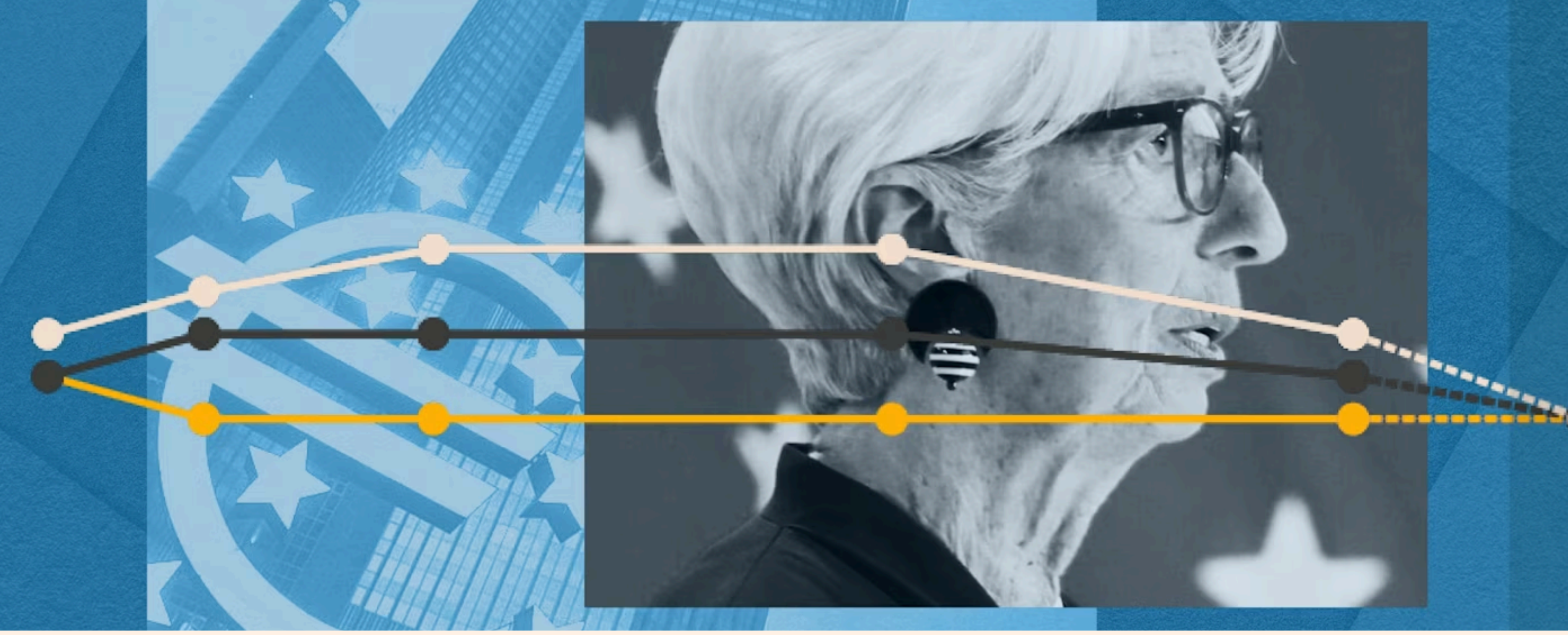
FT PROFESSIONAL

SPECIAL REPORT

Monetary policy in an era of geopolitical turmoil

Gain expert insight into how geopolitical developments are reshaping central bank thinking, influencing policy debates and creating new risks and opportunities for policymakers.

Contents



Policy Rate Scenarios

Most energy roads lead to another increase from the ECB

Written by Elettra Ardissino, Andrew Whiffin, Joel Suss and Chris Giles

Our scenarios have been modified to take into account news of a 60-day US-Iran temporary ceasefire agreement that is partially predicated on Tehran reopening the Strait of Hormuz. Negotiations are under way but Iran has made it clear that any violation of the agreement would prompt it to close the strait again.

We present three new paths for energy prices: a "permanent resolution" scenario, in which the two sides strike a permanent deal allowing energy flows through the strait to resume fully; a "tensions remain" scenario, in which the ceasefire holds but is fragile, prompting energy prices to move higher again and remain volatile; and a "strait closes again" scenario in which war breaks out again and Iran closes Hormuz durably, once again putting pressure on energy supplies. In order of inflationary persistence, these scenarios are ordered from lowest to highest.

At its June meeting, the European Central Bank delivered a tightening in line with its assessment that this was appropriate across the distribution of possible outcomes in the Gulf.

President Christine Lagarde said the decision was "robust" to a range of alternative scenarios, including one in which energy prices would fall back down more quickly than the baseline.

A few days after the meeting, news of a US-Iran 60-day temporary agreement and reopening of Hormuz prompted oil and gas spot and futures prices to fall sharply, though they remain higher than before the war started in 2026.

The rationale for the ECB to run policy slightly tighter is still extant even in the wake of the deal. Energy futures are significantly higher than at the end of February and the ECB's "milder" scenario. With global energy stocks depleted after three months of blockade, countries must now replenish their reserves and this will maintain upward pressures on prices for some time yet. Given the ease with which Iran was able to shut off flows through the strait, the risk premium also looks likely to remain higher until there is greater certainty about the long-term future of any Washington-Tehran agreement.

