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Liquidity letter

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Liquidity Solutions

Fed springs into action, BoE remains on alert

The Fed is raising rates for the first time in three years.

Facing Donald Trump, Kevin Warsh remains focused on inflation

► **US:** The Fed hardens its tone

- The Fed raises rates unanimously, and reaffirms its willingness to bring prices back towards its objective of stability.
- Kevin Warsh reaffirms the independence of the central bank in the face of pressure from Donald Trump.
- Inflation still too high, resilient unemployment and a more restrictive dot plot: the figures that explain the Fed's turnaround.

► **Christine Lagarde** ECB staff are asking for clarification on Christine Lagarde's future, as speculation about an early departure intensifies.

► **Bank of England** kept its key rate at 3.75%, despite a divided committee and the rise in British inflation to 3.1% in August.

Figure of the week

3,75 - 4%

The Fed unanimously raised the target range for the federal funds rate by 25 bps to 3.75% - 4.00%

On Wednesday, the Federal Reserve raised its key interest rate by 25 basis points, to a range of 3.75% to 4%, in a unanimous decision, widely anticipated by the markets. The US central bank also signalled that a further hike could take place by the end of the year. Kevin Warsh justified this tightening by the persistence of price pressures, recalling that the Fed's priority remained price stability, and believing that the latest data did not show a significant improvement in underlying trends. The inflation rate in the United States remained unchanged at 3.40% in August, which increased pressure on the Fed to tighten its policy. For the markets, this message confirms that the Fed remains focused on inflation, despite a still resilient economic context.

Kevin Warsh

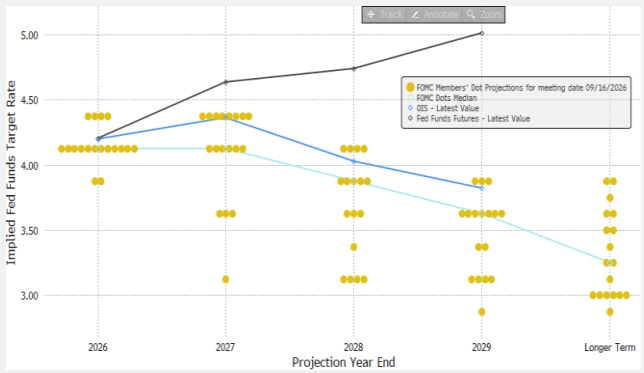
By raising its key interest rate by a quarter of a point on Wednesday, for the first time in 3 years, the Fed confirmed its desire to remain focused on the fight against inflation, despite Donald Trump's repeated pressure for monetary easing. The US president has been calling for lower rates for several months, believing that monetary tightening would slow down activity.

Kevin Warsh defended a clearly restrictive line, believing that inflation remained too high. Faced with criticism from the White House, he refused to enter into direct confrontation, simply saying: "I have nothing to tell you about a discussion with the president".

For the markets, this sequence confirms that Warsh intends to preserve the Fed's autonomy and put the fight against inflation before political expectations.

Inflation, employment, dot plot: why did the Fed raise rates?

Why has the Fed hardened its rhetoric? Inflation remains too high, even though the labor market remains strong. In its projections, the central bank expects a PCE (Personal Consumption Expenditures) of 3.7% and a core PCE (excluding food and energy) of 3.4% for 2026, compared to 3.6% and 3.3% previously. It also sees unemployment at 4.1% and GDP growth at 2.3% in 2026, levels that reflect a still resilient economy and leave the Fed more room to maintain a restrictive policy. Finally, the dot plot shows that a majority of committee members still see at least one more hike by the end of the year.

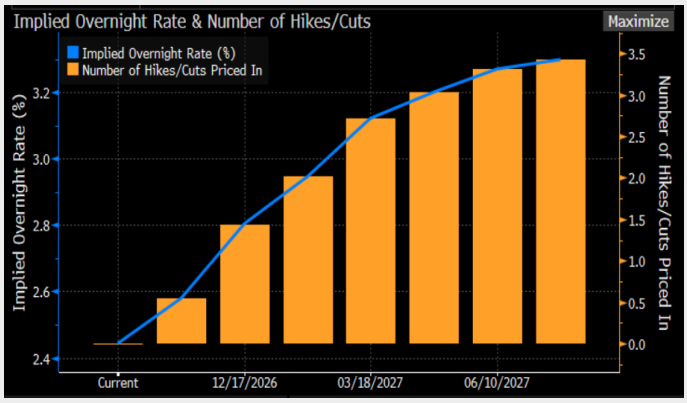


Source: Bloomberg 17/09/2026

The reality is simply that inflation is too high, and has been for too long.

