Danske Bank

September 5 2025

ECB Preview

Confident in the current monetary policy stance

- **We expect the ECB to leave the deposit rate unchanged at 2.00% on Thursday 11 September in line with consensus and market pricing.**
- **Lagarde to sound confident in the economic outlook and that the current monetary policy stance is appropriate, with staff projections likely to show little changes in the forecast for 2026-27.**
- **We expect Lagarde to be satisfied with current market pricing, aiming for a limited market reaction during the press conference.**

We expect the ECB to keep the deposit rate unchanged at 2.00% at the September meeting, aligning with both market pricing and consensus expectations. The euro area economy has demonstrated resilience since the last ECB meeting, with rising PMIs and the manufacturing sector surpassing the 50-mark for the first time in three years. Meanwhile, unemployment continues to decline, and inflation has met the 2% target the past three months. Although the EU-US trade deal poses challenges for exporters, it also reduces downside risks to the economic outlook as the deal was consistent with ECB staff assumptions**. These recent developments should bolster the ECB's confidence in their current monetary policy stance**, a sentiment also reflected in recent remarks from Lagarde, Villeroy, Nagel and Kazaks.

The meeting will also feature a new set of staff projections, which we project to show higher growth and inflation in 2025 due to upside surprises in historical data, **while the projections for 2026 and 2027 should only incorporate minor adjustments**, see chart 1 and a detailed analysis in *Reading the Markets EUR - Taking stock on excess liquidity; tactical curve steepener, September 4*. Given the elevated tariff uncertainty surrounding the staff projections in June the limited number of changes in the new projections should also increase ECB's confidence in the outlook and thus their current monetary policy stance.

Markets are currently pricing in approximately 8bp worth of rate cuts for 2025 and another 8bp in the first half of 2026. Yet, we do not believe Lagarde has significant incentive to push market pricing in either direction during the press conference. Near-term growth risks remain tilted to the downside due to weak consumer confidence, which is constraining spending growth. Both Rehn and Simkus have highlighted that downside growth risks, combined with inflation falling short of the target, leaves the possibility of a rate cut in December on the table, with Simkus even having it as baseline scenario. Given these risks, **we expect Lagarde to aim for a limited market reaction during the press conference.**

Discussions about coming rate hikes from the ECB has started to emerge following the outlook for fiscal easing in Germany and increased defense spending in Europe. Heavyweight in the GC Schnabel has similarly stated that global rate hikes may start earlier than expected. **We believe hikes in 2026 are premature** due to inflation likely being below target by then and the German economy having sufficiently room to increase production without fueling inflation. Yet, we do acknowledge upside risks to the ECB profile at the end of 2026 but expect the policy rate to remain at 2.0% in 2025 and 2026 in our baseline.

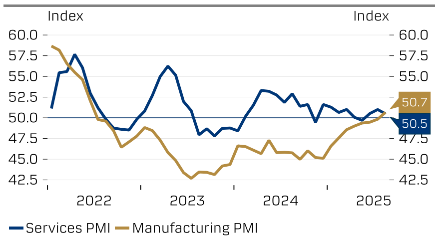
Chart 1. Increases across the board

ECB projections September 2025	2025		2026		2027	
GDP growth	1.2% (0.9%)	↗	1.2% (1.1%)	↗	1.3% (1.3%)	→
HICP inflation	2.1% (2.0%)	↗	1.7% (1.6%)	↗	2.0% (2.0%)	→
Core inflation	2.4% (2.4%)	→	1.9% (1.9%)	→	1.9% (1.9%)	→

Parenthesis are the old ECB projections (from Jun 2025)

Source: Danske Bank

Chart 2. Manufacturing rebounds, ending three-year contraction



Source: S&P Global, Macrobond

Analyst, Macro
Rune Thyge Johansen
rujo@danskebank.dk

Analyst, Rates Strategy
Kirstine Kundby-Nielsen
kigrn@danskebank.dk

Chief Analyst, Bond Strategy
Jens Peter Sørensen
jenssr@danskebank.dk

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank').

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and regulated by the Danish Financial Services Authority (Finanstilsynet). Danske Bank is authorised by the Prudential Regulation Authority in the UK. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

Danske Bank's research reports are prepared in accordance with the recommendations of Capital Market Denmark.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

None

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

This research report has been prepared independently and solely on the basis of publicly available information that Danske Bank A/S considers to be reliable but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this research report and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts and reflect their opinion as of the date hereof. These opinions are subject to change and Danske Bank A/S does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank A/S is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank A/S who have prepared this research report are not registered or qualified as research analysts with the New York Stock Exchange or Financial Industry Regulatory Authority but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

This document is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Report completed: 4 September 2025, 15:30 CET

Report first disseminated: 5 September 2025, 06:00 CET