We think the ECB will want to tighten further unless it can argue in September that the baseline path for energy prices brings them down to the February levels relatively quickly. This would require a stable and permanent US-Iran agreement and further easing of energy futures. We do not think rate cuts are on the table until there is significant disinflation, so this will wait until 2027 and quite possibly until there is new leadership of the central bank next year.

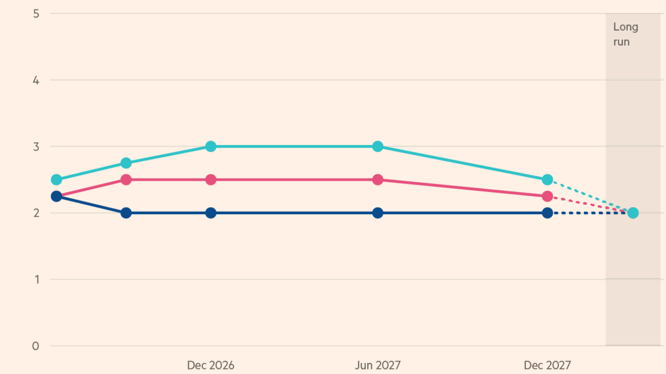
If the ceasefire holds, but is fragile, we think the ECB will deliver another tightening in September as signalled in its baseline scenario. Assuming disinflation is evident and the target is within reach, the central bank could also start unwinding the rate increases next year in this scenario.

If the war resumes and energy prices move sharply up, we think the ECB stands ready to respond with a faster tightening schedule that will take interest rates well into restrictive territory.

July 23, 2026

In June, the ECB raised interest rates to 2.25 per cent and unveiled new scenarios showing that, in a baseline scenario assuming that energy prices would evolve along the market's forecasts as of the end of May, the central bank would likely raise rates again this year.

European Central Bank interest rate scenarios
Policy rate (%)



Since then, the US and Iran's announcement of a temporary ceasefire has brought spot energy prices down further, although futures prices remain higher than at the end of February.

At its next meeting at the end of July, we think the ECB will hold rates at the current level as it waits for additional information about how the ceasefire is likely to evolve and the extent of inflationary pressure building through the Eurozone economy.

July 23, 2026

Rate	Scenario	Commentary
2.25%	Permanent resolution	Having raised in June the ECB is happy maintain tightening even as energy prices pull back
2.25%	Ceasefire holds but tensions remains	Energy prices remain elevated but do not rise further, allowing the ECB to forgo back-to-back rate rises and stay on hold
2.5%	Strait closes again	The ECB tightens policy againas it seeks to do what it can to counter the energy supply shockand even higher oil and gas prices

September 23, 2026

In September, the ECB will have several additional months of data as well as a better sense of the extent to which the US-Iran truce is stable. It is also the ECB's first opportunity to present updated scenarios featuring new energy price paths that will take the summer's geopolitical developments into account.

If the ceasefire appears to hold and the Strait of Hormuz allows the free flow of oil, we think the ECB's new inflation forecasts will look more benign than their June counterparts and the central bank will remain on hold with interest rates at 2.25 per cent.

If the ceasefire collapses, or if significant tensions remain, leaving energy futures still elevated, we think the ECB will deliver another tightening at this meeting, taking interest rates to 2.5 per cent.

September 23 2026

Rate	Scenario	Commentary
2.25%	Permanent resolution	The ECB remains on hold
2.5%	Ceasefire holds but tensions remain	Energy prices remain elevated forcing the ECB into another tightening
2 .75%	Strait closes again	The ECB tightens policy againas it seeks to do what it can to counter the energy supply shock and even higher oil and gas prices

December 2026

If the ceasefire holds firm for the rest of this year and energy prices remain at current levels, the ECB might limit itself to a single move in 2026. Even in that case, it is unlikely to unwind its June move as it will want to avoid the appearance of having made a policy mistake. With energy futures still higher than in February 2026, the central bank will have backing for a slightly tighter stance, even if the war does not start up again.

If the truce holds but the situation remains tense, leading to higher or more volatile energy prices compared with today's levels, a second increase at the September meeting is likely, followed by a pause. It would take policy into most governing council members' estimates of restrictive territory at 2.5 per cent.

If the war continues or escalates and the balance between energy supply and demand deteriorates, leading to shortages and markedly higher prices, we think the ECB will make good on its warning that it will act "forcefully". In such a scenario, we forecast the governing council to deliver a total of four rate increases in 2026, taking the benchmark rate to 3 per cent by the end of the year.

December 2026

Rate	Scenario	Commentary
2.25%	Permanent resolution	Having raised in June the ECB is happy maintain tightening even as energy prices pull back
2.5%	Ceasefire holds but tensions remain	Energy prices remain elevated and the ECB delivers one more increase by the end of the year
3%	Strait closes again	The ECB tightens policy multiple times again as it seeks to do what it can to counter the energy supply shock and even higher oil and gas prices

June 2027

By mid-2027 the direct energy shock should have broadly passed through the Eurozone economy if the US and Iran agree to a permanent deal following this ceasefire. We think this will allow the ECB to cut interest rates back down to 2 per cent — the "good place" it was in before the war broke out.

