# The Bottom Line

*The Bottom Line* is our weekly publication. It wraps up the week, highlighting key events and data releases for the upcoming one.

## Fed and ECB in hiking mode

**4 September 2026**

Fed Chair Kevin Warsh's hawkish Jackson Hole message, resilient growth on both sides of the Atlantic and persistent energy risks have changed the rates outlook. We now expect two further hikes by the Fed and higher bond yields in the US and Europe by year-end. Sticky inflation is likely to trigger the widely expected ECB hike next week – with another hike to follow in December.

### TOP STORIES OF THE UPCOMING WEEK

1

**ECB to hike again**

In all likelihood, the ECB will raise interest rates by 25bp next week, taking the deposit rate to 2.50%, the upper end of the central bank's estimated neutral range. With inflation running above 3% and likely to accelerate further, while activity indicators have generally surprised to the upside, we expect the decision to be unanimous. The accompanying macroeconomic projections will provide the context for the rate move. We expect the updated forecasts to carry a hawkish tilt, reflecting upward revisions to both this year's GDP growth outlook and next year's inflation trajectory, with a later convergence of inflation to the 2% target. As the rate decision is likely to be a non-event, markets will focus on any clues regarding the path of monetary policy beyond September. We doubt that ECB President Christine Lagarde will send any strong signals in this respect, instead reiterating the ECB's data-dependent and meeting-by-meeting approach. That said, if the September hike is described as "robust across a range of scenarios", echoing the language used in June, the communication would be hawkish at the margin. In our updated baseline scenario, we expect the ECB to deliver one final rate hike in December, taking policy rates into mildly restrictive territory.

## 2 We expect a benign US CPI report

The inflation outcomes for June and July were soft overall, helped by a decline in the price of petrol. In August, the price of petrol rose again, by around 3%, albeit the increase was moderate on a monthly basis. We expect headline CPI to have risen by 0.3% mom, with core CPI up by 0.2%. Yearly rates for both headline and core inflation probably eased by 0.1pp to 3.3% and 2.4%, respectively. Overall, we expect core inflation to confirm that the tariff-related boost to goods prices is weakening, while the bottlenecks caused by the AI-driven surge in tech equipment are likely to have affected only a small number of items. Housing inflation has probably remained on a downward trajectory, following with a lag the deceleration in market rents. In his speech at Jackson Hole, Fed Chair Warsh clarified that the PCE price index remains the Fed's preferred measure of inflation. Since the final months of 2025, core PCE inflation has been running above core CPI inflation, mainly reflecting the much-larger weight of shelter (where prices are cooling) in the CPI basket. In July, the gap between the yearly rates of change in core PCE and core CPI reached a multi-year high.

## 3 NBP to remain on hold

We expect the National Bank of Poland to keep its policy rate unchanged at 3.75% next week. Renewed tensions in the Middle East have increased inflation risks, with August inflation rising more than expected to 3.4% yoy. Inflation is likely to pick up further in the coming months, driven by the expiration of the temporary VAT reduction on fuel, unless the measure is extended. Food inflation should gradually increase, while core inflation is likely to remain broadly stable near 3.0%, reflecting resilient domestic demand. We expect inflation to end the year slightly above 3.5% yoy before easing towards target in 2027. Despite the NBP's dovish tone in July, higher inflation risks linked to commodity prices, a hawkish shift in core market interest rate expectations and strong domestic demand are unlikely to leave room for rate cuts this year.

## 4 Germany: election sprint, reform marathon

On 6 September, voters in Saxony-Anhalt will head to the polls; two weeks later, the federal-state elections in Mecklenburg-Western Pomerania and the city state of Berlin will follow. These three regional elections will probably be viewed as a report card for Chancellor Friedrich Merz's CDU/CSU-SPD coalition – at a time when the government is trying to push through structural reforms of the pension system, the labour market and bureaucracy. Recent polls for Saxony-Anhalt, the election federal policymakers may watch most nervously, put the right-wing AfD at around 41%, far ahead of the conservative CDU, which is polling at 23%. With several parties including the Social Democratic Party (SPD) hovering around the 5% threshold, small shifts in votes could translate into larger changes in seats – and potentially open the path to an AfD-led government, the first one in a federal state. For investors, however, the bigger question is what the elections mean for the federal government's reform agenda. Although political noise is likely to increase, we expect the structural reform push to remain on track. A more-fragmented Bundesrat could not block large parts of the reforms. Saxony-Anhalt, Mecklenburg-Western Pomerania and Berlin together hold 11 of the Bundesrat's 69 votes. While the envisaged tax cuts for low and middle-income households require Bundesrat consent, core pension and labour-market reforms are generally not dependent on Bundesrat approval.

