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WILL THE FED AND ECB MEETINGS IN OCTOBER REALLY BE NON-EVENTS?

The unexpected element lies in the (highly likely) lack of surprises. The suspense surrounding the outcome of the FOMC meeting on 28-29 October and the ECB meeting on 30 October is, in reality, quite limited: a further 25 bp cut by the Fed and a continuation of the stance for the ECB are expected. In doing so, by narrowing the gap between policy rates and the extent of restriction in US monetary policy, the Fed's stance is aligning more closely with that of the ECB rather than moving away from it. Such a simultaneous lack of suspense for both central banks is uncommon, especially given the overall economic environment, which remains fraught with uncertainty.

The uncertainty surrounding the monetary policies of the Fed and the ECB is not associated with their forthcoming meetings, for which their communications offer considerable clarity, but rather with the subsequent meetings and the following questions: How many rate cuts in total will the Fed implement, and at what speed? How long will the ECB uphold its current rate levels? What are the potential risks linked to these scenarios? The focus of interest in the October meetings will be less on the decisions made than on the tone of the statements and the press conferences, as well as what they indicate about future actions. Even with the high degree of certainty regarding the outcomes of the October meetings, certain questions remain pertinent, in particular the following: is the Fed right to cut rates and the ECB right not to cut them further?¹

WHAT IS EXPECTED AND THE UNDERLYING REASONS

Preemptive US monetary easing

At the FOMC meeting scheduled for 28-29 October, the Fed is expected to implement an additional 25 bp cut in the Fed Funds rate (adjusting the target range from 4.00-4.25% to 3.75-4.00%). This decision is pre-emptive, extending the risk management strategy that resulted in the 25 bp cut at the FOMC meeting held on 17-18 September. The Fed is more sensitive to the increased downside risks associated with the employment part of its dual mandate than to the upside risks related to inflation. Signs of deterioration in the labour market are more evident than those pointing to higher inflation. The latter remain contained for the time being, as demonstrated by the September figures (a modest increase in headline inflation, from 2.9% to 3% y/y, and a slight decrease in core inflation, from 3.1% to 3%)². The Fed also argues that a less dynamic labour market will mitigate the inflationary impact of increased tariffs on US imports by preventing second-round effects.

Faced with an already complicated trade-off (downside risks to employment versus upside risks to inflation), the Fed's task is further complicated by the government shutdown and the resulting lack of additional official data since the September meeting. While decisions should not be based solely on past performance, knowing where we have come from helps us to know where we are going. However, this time around, the Fed will have to rely more on its forward-looking vision. It also has a few indicators from private sources, including the ADP survey, which points to a significant decline in private employment (negative results in August and September), and weak household confidence surveys (University of Michigan and Conference Board).

By easing the restriction in its monetary policy and striving for at least a neutral stance, the Fed seeks to mitigate the risk of non-linear effects on

¹ The BoJ also has a meeting this week, on 29-30 October, and the BoE the following week, on 6 November. There is somewhat greater uncertainty regarding the outcomes of these two meetings.

² The BLS recalled several employees to facilitate the publication of this data, despite the shutdown, as it is essential for cost-of-living adjustments, particularly for pensions.

³ If this were to happen, the Fed could change gear and cut rates by 50 bp to return to neutrality more quickly.

US RATES

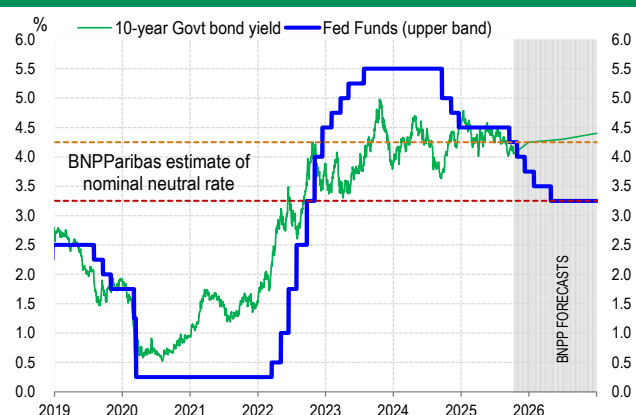


CHART 1

SOURCE: FEDERAL RESERVE, MACROBOND, BNP PARIBAS

EMU RATES

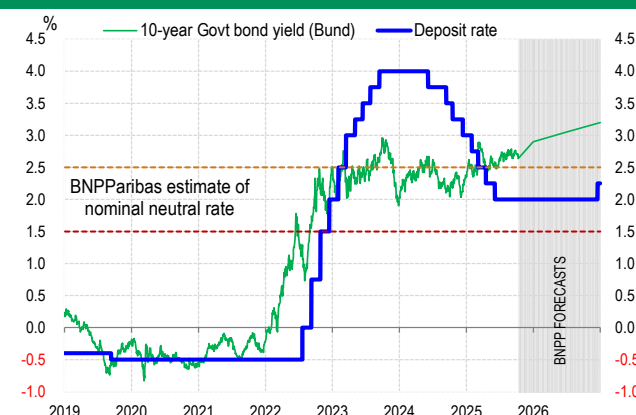


CHART 2

SOURCE: ECB, MACROBOND, BNP PARIBAS

the labour market. Given the current curious balance (weakening of both labour demand and supply), a sudden and significant downturn cannot be ruled out³. For all these reasons, we expect the Fed to continue its monetary easing with three additional rate cuts of 25 bp each, starting with the next one at the FOMC meeting on 9-10 December, followed by two more in the first half of 2026. By mid-2026, the Fed funds target range is



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expected to be 3.00-3.25%, aligning with the lower end of our estimate for the nominal neutral rate (see Chart 1). Current market pricing is close to this, albeit slightly more optimistic or pessimistic depending on the point of view (two cuts expected by year-end, including October's, and three more in 2026).