If the effects of the war last throughout 2026, with energy prices around current levels and with the ECB responding with measured tightening, we think that by June 2027 the central bank will not feel comfortable with gradually removing the additional restrictions yet, leaving rates at 2.5 per cent. In a scenario in which a prolonged war forces the ECB to deliver a significant tightening, we predict the central bank will not start to unwind it in the first half of 2027 until it is certain that a disinflationary process is in place.

June 2027

Rate	Scenario	Commentary
2%	Permanent resolution	The ECB is able to cut rates as it sees a successful resolution to the Gulf conflict and energy markets stabilise
2.5%	Ceasefire holds but tensions remain	Energy prices remain elevated but do not rise further, allowing the ECB to stay on hold
3%	Strait closes again	The ECB maintains tighter policy as it seeks to do what it can to counter the energy supply shock and even higher oil and gas prices

December 2027

By the end of 2027, our scenarios are consistent with a gradual return to the ECB at a neutral stance of policy that existed at the start of 2026. In each, we assume the institution is successful in preventing persistent inflation.

December 2027

Rate	Scenario	Commentary
2%	Permanent resolution	The inflation shock has passed through the Eurozone economy
2.25%	Ceasefire holds but tensions remain	The ECB cuts interest rates once in the second half of 2027 as inflation abates
2.5%	Strait closes again	The ECB cuts interest rates twice in the second half of 2027 as demand destruction slows inflationary pressures

Long-term

Our long-term rate forecast is unchanged. We expect the neutral interest rate to be about 2 per cent in all scenarios.

Long-term

Rate	Scenario	Commentary
2%	Permanent resolution	Eurozone interest ratesc onverge on our long-term estimate of 2 per cent. There is a wide range of uncertainty around this level
2%	Ceasefire holds but tensions remain	Eurozone interest rates converge on our long-term estimate of 2 per cent. There is a wide range of uncertainty around this level
2%	Strait closes again	Eurozone interest rates converge on our long-term estimate of 2 per cent. There is a wide range of uncertainty around this level

As geopolitical tensions continue to influence inflation, trade, investment, and financial markets, staying ahead of central bank decision-making has never been more important.

This article offers timely analysis of the economic and policy implications shaping today's global landscape, helping readers understand the wider forces at play.

Paired with FT Professional's Monetary Policy Radar, readers can go beyond the headlines by tracking central bank signals, policy expectations, and expert FT analysis in one place.

Together, they provide the context and forward-looking intelligence needed to anticipate policy shifts, assess market risks, and make more informed strategic decisions in an increasingly complex geopolitical environment.

Additional Policy Rate Scenarios **unlocked for you**

- Federal Reserve
- Bank of England
- Bank of Japan

Analyst's Views

Hawkish Warsh fails to spur analysts to see rate rises in 2026

Written by Andrew Whiffin

Kevin Warsh's first meeting at the Federal Reserve has removed some of the uncertainty surrounding the new chair's views on the economy, inflation and rates. Presiding over the June decision, where rates were held steady as expected, Warsh was more hawkish than many had expected.

A new slimmed-down policy statement contained a commitment to price stability and Warsh acknowledged there was "work to do" to achieve it. Warsh's distaste for forward guidance meant he did not give a personal steer on where rates might go, but the market took the signal that increases were now a distinct possibility. Pricing has moved from chances of a single rate rise to a chance of two increases by the end of this year.

Professional forecasters remain more sceptical about such prospects. The median view continues to see the Fed resisting tightening and keeping rates on hold by the end of 2026, according to our latest survey conducted at the end of June, unchanged from the consensus in May. Our latest forecast concurs and we expect the Fed to stay on hold except in a situation where the energy shock worsens.

There was a notable hawkish shift in sentiment nonetheless. In May, just over a third of those we asked thought the Fed would still cut rates at least once this year and no one thought that rates would rise in 2026. In June, the proportion still expecting cuts fell to a tenth and a quarter now expect the Fed to raise rates by the end of this year.

Goldman Sachs, for example, has scrapped the single cut it had been expecting this year prior to the June decision, but its analysts do not expect a rate rise. They wrote on June 22: "The first FOMC meeting under Chairman Warsh was more hawkish than expected. Half of the 18 participants that submitted interest rate projections pencilled in one or more rate hikes in the remainder of 2026 [...] we suspect that about half of the 2026 hikers are nonvoting Federal Reserve Bank presidents, which would leave a majority of voters projecting unchanged or lower rates under appropriate policy".

UBS also expects a prolonged hold from the new Fed. "We left our fed funds forecast unchanged after the June FOMC meeting. While the outcome was slightly more hawkish among participants, we still see members broadly favouring holding rates in 2026 (roughly an 8–4 or 9–3 split in voting members) before resuming cuts in 2027," they told us.

ABOUT

Analyst's Views

A regular snapshot of professional forecasts for interest rate paths, highlighting market consensus, key outliers and how evolving geopolitical developments are shaping their expectations.