Kevin Warsh, 16/09/2026

ECB



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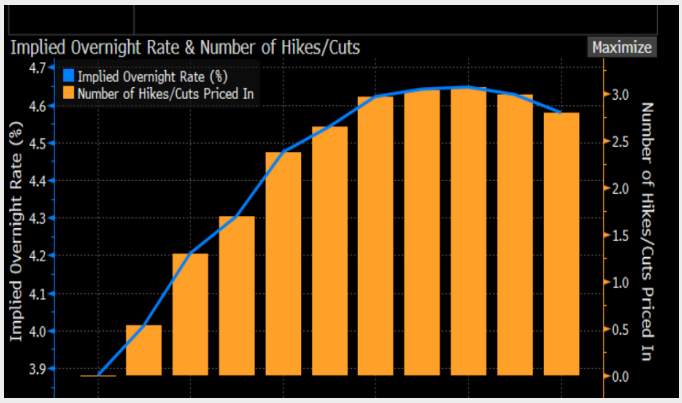


Source: Bloomberg 17/09/2026

After last week's rate hike, the market remains clearly skewed towards a bullish bias on the ECB. The meeting on 29 October 2026 still comes out with a probability of around 54% of a further hike, while the market is almost fully pricing in another hike by the end of the year.

Expectations therefore remain firmly tilted towards further tightening before the end of 2026.

As expected, the Fed has raised rates, and the curve remains on an upward trend. The October 28 meeting already comes out with a probability of about 53% of a further hike, for an implied rate of around 4.01%.

Beyond that, the market is still pricing in several increases, with more than one additional hike already anticipated by the end of the year.

At the ECB, Christine Lagarde's future is fuelling uncertainty.

The ECB's staff committee has asked for clarification on Christine Lagarde's future, as speculation about an early departure increases, revived by the announcement of the publication of her autobiography in early 2027. The ECB president, who is expected to take over as head of the WEF in Davos, is the subject of growing questions. Staff representatives believe that "prolonged uncertainty" could damage confidence in the institution and complicate the succession. However, Christine Lagarde assured that there was "nothing to announce" about her future, while the ECB reiterated that it had strong governance mechanisms in place to manage transition periods.

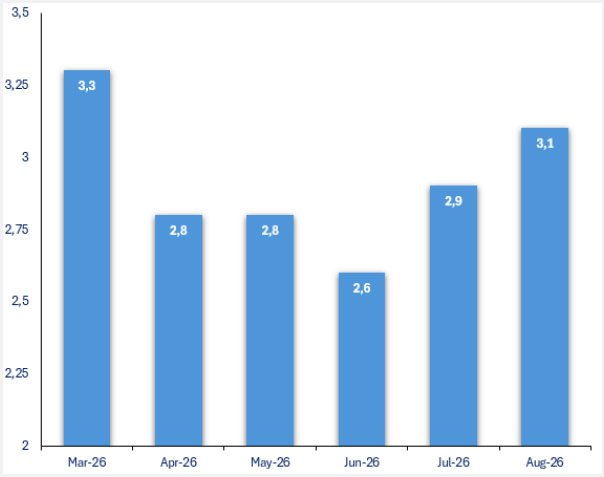
BoE keeps rates going, but debate over hike heats up

The Bank of England left its key interest rate unchanged at 3.75% on Thursday, but the decision revealed a divided committee, with three of the nine members in favour of a quarter-point hike. The vote, won by a vote of 6 to 3, comes as British inflation rose to 3.1% in August, its highest level in five months, driven by higher energy prices.

The central bank acknowledged that inflation is likely to rise further in the coming months, but said there were no clear signs of second-round effects on wages and prices yet. Andrew Bailey warned, however, that the longer energy price volatility lasted, the higher the risk of a rate hike would become.

In a context of persistent tensions over oil and gas, the BoE remains at odds with the Fed and the ECB, both of which have already taken action.

Inflation in the UK is on the rise again



News

- **Canada** | Inflation was unchanged at 3% in August 2026.
- **European Union** | Brussels wants strengthen its ties with Canada.

Agenda

- **18 September** I Decision of the Bank of Japan on interest rates.
- **18 September** I Inflation Publication of August 2026

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