

## On Fed Funds rate cut pricing: Keep in mind — empty vessels make the most sound

15 August 2025

The Fed Funds futures market is still well priced for a 25bp rate cut on 17 September. This would be consistent with the wide-spread view among [analysts](#). As I write this note, however, the odds of rate reductions are pulling back through the trading session. At present, the probability is around 89%. Two days ago, it was at 100%. Markets remain fairly certain that a rate cut is coming, but the conviction on that call is a bit weaker.

Looking further ahead, analysts also generally still foresee the very strong possibility of two rate cuts before year end — the 25bp rate cut in September and a second 25bp rate cut in October or December. According to Fed Funds futures pricing, a rate cut in October is basically a coin flip. For the December FOMC meeting the probability of at least 50bp in rate cuts is about 85% — notably, this is down from over 94% two days ago.

The possibility of a more aggressive Fed toward year end has cooled. At present, there is a less than 40% probability of at least 75bp of rate cuts by year end. Two days ago, that probability was close to 60%.

Markets reassessed the potential of aggressive rate cuts by year end after the hotter than expected July PPI that suggested that tariffs might be starting to put upward pressure on prices in the US domestic supply chain.

As an aside, inflation concerns linger because the impact of tariffs on domestic prices might only be starting to show up given the haphazard implementation of the tariff policy thus far. Keep in mind that as the US Treasury reports higher revenues

from duties, it is just reporting higher revenues from taxes on Americans. The interplay of import prices (which do not include tariffs), the US dollar, producer prices, and consumer prices will be fascinating in coming months.

### Back to the Fed Funds pricing:

There is a camp chatting about the possibility of a 50bp rate cut in September — though that potential outcome currently has a 0% probability attached. Economist Marc Sumerlin (who is evidently on the list of possible Fed Chair candidates) did what he could to boost his chances of being appointed by arguing that economic conditions suggest "[we could easily do a 50 basis point cut ... without disrupting anything at all. So it seems like pretty much a no-brainer to me.](#)"

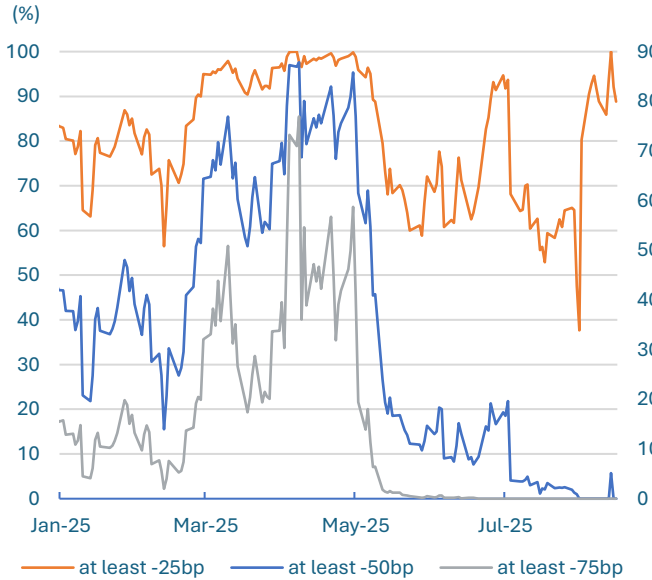
Pushing back on the idea, SF Fed President Daly has said that a 50bp rate cut in September "[would send off an urgency signal that I don't feel about the strength of the labor market.](#)"

Amid some tumult, the Fed seems set to remain calm and reduce rates at a moderate pace.

That said, there might well be calls for more aggressive moves every time an economic data release disappoints.

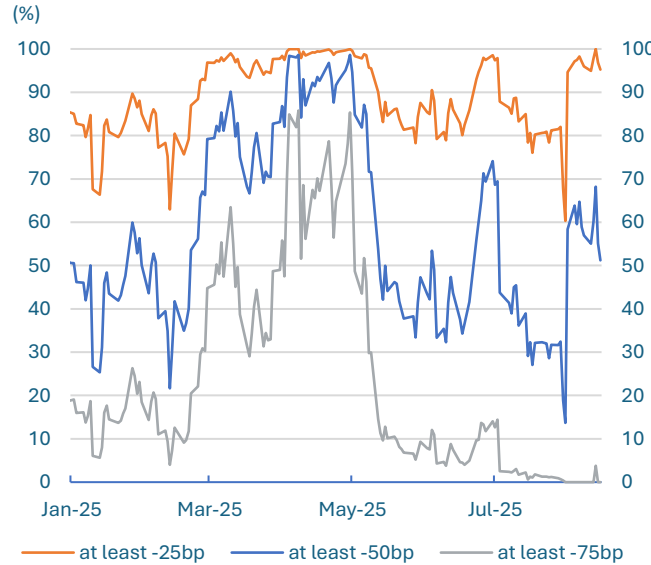
As such, one might want to keep in mind the idiom — "empty vessels make the most sound."

FOMC probabilities: 17 September 2025



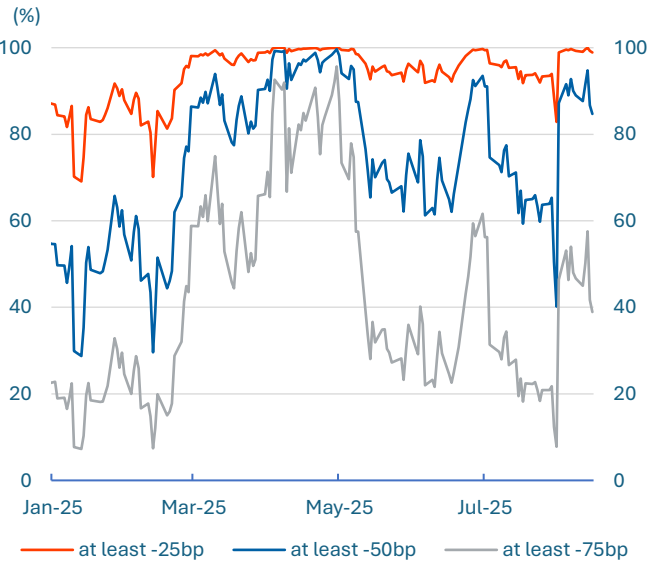
Source: Macrobond CME FedWatch

FOMC probabilities: 29 October 2025



Source: Macrobond CME FedWatch

FOMC probabilities: 10 December 2025



Source: Macrobond CME FedWatch

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