Learn more

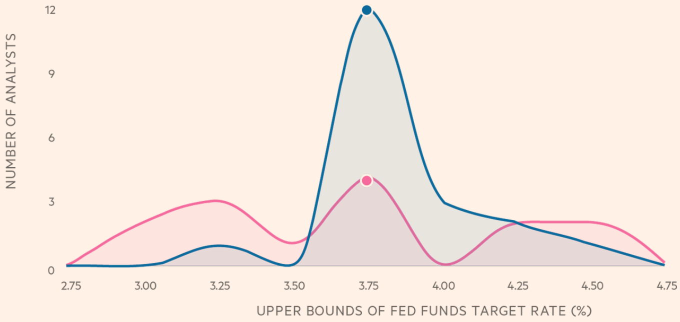
professional.ft.com/monetary-policy-radar

Analyst's Views Graphs

Policy Rate

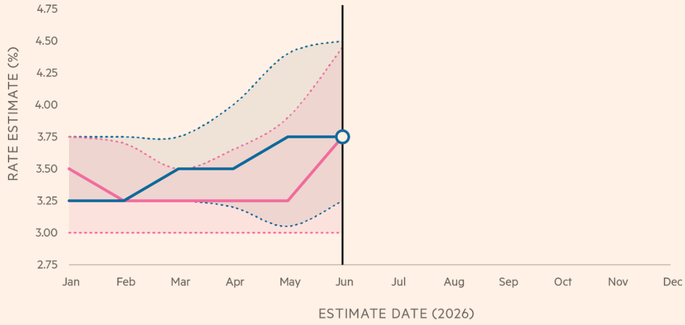
This month's estimate range

Q4 2026 Q4 2027



Consensus & range year-to-date

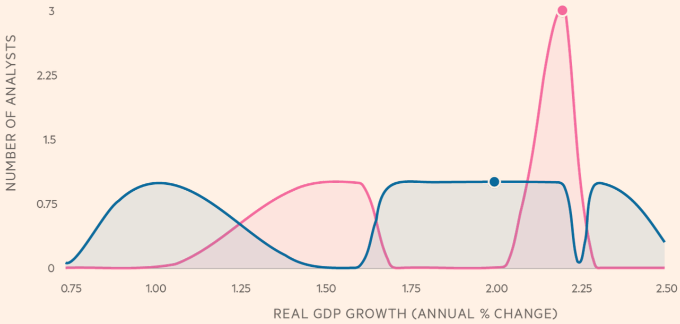
Q4 2026 Q4 2027



GDP growth

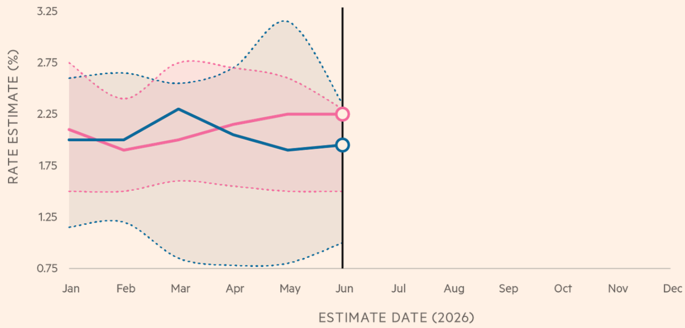
This month's estimate range

Q4 2026 Q4 2027



Consensus & range year-to-date

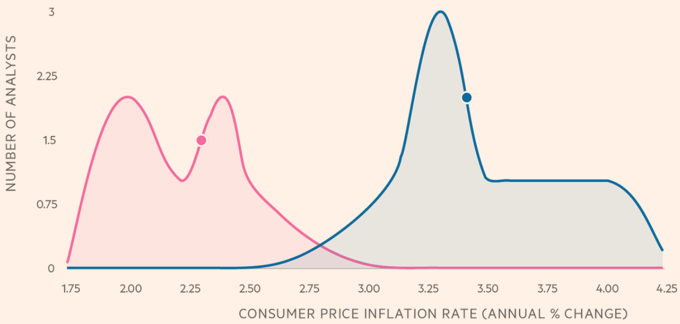
Q4 2026 Q4 2027



Inflation

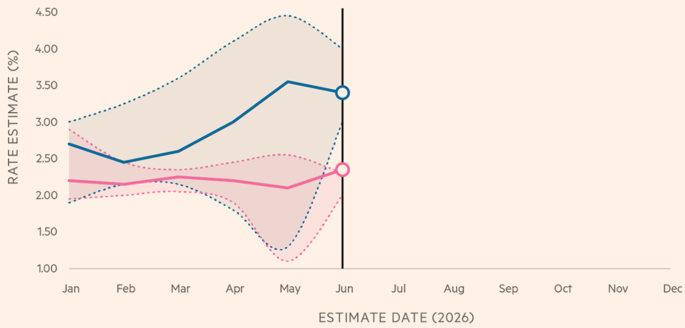
This month's estimate range

Q4 2026 Q4 2027



Consensus & range year-to-date

Q4 2026 Q4 2027



Analyst’s Views Graphs

Policy Rate

Upper bound of Fed funds target rate (%) — analyst forecasts

Analyst	Q42026	Q42027	Date	Commentary
CONSENSUS	3.75	3.75	June 29 2026	Median of analysts’ estimates
BANKOFAMERICA	4.50	4.50	June 22 2026	We now expect three 25bp Fed hikes this year, in September, October, and December. This would take the policy rate to 4.25-4.5%. We were skeptical of the need for cuts in 2025. Both the data and our u...
BARCLAYS	3.75	3.75	June 18 2026	We are changing our Fed call. In light of the FOMC’s hawkish turn focused on restoring price stability and the participants’ upward revisions in the dots for 2027, we now expect the FOMC to maintain r...
BERENBERG	3.75	3.75	June 19 2026	The stability of the labour market, coupled with rising inflation, will make it very challenging for the new Fed Chair, Kevin Warsh, to reduce interest rates further. We expect the Fed to keep the fed...
BNP PARIBAS	4.00	4.50	June 26 2026	We now expect the Fed to reverse 2025’s three “insurance” rate cuts at sequential meetings, beginning in December. The aim will be to reduce the level of monetary stimulus, contain inflation expectati...
CAPITAL ECONOMICS	4.00	-	June 17 2026	With markets now almost giving the Fed the green light to raise interest rates in September, we’ll tentatively stick to our view that the Fed will move at that meeting, but the recent drop back in oil...
CITI	3.25	3.00	June 18 2026	We continue to think the Fed’s next move is much more likely to be a cut than a hike. Warsh’s plans to revamp policy making could add another reason to keep policy rates on hold in coming months. Rece...
DEUTSCHE BANK	4.25	4.25	June 22 2026	In the near-term, we expect the Fed to raise rates by 50bps (25bps each in September and December), as they dial back the insurance cuts they delivered last year. We expect they will maintain the poli...
