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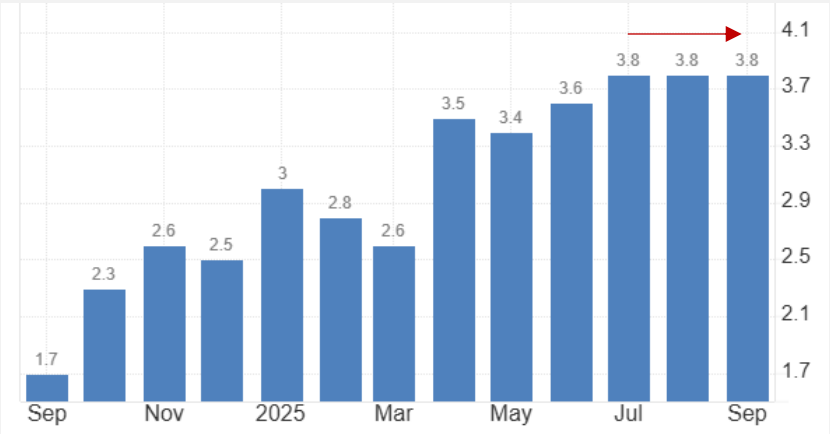
The Fed is preparing to cut rates

Next week to meet FED, ECB and BoC

No rate movement expected from the ECB

- **Central Banks** Next week will be the monetary policy meetings of the ECB, the Fed and the Bank of Canada. For the ECB, no changes are expected. On the other hand, the other two central banks are preparing to cut rates.
- **Joachim Nagel** believes that eurozone inflation should converge towards the ECB's 2% target in the coming years, supported by the ECB's projections (1.7% in 2026, 1.9% in 2027) and the stability of rates since June.
- **Philip Lane** said that the ECB's monetary easing is progressing but needs to remain under scrutiny, taking a data-driven case-by-case approach to assessing monetary transmission.
- **UK** Huw Pill advocates gradual and cautious rate cuts to maintain disinflation, while leaving the door open for cuts within the year if conditions improve.

Evolution of the inflation rate in the United Kingdom



Source: ONS 22/10/25

The annual inflation rate in the United Kingdom remained stable at 3.8% in September 2025, unchanged from the previous two months and lower than the forecast of 4%.
Services inflation was unchanged at 4.7%. On a monthly basis, the CPI was unchanged.
Annual core inflation unexpectedly slowed from 3.6% to 3.5%.

Figure of the week

3,8%

This is the annualised inflation rate in the UK to the end of September

Joachim Nagel

According to **Joachim Nagel**, President of the Bundesbank, inflation in the euro area is expected to reach the ECB's 2% target over the next few years.

"It looks like we're on track to achieve our goal for the next few years. We should not rest on our laurels, but the outlook for inflation looks good."

The ECB's latest projections expect annual consumer price growth of 1.7% in 2026 and 1.9% in 2027.
This has allowed officials to keep rates unchanged since June, with markets not expecting another cut this year. Addressing the issue of European defence funding, Nagel said it was time to "think outside the box".

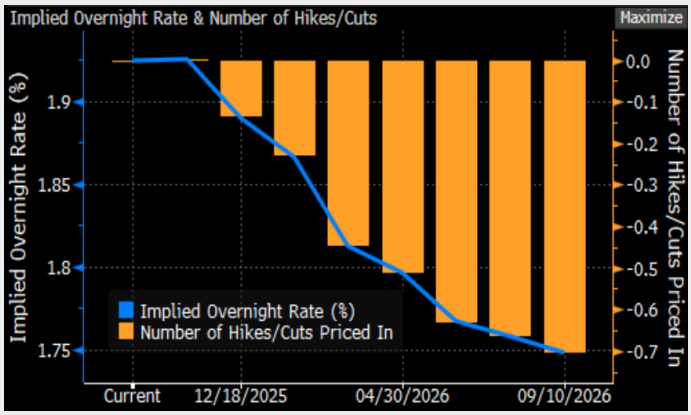
This is in line with the comments he made last week, where he supported the idea of a common budget for the European Union's defence spending, suggesting that it could be financed by a common debt.

