ECB Preview

21 October 2026

Wait-and-see, balancing inflation risks against market developments

We expect the ECB to leave its key policy rates unchanged at the 29 October meeting. Although energy prices appear to lie between the levels assumed in September's adverse and severe scenarios, the recent surge in bond yields has attracted increasing attention from Governing Council members. Their communication supports our view—and current market expectations—that the next rate hike will come in December.

Key points

- **Interim checkpoint:** The October meeting offers an opportunity to assess incoming data, with major policy decisions likely to remain on hold until the updated staff projections are published in December
- **Energy prices versus market tightening:** High oil and gas prices point towards the adverse scenarios, but the sharp rise in global long-term bond yields is already doing much of the ECB's tightening
- **Rates on hold:** We maintain our forecast of 25bp rate hikes in December and March.

The ECB's meeting on 29 October will serve as an interim checkpoint between the September and December rounds of macroeconomic projections. In recent years, including the two most recent rate hikes in June and September 2026, the ECB has preferred to make major policy decisions alongside more in-depth analysis, including updated staff projections and scenarios. The intervening meetings have served as checkpoints for assessing incoming data, evaluating how risks have evolved and identifying emerging risks.

Against this background, we highlight and comment on the latest developments below:

1. **Inflation outcomes** have been broadly in line with projections. Goods inflation continues to edge higher, while services inflation is gradually easing or perhaps levelling off. Energy prices remain the main driver of inflation, with an increase spreading from fuel to household energy. There are few, if any, signs of indirect or second-round effects from high energy prices.

2. **Real economic activity** continues to show clear signs of improvement. This is most evident in survey data, with confidence rising in both manufacturing and services despite the prospect of energy prices remaining higher for longer. Consumer confidence has improved since the beginning of 2026 but remains weak by historic metrics.

3. **Energy prices**—and the conflict in the Middle East itself—remain key. Crude oil and, in particular, natural gas prices are significantly above the levels assumed in the ECB's September baseline scenario, which had a cut-off date of 19 August. Oil and natural gas prices are currently just above the levels assumed in the adverse scenario. However, futures prices suggest that natural gas will track the severe

scenario more closely from 2027 onwards. High natural gas prices have also clearly pushed up electricity prices. Overall, energy prices look set to remain higher for longer.

4. **Financial conditions** have tightened substantially, marking the most significant change since the September monetary policy meeting. Expectations for higher policy rates and, above all, the sharp rise in global long-term bond yields should weigh on economic activity with a lag. To some extent, this is a circular argument, as part of the rise in yields reflects expectations of higher central bank policy rates. Nevertheless, markets have already done some of the ECB's heavy lifting, making the final rate hike less certain. This creates a new downside risk to the policy-rate path, a point highlighted by a growing number of Governing Council members in recent weeks.