GOLDMAN SACHS	3.75	3.25	June 22 2026	The first FOMC meeting under Chairman Warsh was more hawkish than expected. Half of the 18 participants that submitted interest rate projections pencilled in one or more rate hikes in the remainder of ...
HSBC	3.75	3.75	June 22 2026	
J.P. MORGAN	3.75	-	June 19 2026	The straightforward guidance from the committee is that their focus of concern has shifted towards inflation and that rate hikes are under consideration. We have not changed our forecast for the first...
MONETARY POLICY RADAR	3.75	3.25	June 26 2026	
MORGAN STANLEY	3.75	-	June 17 2026	Our core PCE inflation forecast at 3.0% q4/q4 for ’26 remains well below the Fed’s. Consequently, we continue to forecast the Fed will remain on hold this year.
NOMURA	3.75	3.75	June 19 2026	The FOMC kept rates on hold at their June meeting. The dot plot and economic projections were hawkish, while Chair Warsh’s press conference signaled his dovish tilt. The risk of rate hikes has increas...
OXFORD ECONOMICS	3.75	3.25	June 17 2026	Elevated inflation and a resilient labor market will keep the Fed on prolonged hold. We expect services inflation to remain benign, with headline and core inflation falling back in 2027 enabling the F...
PANTHEON	3.75	-	June 11 2026	We still think the FOMC will refrain from tightening policy this year, given little sign that wage growth or inflation expectations are increasing in response to the pick up in inflation. We also expe...

Policy Rate (continued)

Analyst	Q42026	Q42027	Date	Commentary
PEEL HUNT	4.00	4.00	June 19 2026	Kevin Warsh's first meeting as Federal Reserve (Fed) Chair resulted in a hawkish surprise, with the Fed members' dot-plots hinting at modest rate hikes in the near term. US economic activity is solid,...
SANTANDER	4.25	4.25	June 17 2026	As a result of today's messaging, I am making a notable change to my forecast for policy rates. For about a year, I have called for no move in 2026 and two quarter-point hikes in 2027 (in March and Se...
UBS	3.75	3.00	June 24 2026	We left our fed funds forecast unchanged after the June FOMC meeting. While the outcome was slightly more hawkish among participants, we still see members broadly favoring holding rates in 2026 (rough...
UNICREDIT BANK	3.75	-	June 18 2026	We are now pencilling in a prolonged period of unchanged rates, for two reasons. First, Warsh's inflation rhetoric was more hawkish than we had expected. Second, the FOMC will have little incentive to...

