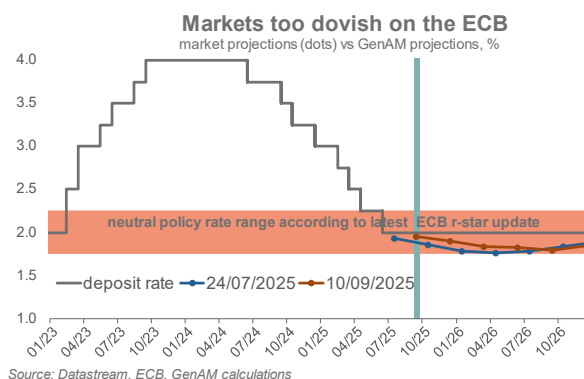
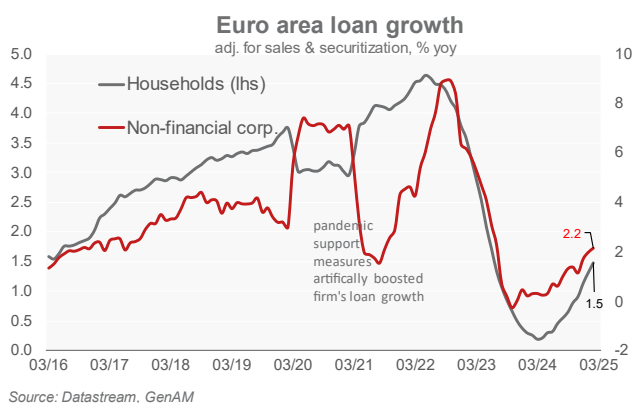
emphasized the resilience of economic activity due to stronger domestic activity. At the same time the September projections see less inflation undershooting in 2026 (1.7% vs 1.6% before) while seeing inflation at 1.9% (from 2.0%) in 2027. More remarkable, annual underlying inflating inflation was revised down to 1.8% for 2027 (from 1.9%), largely due to the lagged effects from the euro appreciation and declining labour cost pressures. With inflation expectations remaining consistent with the 2% target, the updated macro projections are backing Mrs Lagarde’s statement that the ECB was “in a good place”.

Growth risks more balanced: Compared to the June projections growth risks were seen as more balanced now reflecting that the risk of European retaliation in the trade conflict with the US is off the table and that trade uncertainty diminished. The GC intentionally does not indicate where it sees the balance of inflation risks and in the Q&A President Lagarde avoided to give a tilt either. Instead, the GC again mere stated that “the outlook for inflation remains more uncertain than usual, as a result of the still volatile global trade policy environment.”

Ball stays in the field of the French government: While stating that new risks might arrive, President Lagarde unsurprisingly refused to comment in more detail on the new elephant in the room, the political woes in France and market speculation whether the ECB might in one or the other way jump in. By expressing her confidence that policy makers will do as much as possible to reduce uncertainty and that all governments will work based on the European fiscal framework she made clear that the ball remains in the field of governments. The TPI was not discussed at today’s meeting.

ECB still in a good place: All in all, with inflation “where it should be” and a resilient domestic economy, the ECB sees itself still “in a good place” as Lagarde repeated several times. At the same time the ECB stuck to its data-dependent meeting-by-meeting approach, something Mrs Lagarde emphasized very much at today’s press conference. However, by stating that minimal deviation from target will not necessarily justify policy action she made also clear that the bar for policy action is high. The decision to keep rates constant at today’s meeting was taken unanimously and reportedly many GC members warned about over-engineering.

Rate cutting cycle is over: At the current level of 2.0% the policy rate is in the middle of the neutral range (of 1.75% to 2.25%) that ECB staff had derived. Given today’s strong message that the ECB was in a good place, the ECB’s and our constructive macro-outlook as well as much less dovish comments from GC members over the past weeks, we do not look for further rate cuts in this cycle unless some downside risks materialize.



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