ECB rhetoric and assessment

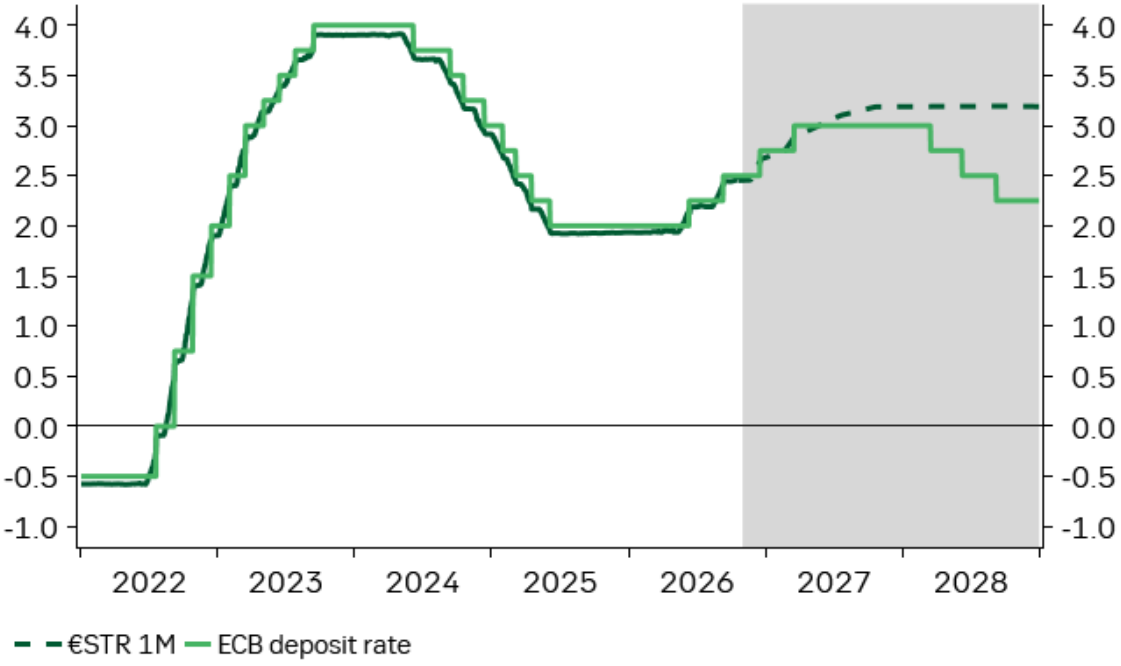
Recent ECB speeches emphasise that elevated energy prices have so far had no major spillover effects on other prices or, more importantly, on the expectations that shape wage-setting. There also appears to be broad agreement that further rate hikes are likely to be needed to address inflation risks and range of possible outcomes outlined in the latest staff projections. The overall impression is that there is no urgent need to act, allowing most policymakers to wait for the more comprehensive analysis in December. At the same time, they stress that the ECB stands ready to deliver additional hikes if necessary. The tightening of financial conditions in recent weeks has also attracted increasing attention.

Future leadership line-up

Alongside monetary policy, the ECB's future leadership has attracted growing attention, as the terms of three key members—Lagarde, Lane and Schnabel—are due to expire in 2027. Isabel Schnabel is set to leave the ECB on 3 January. Rumours persist that President Lagarde could leave early either to lead the World Economic Forum or to enter the French presidential race. The time for resolving these uncertainties is drawing closer. Given the ECB's close institutional ties with other EU bodies, the appointment of a new president would probably form part of a broader political package involving other European leadership roles. Economic developments and the inflation outlook will remain decisive, but the composition of the Governing Council can influence how the ECB interprets and responds to developments, with implications that extend beyond communication alone.

