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September ECB Cheat Sheet: Pick your poison

The ECB must decide which risk is the lesser evil: overtightening (and potentially upsetting European bonds) or underestimating inflation. A 25bp hike is widely expected on Thursday, and we think the Bank may strike a more cautious tone – dovish, relative to markets' aggressive pricing. As usual, we outline four scenarios and market implications

This is our market preview of June's European Central Bank meeting; you can find our macro team's preview here.

A dovish-leaning hike

The ECB is likely to deliver a 25bp rate hike to 2.50% on 10 September. In line with its new, somewhat unorthodox communication style, the Bank had already all but pre-announced the move through media guidance following the July meeting. Recent developments have only strengthened expectations for further ECB tightening. This week's hike is fully priced in, and markets are discounting a cumulative 75bp of additional hikes by June 2027.

We feel the ECB needs to signal to markets what its greatest concern is at the moment:

inflation or overtightening risk. On both fronts, the news has been more encouraging than expected. Core inflation remained well-behaved and edged down to 2.4% in August, while growth surprised to the upside. The wildcard remains bond market instability. We suspect this could push the ECB towards a less hawkish stance. With fiscal concerns mounting and bond yields rising, we are not convinced the Bank is ready to add fuel to the fire by embracing a more worrying inflation narrative.

Incidentally, any hikes beyond September would move policy from the "insurance" end of the spectrum into "restrictive" territory. That shift still lacks sufficient support from the data. Markets may also be underestimating concerns about overtightening and the potential spillover into European bond markets. As a result, our baseline scenario, outlined below alongside three alternatives, is for an ECB meeting that leans dovish relative to very hawkish market pricing.

Four scenarios for the 10 September ECB meeting

	Inflation outlook	Growth outlook	Interest rates	EUR/USD (1.161)	10Y Bund (3.40%)
Current stance	Upside risks due to higher energy prices, second-round effects possible	Risks tilted to the downside, especially in the near term, due to the Middle East war	Depo rate at 2.25%. Data-dependent, meeting-by-meeting approach		
Very dovish	Projections suggest contained risk of second round effects	Balance of risks remains on the downside, playing down resilience so far	**25bp hike.** Signalling a prolonged pause and concerns on bond market	1.150	3.30%
Dovish ING base-case	Inflation revised slightly higher, balance of risks broadly unchanged	Outlook improved but risks still to downside	**25bp hike.** Slight pushback against market pricing, keeping options open	1.157	3.35%
Neutral	Latest re-escalation is bringing fresh upside risks to inflation	Greater emphasis on improved projections, risks are now balanced	**25bp hike.** Signalling another hike in coming months possible	1.163	3.40%
Hawkish	Inflation impact possibly bigger than initially thought, requiring continued action	Larger than expected upward revision in growth projections, risks balanced	**25bp hike.** Clear hints of another hike in October and potentially more afterwards	1.168	3.45%

Source: ING

Rates: Hawkish sentiment already stretched

The curve already prices in a hawkish ECB path, which raises the bar for another move higher in rates. Also, the latest move up in oil prices was already closely matched by higher rates. Meanwhile, we see an upward revision in growth expectations as economic data has been consistently surprising consensus to the upside. We doubt the ECB will emphasise this narrative, however, as uncertainty remains high. The balance of risk is therefore to a slightly dovish rate reaction, as no confirmation is given of further hikes.

The bigger question is about the terminal rate, which markets currently price close to 3%. The average in 2025 was around 2%, which therefore marks a significant upward revision of some 100bp over the past few months. Oil is only part of this story and cannot explain the full move higher. Other factors include a better growth outlook and rate spillovers from the US. Unfortunately, the ECB is unlikely to comment on this as the current approach is more focused on near-term inflation risks than structural concerns.

FX: Some downside risks for the euro

The ECB has not been the most visible driver of EUR/USD, with US data and Fed communication generating much larger intraday moves. Still, the market's hawkish view on the eurozone has helped underpin euro resilience despite a deteriorating geopolitical and commodity backdrop.

Our call for a dovish hike by the ECB this week means some downside risks for the euro as those hawkish convictions may start to be challenged. We don't think the ECB is willing to prompt a sharp repricing lower in rate expectations, but a more cautious tone may prove particularly at odds with a Fed hike (our expectation) next week.

In our view, that would leave EUR/USD facing a less supportive backdrop in the coming weeks. Our near-term target remains 1.150, even though we continue to expect a return to 1.160 by year-end. Our latest FX views and forecasts can be found here.

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