Inflation

Consumer price inflation rate, annual % change — analyst forecasts

Analyst	Q42026	Q42027	Date	Commentary
CONSENSUS	3.40	2.32	June 29 2026	Median of analysts' estimates
BANKOFAMERICA	-	-	June 22 2026	We now expect three 25bp Fed hikes this year, in September, October, and December. This would take the policy rate to 4.25-4.5%. We were skeptical of the need for cuts in 2025. Both the data and our u...
BARCLAYS	3.50	2.40	June 18 2026	We are changing our Fed call. In light of the FOMC's hawkish turn focused on restoring price stability and the participants' upward revisions in the dots for 2027, we now expect the FOMC to maintain r...
BERENBERG	4.00	2.40	June 19 2026	The stability of the labour market, coupled with rising inflation, will make it very challenging for the new Fed Chair, Kevin Warsh, to reduce interest rates further. We expect the Fed to keep the fed...
BNP PARIBAS	-	-	June 26 2026	We now expect the Fed to reverse 2025's three "insurance" rate cuts at sequential meetings, beginning in December. The aim will be to reduce the level of monetary stimulus, contain inflation expectati...
CAPITAL ECONOMICS	-	-	June 17 2026	With markets now almost giving the Fed the green light to raise interest rates in September, we'll tentatively stick to our view that the Fed will move at that meeting, but the recent drop back in oil...
CITI	3.30	2.00	June 18 2026	We continue to think the Fed's next move is much more likely to be a cut than a hike. Warsh's plans to revamp policy making could add another reason to keep policy rates on hold in coming months. Rece...
DEUTSCHE BANK	3.10	2.50	June 22 2026	In the near-term, we expect the Fed to raise rates by 50bps (25bps each in September and December), as they dial back the insurance cuts they delivered last year. We expect they will maintain the poli...
GOLDMAN SACHS	3.30	2.23	June 22 2026	The first FOMC meeting under Chairman Warsh was more hawkish than expected. Half of the 18 participants that submitted interest rate projections pencilled in one or more rate hikes in the remainder of ...
HSBC	-	-	June 22 2026	
J.P. MORGAN	-	-	June 19 2026	The straightforward guidance from the committee is that their focus of concern has shifted towards inflation and that rate hikes are under consideration. We have not changed our forecast for the first...

Inflation (continued)

Analyst	Q42026	Q42027	Date	Commentary
MONETARY POLICY RADAR	-	-	June 26 2026	
MORGAN STANLEY	-	-	June 17 2026	Our core PCE inflation forecast at 3.0% q4/q4 for '26 remains well below the Fed's. Consequently, we continue to forecast the Fed will remain on hold this year.
NOMURA	-	-	June 19 2026	The FOMC kept rates on hold at their June meeting. The dot plot and economic projections were hawkish, while Chair Warsh's press conference signaled his dovish tilt. The risk of rate hikes has increas...
OXFORD ECONOMICS	-	-	June 17 2026	Elevated inflation and a resilient labor market will keep the Fed on prolonged hold. We expect services inflation to remain benign, with headline and core inflation falling back in 2027 enabling the F...
PANTHEON	3.70	-	June 11 2026	We still think the FOMC will refrain from tightening policy this year, given little sign that wage growth or inflation expectations are increasing in response to the pick up in inflation. We also expe...
PEEL HUNT	3.60	-	June 19 2026	Kevin Warsh's first meeting as Federal Reserve (Fed) Chair resulted in a hawkish surprise, with the Fed members' dot-plots hinting at modest rate hikes in the near term. US economic activity is solid,...
SANTANDER	-	-	June 17 2026	As a result of today's messaging, I am making a notable change to my forecast for policy rates. For about a year, I have called for no move in 2026 and two quarter-point hikes in 2027 (in March and Se...
UBS	3.30	2.00	June 24 2026	We left our fed funds forecast unchanged after the June FOMC meeting. While the outcome was slightly more hawkish among participants, we still see members broadly favoring holding rates in 2026 (rough...
UNICREDIT BANK	-	-	June 18 2026	We are now pencilling in a prolonged period of unchanged rates, for two reasons. First, Warsh's inflation rhetoric was more hawkish than we had expected. Second, the FOMC will have little incentive to...

GDP growth

Real GDP growth, annual % change — analyst forecasts

Analyst	Q42026	Q42027	Date	Commentary
CONSENSUS	**2.00**	**2.20**	June 29 2026	Median of analysts' estimates
BANKOFAMERICA	-	-	June 22 2026	We now expect three 25bp Fed hikes this year, in September, October, and December. This would take the policy rate to 4.25-4.5%. We were skeptical of the need for cuts in 2025. Both the data and our u...
BARCLAYS	2.00	1.50	June 18 2026	We are changing our Fed call. In light of the FOMC's hawkish turn focused on restoring price stability and the participants' upward revisions in the dots for 2027, we now expect the FOMC to maintain r...
BERENBERG	1.00	1.60	June 19 2026	The stability of the labour market, coupled with rising inflation, will make it very challenging for the new Fed Chair, Kevin Warsh, to reduce interest rates further. We expect the Fed to keep the fed...
BNP PARIBAS	2.30	2.20	June 26 2026	We now expect the Fed to reverse 2025's three "insurance" rate cuts at sequential meetings, beginning in December. The aim will be to reduce the level of monetary stimulus, contain inflation expectati...
CAPITAL ECONOMICS	-	-	June 17 2026	With markets now almost giving the Fed the green light to raise interest rates in September, we'll tentatively stick to our view that the Fed will move at that meeting, but the recent drop back in oil...

