



Central Bank Weekly: 5th September 2025

Previewing ECB and CBRT

PREVIEWS

ECB ANNOUNCEMENT (THU): 66/69 of those surveyed by Reuters expect the ECB to hold the Deposit Rate at 2.0% with markets assigning a 99% chance of such an outcome. As a reminder, the prior meeting saw the ECB stand pat on rates with President Lagarde reiterating that policy remains in a good place, suggesting that policymakers are not in a rush to adjust policy. Since July's confab, the EU and US have formalised their trade agreement, which will see most EU goods subject to a 15% tariff vs. the initially threatened 30% level. On the data slate, Q2 growth was resilient in the face of trade tensions. More timely survey data from S&P Global saw the composite PMI metric move further into expansionary territory with the pace of expansion ticking up to a one-year high. On the inflation front, August Y/Y HICP rose to 2.1% from 2.0% and the super-core metric held steady at 2.3%. As such, there is little cause for policymakers to loosen policy at this meeting. Moving forward, there is clearly a split of views on the Governing Council, with the doves on the board, such as Finland's Rehn, flagging the likelihood of greater downside risks to inflation. However, the hawks on the GC, such as Germany's Schnabel, are of the view that rates are already mildly accommodative, and do not see a reason for a further rate cut, adding that global rate hikes may come earlier than people think. Market pricing sees a roughly 50% chance of a rate cut by March next year. Given the lack of fireworks expected within the policy statement, markets may be guided more by the accompanying macro projections, with focus on the 2026 inflation forecast, which is currently expected to come in materially below the Bank's 2% target at 1.6%. On the projections, consensus looks for an upgrade to the 2026 inflation view to 1.9% with growth to be held at 1.1%. During the press conference, President Lagarde will likely be asked about any potential backstops for French debt depending on the outcome of Monday's confidence vote. The Transmission Protection Instrument (TPI) is the main tool at the ECB's disposal. However, deployment appears to be some way off yet, absent a material rise in spreads.

CBRT ANNOUNCEMENT (THU): The CBRT is expected to lower rates by 200bps at its September meeting, according to analysts at both JPMorgan and Goldman Sachs. This follows on from a hotter-than-expected inflation report in August, which saw the headline M/M rise 2.04% (exp. 1.79%); Y/Y printed at 32.95% (exp. 32.60%) – nonetheless, metrics did cool from the prior. Inflation aside, GDP metrics for Q2 were resilient, and continued TRY depreciation will further complicate things at the Bank. On the latter, Turkish assets were slapped after a court in Istanbul ruled to remove local officials of the Republican People's Party, which is the main opposition party to the current government. Bloomberg economist Baziki said that given the weakening TRY and rising energy costs, risks to inflation are "tilted to the upside". Analysts at JPMorgan echo this. As such, the bank sees the CBRT cutting rates by 200bps at the September meeting (prev. saw 300bps cut); JPM then see a further 200bps reduction in both October and November, taking the policy rate down to 37% by year-end (prev. saw 36%). Analysts conclude that the policy rate will be kept above headline CPI to "prevent dollarisation among Turkish residents". GS writes that "With Q2 GDP growth far surpassing expectations— despite weaker domestic demand—and August inflation coming in higher than forecast", they see a smaller cut than that delivered at the prior meeting.

REVIEWS

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