20 October 2026

ECB Preview

October pause; MRR in focus

- **We expect the ECB to keep policy rates unchanged on Thursday 29 October, with the deposit rate at 2.50%, in line with consensus and market pricing.**
- **We expect Lagarde to retain full optionality on the future rate path and offer no firm guidance, limiting the market reaction.**
- **We watch out for potential communication on the minimum reserve requirement (MRR) and operational framework, which is important for money markets but not the broader macro story.**

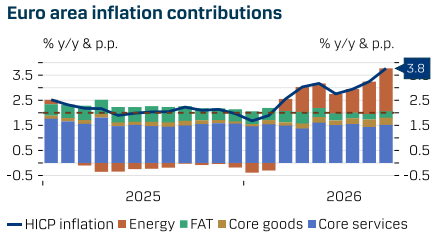
We expect the ECB to keep policy rates unchanged at the meeting on Thursday 29 October, with the deposit rate at 2.50%, in line with consensus and market pricing. While inflation surprised to the upside in September, rising to 3.7% y/y, the spillovers from energy costs to underlying inflation remain very muted, and firms' selling price expectations in services and retail even declined. We thus believe that the ECB is not in a hurry to hike policy rates as early as October and prefers to wait until December to deliver the next hike, when it will have more data and new projections.

Communication from GC members since the September meeting has been less hawkish than Lagarde's comments at the press conference, which initially prompted us to add an October hike to our forecast. Lagarde focused clearly on energy costs, while more recent comments increasingly also consider the demand destruction and the lack of inflationary second-round effects. **For these reasons, we change our call and no longer expect a hike in October**, as also flagged in *Reading the Markets EUR*, 8 October.

In our new call, we expect the ECB to deliver a final 25bp hike in December, leaving a peak deposit rate of 2.75%, and keep it at that level in 2027. Additional tightening beyond December will be particularly influenced by growth developments in Q1. Higher energy costs, the lagged effects of rate hikes, and a tightening fiscal stance are set to weigh on growth, which should keep the ECB from hiking further in our baseline. However, upside risks to inflation from energy costs and low gas storage levels persist, which could warrant additional hiking. Hence, we see the risks to our call as tilted to the upside, as a fourth hike to 3.00% seems more likely than staying at 2.50%. But even in that upside risk scenario, we expect the ECB to hike less than the 75bp worth of tightening priced by markets.

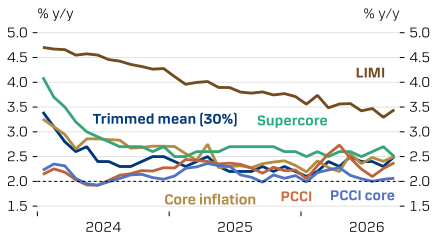
Given the limited data since September, large uncertainty about the energy cost outlook, and our expectations of a wait-and-see approach at the meeting, **we expect communication to be neutral and aimed at limiting the market reaction**. We expect Lagarde to retain full flexibility, leaving the door open to further tightening without pre-committing to additional hikes. Finally, it will be interesting to see whether she officially announces that she will step down early; see *ECB's game of musical chairs*, 25 September.

Rise in inflation solely driven by energy costs



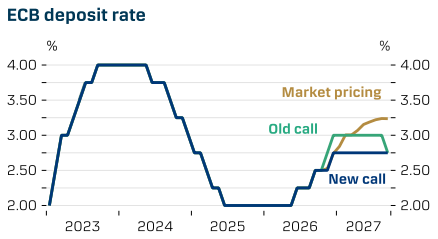
Source: Eurostat, Danske Bank, Macrobond

Underlying inflation steady despite higher energy costs



Source: ECB, Eurostat, Danske Bank, Macrobond

New ECB call and market pricing



Source: ECB, Danske Bank, Macrobond

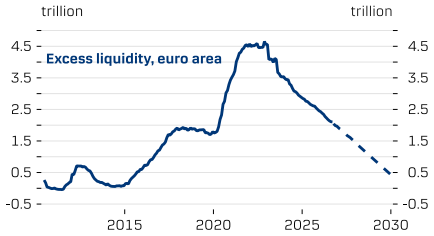
Senior Analyst, Macro
Rune Thyge Johansen
+ 45 40 26 04 37
rujo@danskebank.dk

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

Possible lift to MRR

Over the summer, reports citing ECB sources flagged that the ECB was considering lifting banks' minimum reserve requirement from 1% to 2% to reduce its own losses. This would tighten liquidity conditions in the euro area, as more liquidity would be tied up in meeting the minimum reserve requirement. On balance, this would push repo rates higher and ultimately, the ECB could end QT slightly earlier as excess liquidity would drop by around EUR 175bn. Given the recent stress in the funding market and given that liquidity conditions tend to tighten over year-end, we consider it plausible that any impending change to the MRR would not take place until next year, even if announced at the coming meeting. While such a change is important for money markets, the macroeconomic effect on growth and inflation is marginal.

Shrinking excess liquidity in the euro area



Source: ECB, Danske Bank, Macrobond

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

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