GDP growth (continued)

Analyst	Q42026	Q42027	Date	Commentary
CITI	1.90	2.20	June 18 2026	We continue to think the Fed's next move is much more likely to be a cut than a hike. Warsh's plans to revamp policy making could add another reason to keep policy rates on hold in coming months. Rece...
DEUTSCHE BANK	2.20	2.20	June 22 2026	In the near-term, we expect the Fed to raise rates by 50bps (25bps each in September and December), as they dial back the insurance cuts they delivered last year. We expect they will maintain the poli...
GOLDMAN SACHS	2.03	2.25	June 22 2026	The first FOMC meeting under Chairman Warsh was more hawkish than expected. Half of the 18 participants that submitted interest rate projections pencilled in one or more rate hikes in the remainder of ...
HSBC	-	-	June 22 2026	
J.P. MORGAN	-	-	June 19 2026	The straightforward guidance from the committee is that their focus of concern has shifted towards inflation and that rate hikes are under consideration. We have not changed our forecast for the first...
MONETARY POLICY RADAR	-	-	June 26 2026	
MORGAN STANLEY	-	-	June 17 2026	Our core PCE inflation forecast at 3.0% q4/q4 for '26 remains well below the Fed's. Consequently, we continue to forecast the Fed will remain on hold this year.
NOMURA	-	-	June 19 2026	The FOMC kept rates on hold at their June meeting. The dot plot and economic projections were hawkish, while Chair Warsh's press conference signaled his dovish tilt. The risk of rate hikes has increas...
OXFORD ECONOMICS	-	-	June 17 2026	Elevated inflation and a resilient labor market will keep the Fed on prolonged hold. We expect services inflation to remain benign, with headline and core inflation falling back in 2027 enabling the F...
PANTHEON	1.80	-	June 11 2026	We still think the FOMC will refrain from tightening policy this year, given little sign that wage growth or inflation expectations are increasing in response to the pick up in inflation. We also expe...
PEEL HUNT	1.70	-	June 19 2026	Kevin Warsh's first meeting as Federal Reserve (Fed) Chair resulted in a hawkish surprise, with the Fed members' dot-plots hinting at modest rate hikes in the near term. US economic activity is solid,...
SANTANDER	-	-	June 17 2026	As a result of today's messaging, I am making a notable change to my forecast for policy rates. For about a year, I have called for no move in 2026 and two quarter-point hikes in 2027 (in March and Se...
UBS	2.10	2.10	June 24 2026	We left our fed funds forecast unchanged after the June FOMC meeting. While the outcome was slightly more hawkish among participants, we still see members broadly favoring holding rates in 2026 (rough...
UNICREDIT BANK	-	-	June 18 2026	We are now pencilling in a prolonged period of unchanged rates, for two reasons. First, Warsh's inflation rhetoric was more hawkish than we had expected. Second, the FOMC will have little incentive to...

Deeper Dives

Trump defeated on Lisa Cook case

Written by Elettra Ardissino

The key points

The US Supreme Court on Monday has ruled that Fed governor Lisa Cook is allowed to remain in her post while her substantive case against the Trump administration's attempt to fire her moves through the lower courts.

The 5-4 majority opinion indicated that, while the case was decided on the narrow question of whether Cook had due process, questions about the central bank's independence also loomed large.

The verdict

Fed governor Lisa Cook was on Monday handed an important legal victory against Donald Trump when the Supreme Court ruled that the lower courts were correct in allowing her to stay in office while her dispute with the president continues.

The core decision was issued on procedural rather than substantive grounds and passed by the thinnest of margins. But the majority indicated that, beyond the narrow questions of process, they recognised that awarding the president expansive powers to remove Fed governors posed a real threat to the central bank's statutory independence, which they wanted to preserve.

The details

On Monday, the US Supreme Court issued a 5-4 majority opinion rejecting the Trump administration's application to remove a district court injunction allowing Lisa Cook to remain in post as a Fed governor while she battles the president's attempt to fire her on allegations of mortgage fraud.

The specific case under the Supreme Court's consideration was not the substantive question of whether Cook had committed mortgage fraud and whether this merited her removal from office, but the procedural issue of whether she could temporarily be removed from her post while the substantive case was settled in the lower courts.

But the narrowness of the case belied the practical stakes. With the full case's litigation expected to take years, had the stay order been granted it would have cleared the way for Trump to appoint a replacement governor — almost certainly a close ally — on the Fed board.

Justices indicated that they were aware that granting a stay order would potentially imperil the central bank's independence from "political manipulation".

"The Court declines to sow doubt as to the status of one of the Nation's (and the world's) most important financial institutions, and would not so quickly unsettle this special arrangement sanctioned by history," the opinion said.

The key arguments under scrutiny were the extent to which the president has latitude in defining a "cause" for which a Fed governor could be removed from office and the extent to which Cook had received due process in the way that the attempted firing was carried out.

The majority opinion said that the case was decided on the basis that Cook had not, in fact, received due process. "At minimum, Cook was entitled to some explanation of the evidence at issue, some avenue for a response, and a deadline by which a response would be due," the justices wrote.

But the opinion also suggested that it had little sympathy for the Trump administration's attempt to give "for cause" a sweeping remit.

Such a move would "transform the Federal Reserve's for-cause protection into at-will employment", the opinion ruled, adding that "whether a Governor should be 'removed for cause' is a decision only the President can make [. . .] but that does not mean that he may make that decision for any reason, or no reason."