## VIEW UPDATE: FORECAST REVISIONS

- **US and the eurozone economy: we have made important revisions to our baseline macroeconomic scenario.** Our revisions mainly reflect three factors: **1.** We now expect energy prices to remain higher for longer amid renewed tensions between the US and Iran and no credible path to a full reopening of the Strait of Hormuz anytime soon. This effect is compounded by a strong increase in crack spreads. In Europe, the upward revision to our forecasts is larger for TTF gas prices than for Brent prices; **2.** Fed Chair Kevin Warsh sounded surprisingly hawkish in his speech at Jackson Hole, meaningfully raising the bar for not hiking rates; **3.** The real economy is showing remarkable resilience, allowing central banks to be particularly attentive to inflation risks.
- **In the US, we have revised our forecast of unchanged rates and now expect the Fed to deliver two 25bp hikes, one in September and in December.** Warsh's remarks point to strong economic growth, a labour market operating at full employment, insufficient progress on inflation and financial conditions that are not restrictive. Under normal circumstances, this macro backdrop would call for tighter monetary policy. However, we acknowledge significant uncertainty regarding how Warsh's assessment will translate into FOMC policy decisions, while a material downside surprise in inflation and/or labour market data ahead of the 16 September FOMC meeting could again shift the balance in favour of keeping rates unchanged.

- **In the euro area, we have raised our inflation forecast and now expect inflation to peak at around 4% at the turn of the year, before gradually converging back to the ECB's 2% target, but not until 4Q27.** Despite the stronger inflation profile, we believe the real economy will remain resilient and have therefore left our projections for quarterly GDP growth unchanged – while the average for 2026 has increased slightly thanks to a solid 2Q26. **The ECB is all but certain to raise rates to 2.50% at next week's meeting. In addition, we have now pencilled in a final 25bp rate increase in December, taking the deposit rate to 2.75%,** as the Governing Council is likely to seek additional insurance against the risk of inflation remaining above target for an extended period. We still expect a rate cut in the final months of next year.

- **One more BoJ rate hike in the pipeline.** We expect the BoJ to resume tightening at its meeting on 18 September, with another 25bp move to 1.25%. Japanese CPI inflation has almost reached the central bank's 2% target. Although Japan's monetary policy remains exposed to political pressure after the government launched a massive fiscal stimulus plan in July (worth JPY 350tn), a rate hike in September may pave the ground for another move to 1.50% by December. This would allow the BoJ to consider another rate hike to 1.75% by late 2027.

- **FI: we are revising our target for the 10Y UST yield upward, from 4.50% to 4.75%.** This revision reflects our expectation of a more-hawkish Federal Reserve in an environment characterised by weak appetite for duration. Against the backdrop of a higher 2Y yield, we expect the curve to remain relatively flat for the foreseeable future, with some bull-steepening emerging only once the prospect of rate cuts comes into view, tentatively in late 2027. The long end of the curve remains exposed to continued supply pressure stemming from elevated fiscal deficits, competing issuance from hyperscalers, a potential deterioration in foreign demand for Treasuries, and increased uncertainty regarding the Fed's reaction function. In this context, a higher-for-longer policy rate scenario, while not our baseline, would likely push yields higher.

- **We expect 10Y Bund yields to remain around 3.25% through year-end,** followed by a gradual decline over the medium term as the ECB unwinds part of its policy tightening. Even so, we do not expect 10Y Bund yields to fall back below the 3% level considering the relatively resilient economy and the global outlook of higher bond yields. Steepening for the Bund curve is also likely to remain a delayed theme. **We are also revising our target for the BTP-Bund spread wider, to 75-80bp,** reflecting the outlook for higher energy prices, a higher interest rate environment and growing investor focus on the Italian and French political elections scheduled for 2027.

- **FX: we keep our G-10 forecasts broadly unchanged for now.** We still favour a slightly softer USD during the remainder of 2026 and in 2027. The expected rate hikes by the Fed are sufficiently priced in and are unlikely to boost the greenback. However, the US currency may suffer from potential tensions between the US Treasury and the Fed on interest rates, while the US administration may favour a weaker USD ahead of the midterm elections in November. We thus keep our EUR-USD target at 1.17 by 4Q26 and 1.19 by 4Q27, although some downside risks may emerge in the very near term, but probably without a definitive break below 1.15. We still target a lower USD-JPY given a tighter BoJ on rates and possible new joint intervention by Japan and the US. A lower USD-JPY may also help EUR-USD. We have lowered our CHF targets, mostly against the EUR, given a likely more intense use of the CHF as a funding currency in carry trade strategies as Japan increases interest rates. We expect the CNY's rise against the USD to continue.

