

ECB Preview

ECB on hold, but not for long

- We expect the ECB to keep policy rates unchanged, with the deposit rate at 2.25%, on Thursday 23 July, in line with consensus and market pricing.
- We expect Lagarde to keep full optionality on the future policy rate path, leaving the door open to a September hike, but without pre-committing.
- We expect a final 25bp hike in September, bringing the deposit rate to 2.50%.

We expect the ECB to leave policy rates unchanged at the July meeting, in line with market pricing and consensus. Since the June meeting, inflation has surprised to the downside, including beyond energy, and near-term oil futures have declined even after the recent end to the ceasefire between the US and Iran. These developments, combined with broadly anchored medium-term inflation expectations, give the ECB the option to wait for new staff projections at the September meeting before potentially hiking policy rates again.

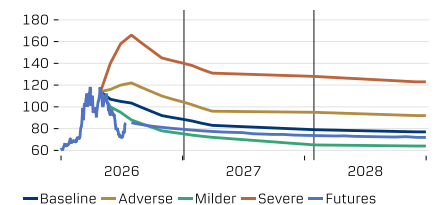
Focus during the meeting will be on signals about the future rate path. We will be particularly attentive to the risk assessment of the inflation and growth outlook. The ECB views inflation risks as tilted to the upside and growth risks as tilted to the downside, but Lagarde stated on 1 July that they are now “*probably more balanced*”. Yet, given the recent escalation of the war in Iran and the lack of new staff projections, we do not expect the risk assessment to be changed.

We expect Lagarde to keep full optionality on the future policy rate path, leaving the door open to a September hike, but without pre-committing. At the Sintra conference, she reiterated that the ECB has set aside forward guidance and instead provides “framework guidance” on its reaction function. With markets currently pricing in 22bp worth of ECB hikes at the September meeting, and given the high uncertainty around the future path of energy prices, we do not believe the ECB has an incentive to rock the boat.

Our baseline remains that the ECB will deliver a final 25bp hike at the September meeting. The bias in the GC remains hawkish, even as it is slightly more balanced now compared to June. While crude oil futures have declined the prices of refined oil products and natural gas remain above pre-war levels, by 10% for gasoline and 170% for natural gas, respectively. Consumer inflation expectations also remain elevated, and markets are pricing inflation to average 3.25% y/y for the rest of 2026 and 2.65% y/y in 2027. Having said that, growth has been weaker than expected in Q2, and the June inflation print was soft, with no signs yet of indirect effects from the energy shock. At the same time, there are no signs of second-round effects, and the labour market is weakening, so we do not expect more than one additional hike and we then see the ECB cutting the deposit rate back to 2.00% next year.

Chart 1: Oil futures for 2026 close to ECB's “milder” scenario; 2027/28 at baseline

ECB June projections oil price scenarios



Source: Bloomberg, Danske Bank

Chart 2: Natural gas and car fuel prices are still higher than before the war

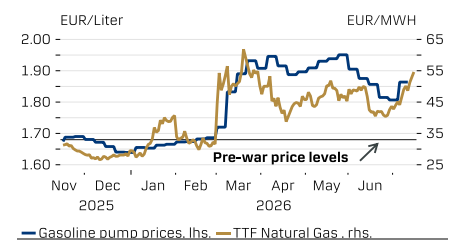
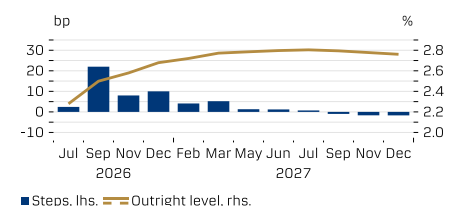


Chart 3: Markets price two additional 25bp hikes; we expect only one in September

ECB market pricing (€STR +7bp)



Source: Danske Bank

Senior Analyst, Macro
Rune Thyge Johansen
rujo@danskebank.dk

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

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.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

This document is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Report completed: 15 July 2026 at 14:45 CET

Report disseminated: 15 July 2026 at 15:20 CET