SEB forecast and market pricing

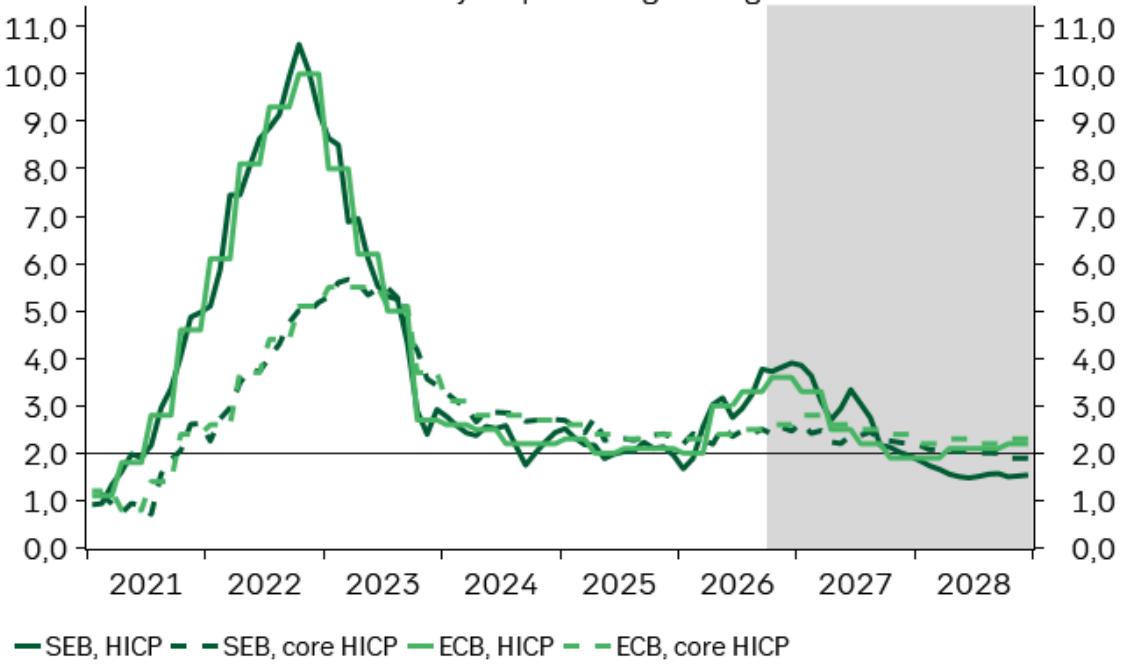
Per cent



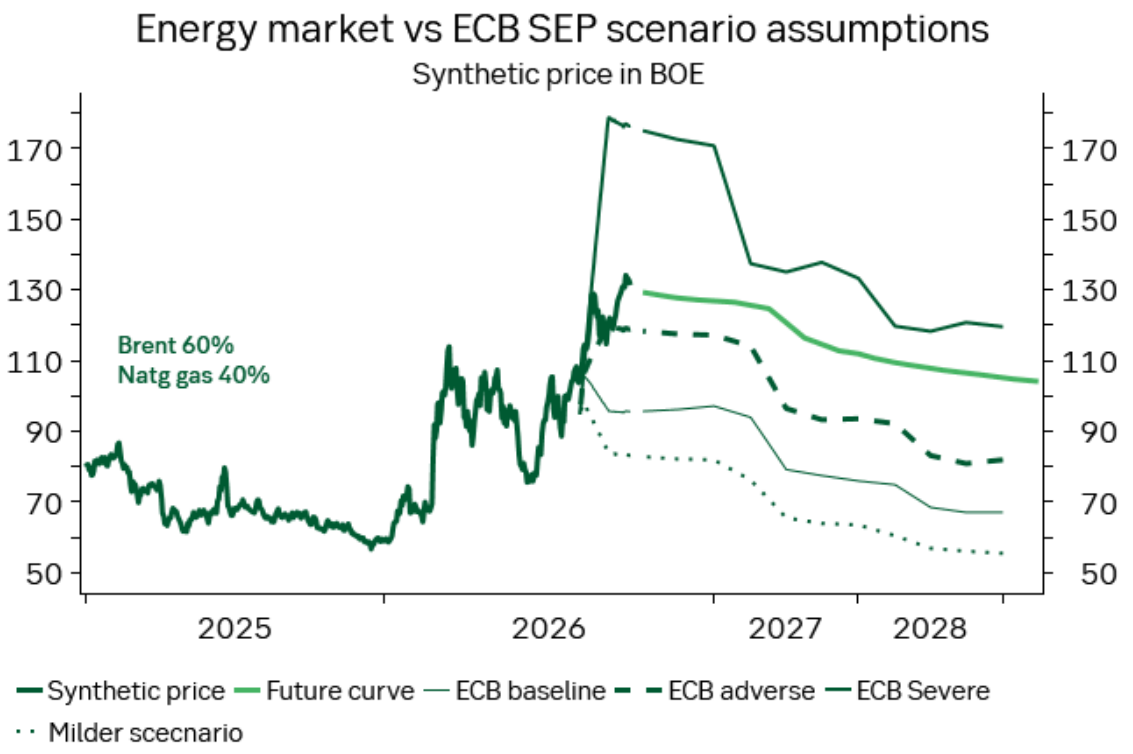
Source: TraditionData, Macrobond, SEB

Euro area inflation

Year-on-year percentage change



Källa: ECB (European Central Bank), Macrobond, SEB



Source: Macrobond, SEB

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