- **Stock markets: we are modestly raising our year-end 2026 and mid-2027 index target levels.** These adjustments reflect an economic backdrop that has remained more resilient than initially expected, with European growth gradually reaccelerating. Together with the very strong earnings growth reported during the second-quarter reporting season and a strong outlook, this has led to a supportive environment that we expect to continue over the coming months. For the technology sector, however, we see a risk that the pronounced decline in free cash flow observed in certain segments could lead to increased volatility and a lower, albeit still positive, return potential. However, we continue to expect upside Nasdaq 100 potential of almost +9% through mid-2027.

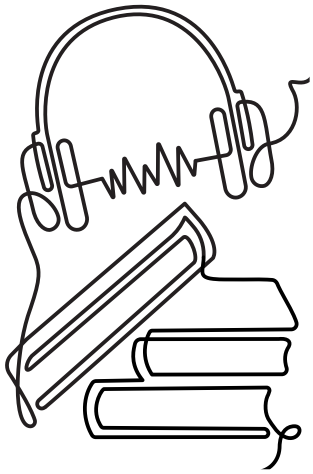
**QUOTE OF THE WEEK***

“We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do.”

**Kevin Warsh,** Fed Chair

* Not an endorsement.

## WHAT WE ARE READING AND LISTENING TO



**Why rising bond yields could force Washington to act**

In this podcast, Wharton emeritus professor of finance Jeremy Siegel links rising Treasury yields to public deficits, tariffs, inflation and AI investment. He argues that bond-market pressure could ultimately force Washinton to address its fiscal-policy problems.

**Big tech, big debt: when US tech giants tap the euro area bond market**

In this ECB blog, the authors argue that the US AI investment boom could be pushing up borrowing costs on European bond markets and crowding out other issuers if hyperscalers’ borrowing needs accelerate.

**The ‘reverse Kindleberger Trap’: reasons to worry about the next financial crisis**

David Lubin of Chatham House believes that the next US-originated crisis might trigger capital flight out of the US rather than into Treasuries, in contrast to what happened after the subprime crisis in 2008.

## DATA AND EVENTS CALENDAR

| Date | Country | Data | Period | UniCredit | Consensus | Previous |
|---|---|---|---|---|---|---|
| 6 Sep | GE | State election in Saxony-Anhalt | - | - | - | - |
| 9 Sep | PL | NBP announces key rate (%) | - | 3.75 | 3.75 | 3.75 |
| 10 Sep | EZ | ECB depo rate (%) | - | 2.50 | 2.50 | 2.25 |
| 10 Sep | EZ | ECB refi rate (%) | - | 2.65 | 2.65 | 2.40 |
| 11 Sep | US | Consumer price index (% yoy) | Aug | 3.3 | 3.4 | 3.4 |
| 11 Sep | US | Core inflation (% yoy) | Aug | 2.4 | 2.4 | 2.5 |
| 11 Sep | US | Consumer price index (% mom) | Aug | 0.3 | 0.4 | 0.1 |
| 11 Sep | US | Core inflation (% mom) | Aug | 0.2 | 0.2 | 0.2 |

Source: Bloomberg, The Investment Institute by UniCredit
Note: A detailed calendar is available here: Calendar.

## FORECAST TABLES

- Economics
- FI
- FX
- Risky Assets

## IN CASE YOU MISSED IT THIS WEEK

| Date | Title | Author |
|---|---|---|
| 4 Sep | Coffee Break<br>› Germany: election sprint, reform marathon | Dr. Andreas Rees |
| 3 Sep | Short View<br>› Behind Moderna: the opportunity of personalised medicine | Giovanni Mazzariello |
| 3 Sep | Coffee Break<br>› Japan's FX policy: between a rock and a hard place | Roberto Mialich |
| 2 Sep | Coffee Break<br>› Bunds: the picture remains fragile | Francesco Maria Di Bella |
| 1 Sep | Short View<br>› European equities' quiet revival | Christian Stocker |
| 1 Sep | Coffee Break<br>› Elevated European natural gas price reflects a challenging outlook | Jonathan Schroer |
| 31 Aug | Market Spotlight<br>› USD: What if the US Treasury and the Fed collide? | Roberto Mialich |
| 31 Aug | Primary Market Focus<br>› Weekly Supply Preview – What to expect for September | Francesco Maria Di Bella |
| 31 Aug | Coffee Break<br>› Gold's signal: watch the yield curve, not just yields | Dr. Thomas Strobel |
| 29 Aug | Letter from the Editor<br>› Who still wants US Treasuries? | Edoardo Campanella |

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