

# MARKET COMMENTARY

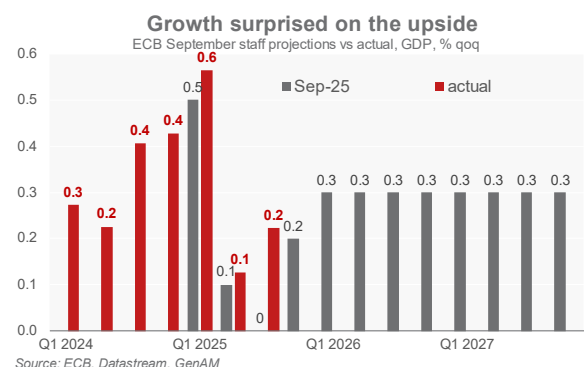
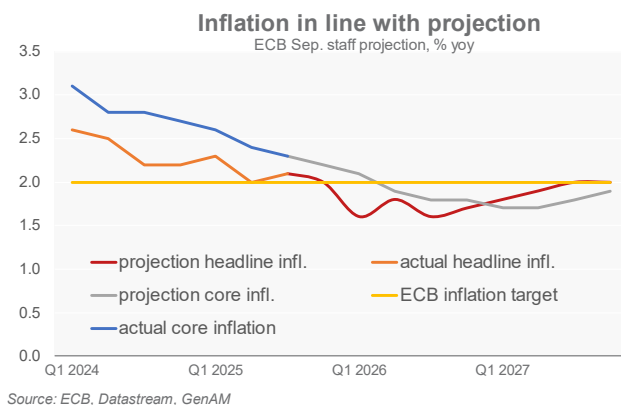
ECB maintains a steady hand as it continues to see itself in a good place

Martin Wolburg

October 30, 2025

- At today's meeting the ECB's Governing Council (GC) unanimously and unsurprisingly decided to keep its key rate unchanged at 2.0% as the inflation outlook remained broadly unchanged and confidence into the recovery increased.
- While acknowledging that some growth risks mitigated (EU/US trade deal, Middle East ceasefire, US/China trade deal) the GC again restrained from mentioning a balance of risks. Also, it continues to see higher than usual inflation uncertainty due to the global trade environment and geopolitical tensions.
- During the press conference President Lagarde carefully avoided to signal any policy bias but reiterated that monetary policy was *"in a good place"*. The GC is in a wait-and-see modus. All eyes are now moving to the December meeting when updated macro projection will be extended to 2028.
- We feel confirmed in our view that unless some downside risks materialize the ECB has terminated its cutting cycle and stays on hold at 2.0% for the time being.

**ECB kept key rate unchanged today:** At today's meeting the GC left its key rate, the deposit rate, at 2.00% for the third consecutive time. It continues with fully non-reinvestments of its APP and PEPP purchases.



**Recent data in line with latest ECB projections:** The latest data confirm the constructive view painted in the September macro projections. Today's Q3/25 first growth estimate of 0.2% qoq was above a flat reading underlying the September macro projections. We see leeway for an upward revision of the ECB's near-term growth outlook (2025/26: 1.2%/1.0%). The GC became more upbeat on growth referring to a robust labour market, healthy private sector balance sheets and past key rate cuts as *"important sources of resilience"*. In the Q&A President Lagarde adopted a cautiously optimistic tone stating that she would not complain too

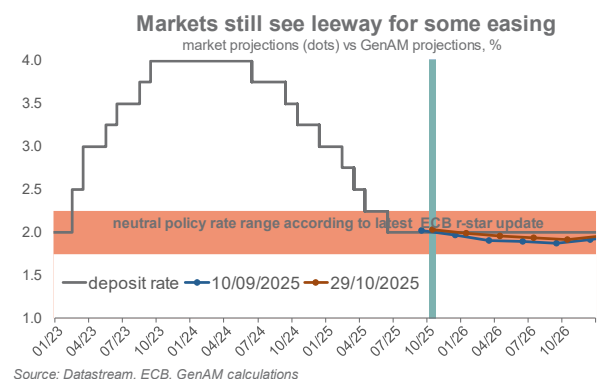
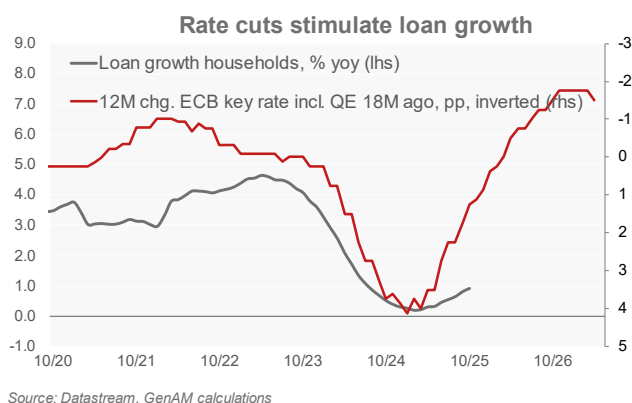
much about growth. Likewise, recent data are in line with the inflation path from the September projections (2025/26/27: 2.1%/1.7%/1.9%) and the GC confirmed that it sees inflation (Sep. 2.2% yoy) “close to target” while the “inflation outlook is broadly unchanged”.

**Uncertainty still high although some risks mitigated:** At the September meeting growth risks were seen as more balanced. Since then, the EU-US trade deal, the ceasefire in Middle East and the very recent US-China trade deal “mitigated some of the downside risks” to growth further. That said, there remain various risks on the upside (e.g. defence and infrastructure spending, productivity enhancing reforms) as well as downside risks (e.g. disruption of supply chains due to trade disputes, geopolitical tensions, deteriorating market sentiment). According to Mrs Lagarde the risks were discussed. But the GC again restrained from indicating where it sees the balance of risks and in the Q&A Mrs Lagarde carefully avoided to do so either. Likewise, there are upside (e.g. global supply chain fragmentation, boost in defence and infrastructure spending, extreme weather events) as well as downside (e.g. stronger euro, negative demand effect from tariffs, re-routing of exports, worsening financial conditions) risks on inflation that keep the inflation outlook “more uncertain than usual”. All in all, the GC finds that particularly global trade disputes and geopolitical tensions contribute to this uncertainty.

**ECB still in a good place:** With macro data broadly in line with expectations and huge uncertainties in either direction remaining, it did not come as a surprise that President Lagarde saw ECB monetary policy still in a “good place”. The decision to leave rates unchanged was again met unanimously. In the Q&A President Lagarde also emphasized that the transmission of monetary policy was working well suggesting no need to adjust rates too.

**All eyes at the December projections:** To adjust the policy stance either a deviation of the dataflow from expectations or a meaningful change in the outlook would be needed. We do not expect substantial surprises regarding macro data in the months to come. More important will be the updated macro projections that in December include projections for 2028 for the first time. Only if inflation (headline as well as core) were forecast to stay well below the 2% target by then we would see leeway for further easing. This is not our base case and would require the materialization of some downside risks in our view.

**Rate cutting cycle is over:** At the current level of 2.0% the policy rate is in the middle of the neutral range (of 1.75% to 2.25%) that ECB staff had derived. We think that this will remain a “good place” for ECB key rates for the time being. We deem market expectations that still see some leeway for lower rates as overdone.



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