Extended status quo by the ECB

Unlike the Fed, the ECB finds itself in a more favourable position. The balance of risks has also shifted positively. Short-term downside risks to Eurozone growth have eased⁴, while inflation is close to target (2.2% y/y in September for headline inflation; 2.4% for core inflation), with both downside and upside risks being described as "contained" by Christine Lagarde⁵. Compared with the 11 September meeting, which confirmed a second status quo after 24 July), and in view of the growth and inflation developments, the possibility of a rate cut on 30 October has diminished rather than increased. With a deposit rate of 2%, the ECB's monetary policy remains in a "good place": the policy rate sits in the middle of our neutral rate estimate range (see Chart 2). Given these circumstances, we expect that the ECB will keep rates steady over the next 12 months. According to our scenario, the next move would be a 25 bp hike at the end of 2026, reflecting the expected strengthening of growth and the slight upward pressure this would put on inflation.

KEY ISSUES AND POINTS TO LOOK OUT FOR

Is the Fed right to cut rates?

This question arises due to:

- i/ the overall resilience of US growth⁶;
- ii/ the labour market situation, which, despite a significant slowdown in job gains, does not seem overly worrying (the JOLTS survey indicators suggest moderation and normalisation rather than genuine weakness);
- iii/ the inflation situation, which has several negative aspects: it is above target, rising due to demand, and facing upside risks (due to increased tariffs, the inflationary nature of OBBBA fiscal support, household inflation expectations being tested, and political threats to the Fed's independence);
- iv/ the enthusiasm in US stock markets, partly driven by expectations of rate cuts, creates a circularity problem that is also seen in the rise in AI stocks, along with the generally favourable and improving financing conditions.

In this context, it will be important to pay attention to what arises from these matters in the FOMC statement and during the press conference, particularly regarding how much Jerome Powell will maintain a dovish bias. The number of dissenting votes will also be worth watching closely. The FOMC meeting at the end of July, which maintained the current rates, had two dissenting votes from Governors M. Bowman and C. Waller, who were in favour of a rate cut. The September FOMC meeting, which resumed rate cuts, featured a notable dissenting vote from S. Miran, the newly appointed interim governor, who favoured a 50 bp cut.

⁴ Admittedly, we expect growth to have slowed in the third quarter (zero growth forecast), as the boost from exports front-loading in the first half of the year, ahead of the tariff increases, is no longer a factor. However, this should not overshadow the steady improvement in business sentiment (as shown by the latest October PMI surveys), which is consistent with a scenario of modest recovery, driven in particular by European rearmament efforts and Germany's extensive investment plan.

⁵ [Euro zone inflation risk quite contained, Lagarde says | Reuters](#), 30 September 2025.

⁶ According to the Atlanta Fed's GDPNow estimate, Q3 growth has remained around 4% on an annualised quarterly basis, similar to the second quarter.

⁷ Our Chart of the Week on 5 November will focus on this topic.

⁸ [The transmission of monetary policy: financial conditions and credit dynamics](#), 21 October 2025.

⁹ [The conduct of monetary policy](#), 6 October 2025.

EUROZONE: HEADLINE AND CORE INFLATION FORECASTS

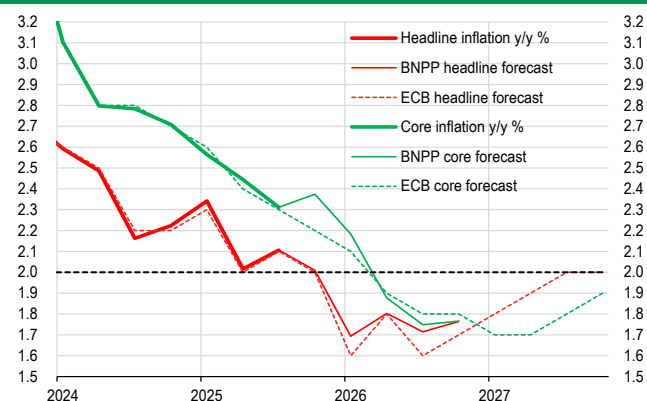


CHART 3

SOURCE: ECB, EUROSTAT, MACROBOND, BNP PARIBAS

This time, there could be dissenters on both sides.

Another key focus regarding the Fed will be the QT and the prospects for its interruption. Our scenario is that the halt will be announced in December at the latest, a view supported by recent signs of tension in the money markets and the liquidity access of commercial banks⁷.

Is the ECB right not to cut rates further?

A risk management strategy, similar to that of the Fed, could be justified in view of:

- i/ the overall risk to the Eurozone from a low growth/low inflation environment;
- ii/ the dovish bias in the September meeting minutes;
- iii/ the ECB's inflation forecasts falling below the 2% target for 2027 (see Chart 3), which raises concerns about too low inflation;
- iv/ the potentially still somewhat restrictive nature of monetary policy, according to Philip Lane⁸, the ECB's chief economist, which, if adjusted, would enhance the effective transmission of monetary policy that he highlights;
- v/ P. Lane's⁹ asymmetric view on inflation risks (no need to increase rates if there is a temporary rise in inflation, as the current monetary policy stance is adequate for maintaining price stability; further easing could be considered if downward pressures and trends become more pronounced).

However, we believe that the bar for the ECB to lower rates further is quite high. We will be paying close attention to any indications in this regard at this week's meeting, but it is more likely that there will be few clues: it is at the 18 December meeting that further rate cuts might be discussed, based on the new forecasts that will then be available and extended, moreover, to 2028.

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