FedWatch and the question behind a 90% rate-hike probability

Markets are entering Wednesday's Federal Reserve meeting with a strong expectation.

Fed Funds futures are pricing roughly a **90% probability of a 25-basis-point rate hike** at the September 16 FOMC meeting. Reuters also reported that most economists now expect the Fed to raise rates.

That is a major shift from only a few days earlier.

But there is still an interesting question:

> If the market is pricing almost a 90% chance of a rate hike, does that mean Wednesday's decision is basically guaranteed?

There is still a possible contrarian case for the Fed to hold rates.

And the unusual political situation surrounding the new Fed chair makes the meeting even more interesting.

What is actually happening?

The Federal Open Market Committee meets on **September 15–16**, with the rate decision scheduled for Wednesday afternoon.

Markets have become much more hawkish recently.

Inflation is still running above the Fed's 2% target, while higher oil prices have created another possible source of inflation pressure.

Fed Chair Kevin Warsh has also recently emphasized that inflation remains too high and that monetary policy may need to stay restrictive.

As a result, traders have increased their expectations for another rate hike.

But there is an important detail about the **CME FedWatch Tool**.

FedWatch is not a survey asking people what they think the Fed will do.

It uses prices from **30-Day Fed Funds futures** to calculate what the market is currently pricing for future Federal Reserve decisions.

So when FedWatch shows roughly 90%, it really means:

Financial markets are priced as if a rate hike is very likely.

It does not mean the Fed itself has announced a 90% probability of hiking.

Why this matters

There is an important difference between:

what the market expects

and

what actually happens.

If the Fed raises rates Wednesday, the decision itself may not create a huge surprise because investors already expect it.

But if the Fed holds rates steady, markets could react much more strongly.

Think of a heavily favored team before a game.

If the favorite wins, that result does not surprise many people.

But if the underdog wins, expectations have to change very quickly.

Markets work in a similar way.

When an event is already expected, part of its impact may already be reflected in bond yields, stock prices and currencies.

That is why the surprise matters.

A 90% FedWatch probability does not mean a hike is guaranteed.

It means a **hold would be very different from what markets are currently pricing.**

The political question

There is another unusual factor around this meeting.

Kevin Warsh became Fed chair only a few months ago after being nominated by President Donald Trump.

At the same time, Trump has repeatedly argued that U.S. interest rates should be **lower**, not higher.

That creates an interesting tension.

One possible argument for a hold is:

Trump selected Warsh while calling for lower rates
→ Warsh is still early in his term
→ the administration continues publicly supporting lower borrowing costs
→ perhaps the Fed decides to hold instead of raising rates immediately

But there is an important limitation to this argument.

The president does **not** directly decide Federal Reserve interest rates.

The Fed is designed to have operational independence, and monetary-policy decisions are made by the **Federal Open Market Committee**, not by the chair alone.

Warsh's recent comments have also sounded relatively hawkish because inflation remains above target.

So political pressure alone is not enough to predict the decision.

A hold is possible, but it would clearly go against current market pricing.

The question investors are really asking

The market is not only asking:

"Will the Fed hike Wednesday?"

The bigger question is:

> How much of that rate hike is already priced into financial markets?

Rate-hike expectations have risen sharply in only a few days.

Major banks have also changed their forecasts and moved toward expecting a 25-basis-point increase.

That means the hike itself may now be less important than what Warsh says afterward.

Investors will want to know whether Wednesday represents:

- one temporary hike,
- the beginning of several hikes,
- or a move followed by another period of waiting.

This is where expectations become important.

If the Fed hikes but signals that no additional hikes are likely, markets could react very differently than if Warsh suggests more tightening is coming.

The decision matters.

But the **future path of rates** may matter even more.

CFA Level I connection

This connects naturally to a CFA Level I concept: **futures prices and market expectations**.

Fed Funds futures allow investors to trade based on where they expect short-term interest rates to be.

CME then uses those futures prices to estimate FedWatch probabilities.

So a 90% probability should not be interpreted as:

> “There is scientifically a 90% chance that the Fed will hike.”

A better interpretation is:

> “Current futures prices show that investors strongly expect a rate hike.”

Those probabilities can change quickly.

New inflation data comes out
→ investors change their expectations
→ Fed Funds futures move
→ FedWatch probabilities change

That is what makes FedWatch useful.

It gives a real-time picture of what the market currently believes.

But it is still an **expectation**, not a promise.

Simple model

Inflation remains above target
→ investors expect tighter monetary policy
→ Fed Funds futures adjust
→ FedWatch shows roughly 90% hike probability
→ markets begin pricing the hike before Wednesday
→ **the bigger market risk becomes a surprise**

If the Fed hikes:

Expected outcome
→ smaller surprise
→ focus moves toward future guidance

If the Fed holds:

Unexpected outcome
→ market expectations reset
→ Treasury yields, stocks and the dollar may reprice quickly

Today's takeaway

The most interesting part of Wednesday’s meeting may not simply be whether the Fed raises rates by 25 basis points.

It is how strongly the market already expects that outcome.

A **90% FedWatch probability sounds almost certain**, but it is really a reflection of futures-market pricing.

There is a possible contrarian case for a hold, especially because the United States now has a newly appointed Fed chair while the president continues publicly calling for lower interest rates.

But that should not be treated as proof that the Fed will hold.

The Federal Reserve operates independently, the FOMC makes decisions as a committee, and Warsh’s recent comments have focused strongly on controlling inflation.

So predicting a hold would mean going against both current market pricing and the majority of economists.

Whether that prediction turns out to be right or wrong, the more useful finance lesson is about expectations.

Markets price what they believe is most likely to happen. The biggest moves often come when reality turns out differently.

Sources

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