P. Lane (ECB): a correct transmission of monetary policy

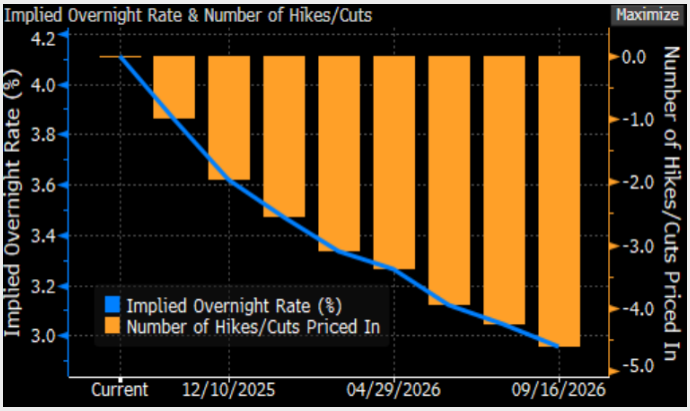
The ECB's monetary easing is going well, but needs to be monitored continuously in case changes require additional measures, said **Philip Lane**, chief economist.
"It makes sense to maintain a case-by-case, data-driven approach to assessing the strength of monetary transmission at any given point in time." ECB interest rates are currently holding steady after eight cuts in the space of a year, with officials confident that inflation will remain close to their 2% target and that the economy will continue to grow, albeit slowly. A minority still wants a further reduction in borrowing costs to be considered, given the persistence of risks such as trade. In his speech in Frankfurt, Lane warned that "stronger monetary intervention" could be needed if uncertainty weakened transmission.
At the same time, policymakers "need to strike a balance between incentives to act more vigorously and those to wait and see if an outbreak of uncertainty corrects itself in a timely manner."

> *Monetary policy transmission is proceeding smoothly*
>
> *Philip Lane, October 21, 2025*

ECB



FED



Source: Bloomberg 23/10/25

With a week to go before the meeting of three major central banks such as the ECB, the Fed and the Central Bank of Canada, market expectations regarding the ECB's interest rate path rule out any possibility of a further cut at the next meeting.

Looking at the projections for the coming months, the probability of a rate cut in the euro area is currently estimated at 70% by the end of next year.

The chances of a decline by the end of 2025 are very low.

On the Fed side, the scenario is very different, as the central bank is preparing to cut rates at its meeting next week. Markets are pricing in this possibility at almost 100%.

Another rate cut is expected to take place by the end of the year, while two more are expected in 2026.

Under this scenario, the Federal Reserve's terminal rate could be around 3%.

Christopher Waller, Fed

EDF: WALLER CHOOSES CONSENSUS TO PRESERVE HIS CREDIBILITY

At last month's Fed meeting, markets were pricing in a first rate cut in 2025 and attention was focused on Governor **Christopher Waller** after the appointment of a close associate of Donald Trump to the board, who favors larger cuts.
Faced with this pressure, Waller ultimately voted for a 25 basis point cut, in line with the majority, while new Governor Stephen Miran dissented in favor of a 50bp cut.
A former economics professor, Waller is known for championing central bank independence and for his flexible and often data-driven forecasting analyses.
His choice to align himself with the consensus rather than push for a more aggressive cut illustrates his desire to protect his credibility and avoid political considerations dictating his decision.

H. Pill (BoE): caution on rate cuts

Huw Pill, chief economist at the Bank of England and a member of the Monetary Policy Committee (MPC), said rate cuts will likely have to come more slowly due to persistent inflationary pressures.

It notes signs that price growth is still too strong and fears that high inflation expectations are becoming entrenched; the MPC should therefore cautiously withdraw monetary restrictions to ensure further disinflation towards the 2% target.

Pill had voted against the last rate cut to 4% in August.
It considers further cuts over the next twelve months if the outlook evolves as expected, but warns of the risk of cutting rates too sharply or too quickly.

BoE Governor Andrew Bailey indicated that labour market data seems to confirm a cooling of underlying pressures, while investors have advanced their bets on the next rate boost, now almost entirely expected in February (previously April).

Huw Pill, Bank of England

"The Monetary Policy Committee should now take a more cautious approach in withdrawing restrictive monetary policy measures to ensure further disinflation towards the 2% target."

Topicality

- **Canada** | The annualized core inflation rate at at the end of September rose to 2.8 vs. 2.6% the previous month
- **China** | Benchmark interest rates remained stable at 3.00% at the end of October

Agenda

- **29 October** I Interest rate decision for the Fed and the Central Bank of Canada
- **30 October** I ECB Decision on interest rate

Authors

Daniele CURCI
Head of Investment Specialists Liquidity Solutions and Business Development

Denis DUONG
Investment Specialist Liquidity Solutions

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