

Fed seen cutting rates on 17 September as downside employment risks have risen to the fore

8 September 2025

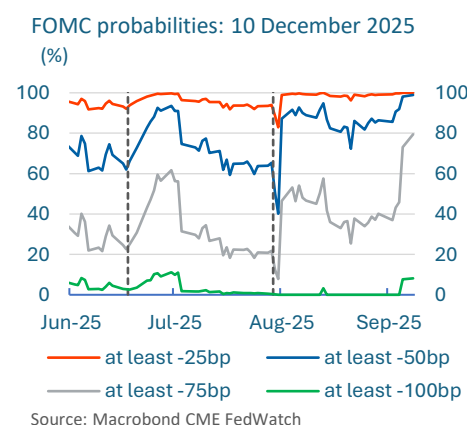
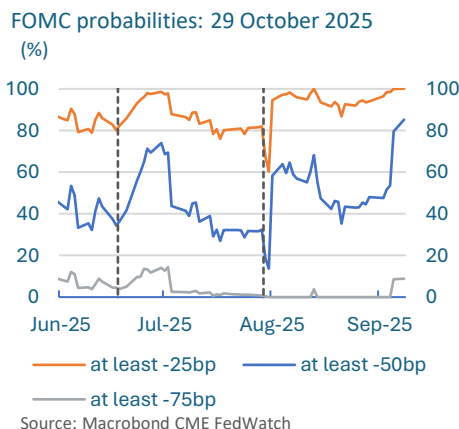
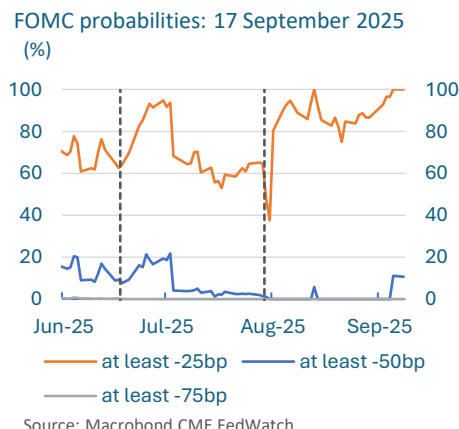
How sentiment has shifted. Two soft payrolls reports, highlighted by downside revisions to earlier months and heightened concerns about the outlook for employment have pushed inflation concerns into the background.

Weighing the policy response while facing upside risks to inflation and downside risks to employment is not much of a surprise to the FOMC. In the minutes of the 29-30 July FOMC meeting it was noted that they *“might face difficult trade-offs if elevated inflation proved to be more persistent while the outlook for the labor market weakened.”* And that is where they are.

Following the soft August jobs report, the market is now fully priced for at least 25bp in rate cuts on 17 September. The odds of 50bp or more is still very small, but it did move up following the release of the August jobs report. Meantime, the probability of at least 50bp in rate cuts in October has leapt over 80%.

By year end, the probability of at least 75bp in rate cuts has jumped to 79.5%, with a small probability of at least 100bp in rate cuts.

However, inflation concerns are now in focus again with US inflation data due this week. September PPI will be released on Wednesday, while September CPI will be released on Thursday. Usually, CPI is released first with PPI only providing an incremental amount of new information. At this key juncture, however, PPI is the scene-setter. Amid signs that producer prices are already under increased upward pressure due to tariffs, additional evidence of input cost pressures will fuel concerns that tariff costs will be passed through to consumers. However, the data will likely not do much to clear up whether there are persistent upward pressures on inflation or effects that have been spread out over time. Though the tariff effects on prices might be “one time” effects, they might not happen “all at once” to paraphrase Fed Chair Powell at Jackson Hole.



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