The decision was issued with a thin majority of five justices, with four justices dissenting. Only one — Clarence Thomas — did so on the basis of outright disagreement with the Supreme Court's finding that Cook should have been given due process. The others — Amy Coney Barrett, Neil Gorsuch and Samuel Alito — believed the Supreme Court should have decided the case more narrowly on the merits of the lower courts' argument for originally rejecting the stay order, rather than straying into the bigger issues of the Fed's relationship with government.

The substantive case will now move through the lower courts. A Trump-Cook rematch at the Supreme Court is still possible but will take years. In the meantime, Cook will remain in post.

Additional Policy Rate Scenarios **unlocked for you**

- Warsh's Fed communication is adding volatility to rates markets
- The consequences of a diminishing global energy shock
- A new FT 'macro mood' index captures the global economy
- An FT measure of core inflation

MONETARY POLICY RADAR

FT PROFESSIONAL

One-stop shop for monitoring global policy

Meet the team

Chris Giles

Chris is the FT's economics commentator and leads MPR, after 19 years as FT'd global economics editor.

Joel Suss

Joel is a data journalist who leads data output for MPR and holds a PhD from the London School of Economics.

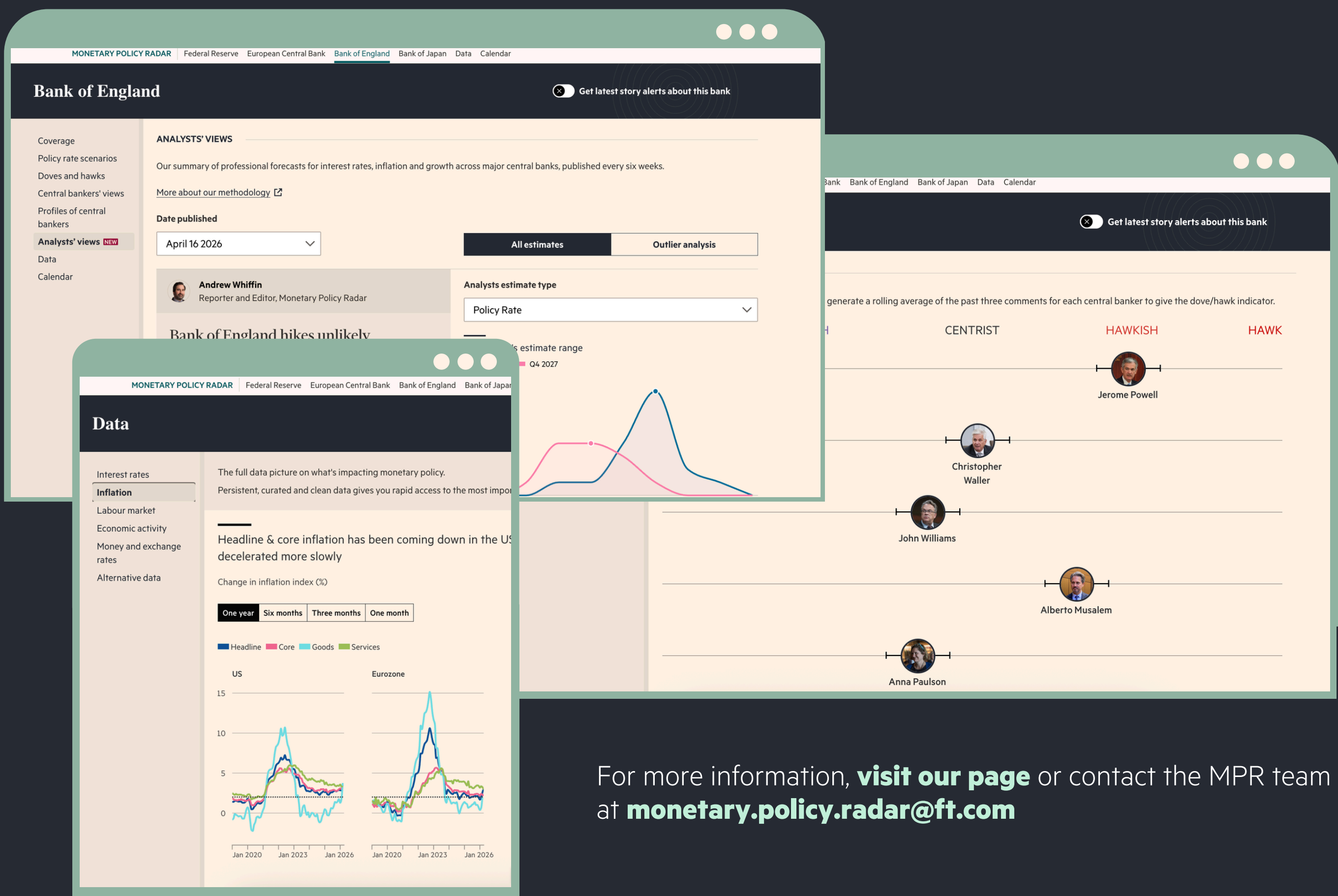
Elettra Ardissino

Elettra is a reporter on MPR, covering global central bank rate decisions and forecasting future moves.

Andrew Whiffin

Andrew spent nearly a decade on the FT's Lex team covering European finance and markets before joining MPR.

Inside Monetary Policy Radar



For more information, **visit our page** or contact the MPR team at **monetary.policy.radar@ft.com**