Danske Bank

10. September 2026

ECB Review

A “no-brainer” hike and more to follow

- **The ECB hiked policy rates by 25bp at the September meeting, with the deposit rate at 2.50%, in line with consensus and market pricing.**
- **The communication at the meeting, including the new projections, came as a very hawkish surprise to markets.**
- **The ECB revealed a firm focus on energy prices in its reaction function, so we now expect the ECB to hike in both October and December.**

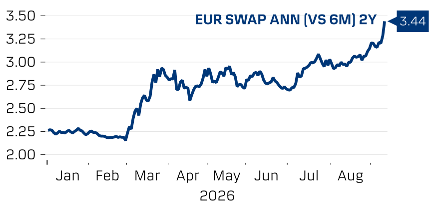
The ECB decided to hike its three key policy rates by 25bp at the September meeting, as expected, with the deposit rate at 2.50%. The ECB stated that “*inflation is set to remain well above target for an extended period”* in the press release, which was a clear hawkish surprise. Lagarde characterised the decision as a unanimous “*no-brainer*”, leaving the door wide open for further hikes. European rates rose across the board, led by the front end, with 2Y EUR swap rates rising around 15bp leading to a significant flattening of the curve. Markets price a total of 88bp worth of additional tightening with the peak reached in September 2027.

During the press conference Lagarde emphasised the surprisingly resilience of the economy. This has been due to new sources of growth such as global AI demand but also broad-based strength in Q2 which is expected to continue in the near term. On inflation, Lagarde mainly focused on energy prices and gave very few comments on developments in underlying inflation and wages. We see the benign developments of underlying inflation and wages as a dovish argument for the ECB, but the lack of focus on this in the ECB’s reaction function has been surprising to us. **As the ECB reacts more to energy developments than underlying inflation compared to our previous expectations of their reaction function, we revise up our policy rate forecast.**

The staff projections delivered a hawkish surprise with all forecasts either kept the same or revised up (see chart). However, the baseline forecast is already outdated as energy costs have moved up since the cut-off date of August 19. **Hence, the adverse scenario is the one that best reflects the current energy market** as oil prices are assumed at USD 100 per barrel and gas prices to EUR 75 per MWh in the fourth quarter of 2026. This scenario sees inflation at 3.2% y/y in 2027 and 2.3% y/y in 2028 with core at 2.8% y/y and 2.4% y/y, respectively. Growth is still expected above 1% in both years even with an assumption of a little more than one extra hike by the ECB this year. **These projections support the ECB delivering at least one additional hike as that is already assumed in the projections.**

Hawkish surprise triggered broad based rise in European rates

EUR SWAP ANN (VS 6M) 2Y



Source:

Hawkish changes to staff projections, but energy assumptions are already too low.

ECB projections September 2026	2025		2026		2027		2028	
GDP growth	1.5% (1.5%)	→	0.9% (0.8%)	↗	1.4% (1.2%)	↗	1.5% (1.5%)	→
HICP inflation	2.1% (2.1%)	→	3.0% (3.0%)	→	2.5% (2.3%)	↗	2.1% (2.0%)	↗
Core inflation	2.4% (2.4%)	→	2.5% (2.5%)	→	2.6% (2.5%)	↗	2.3% (2.2%)	↗

Parenthesis are the old ECB projections (from June 2026)

Source: Danske Bank

Senior Analyst, Macro
Rune Thyge Johansen
+45 40 26 04 37
rujo@danskebank.dk

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

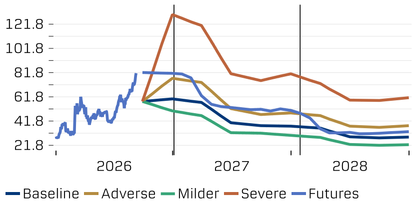
New call: 25bp hike in October and December before cutting in H2 2027

We revise our forecast and now expect the ECB to hike policy rates by 25bp at the meeting in October and again by 25bp in December, bringing the deposit rate to 3.00%. The significant focus on energy prices in their reaction function means that we do not see why the ECB should wait for December before delivering the next hike. The risk to the call of an October hike is that energy prices drop significantly before the October meeting and that the ECB previously has used the meetings with new staff projections to hike. In that case, we would assume that the ECB only hikes in December. We deem hikes beyond December as more unlikely as we expect underlying inflationary pressures to only increase modestly.

With our expectations of a total of 100bp worth of hikes in 2026 we believe the negative growth effect and the curbing of inflation spreading outside of energy means that the ECB will start cutting policy rates in the second half of 2027. The timing of cuts is very uncertain and is highly dependent on the growth developments in 2027. We expect a first cut to come in the second half of the year with December being the most likely in our view. **Hence, we forecast the ECB to cut the deposit rate back to 2.75% by 2027 year-end and then deliver further rate cuts in 2028.**

Gas price in line with adverse scenario

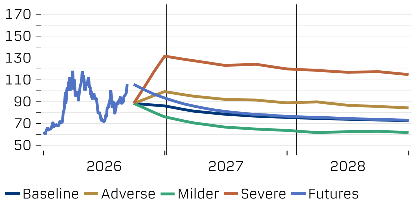
ECB September projections gas price scenarios



Source: ECB, Danske Bank

Oil futures above adverse in the near term but on baseline next year

ECB September projections oil price scenarios



Source: ECB, Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Rune Thyge Johansen, Senior Analyst, and Kirstine Kundby-Nielsen, Senior Analyst .

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

Ad hoc

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.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank A/S's prior written consent.

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.

Disclaimer related to distribution in the United Kingdom

Disclaimer related to distribution in the European Economic Area

Report completed: 10 Sep 2026 at 18:00 CET
Report disseminated: 10 Sep 2026 at 18:30 CET