Federal Reserve rate decision

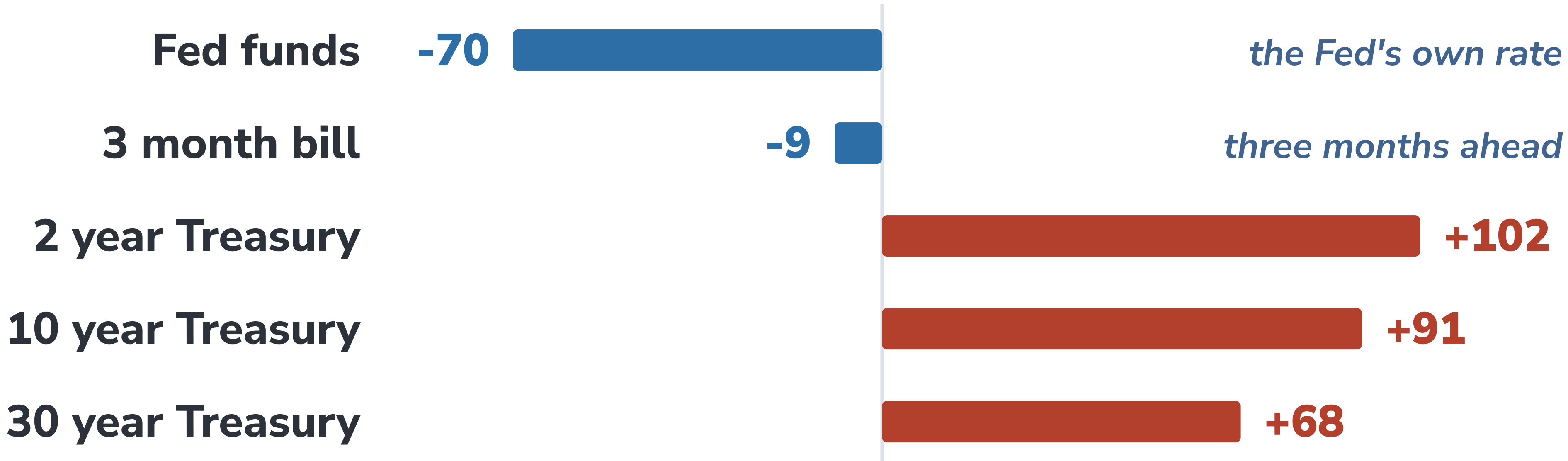
FOMC meeting, Wednesday 16 September 2026

The decision is already made

Neither Warsh nor Trump. The markets have already decided. Wednesday either signs on it, or leaves the Fed beside the point.

Over the past year the Fed cut three times, **75 basis points**, and every Treasury maturity beyond three months went the other way.

INSIDE



Twelve months to September 2026

Change in yield over twelve months, basis points. Data from FRED via TREMOR

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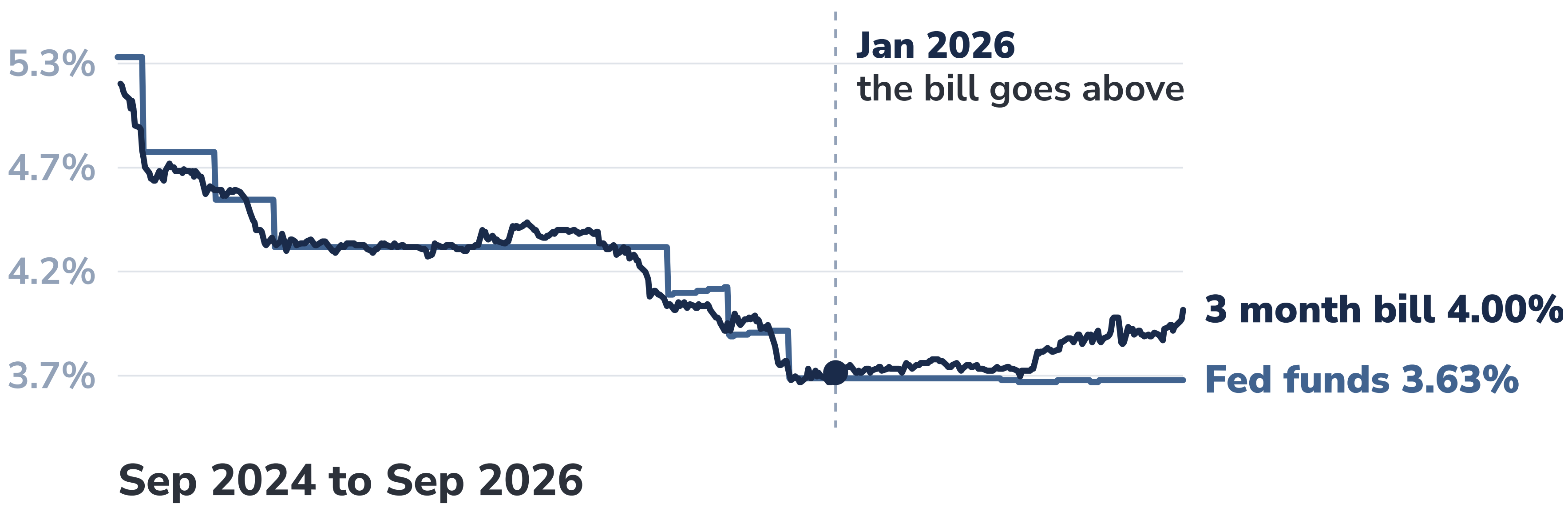
THE INSTRUMENT

The three month bill is already pricing a rise

The three month bill prices what the market expects the Fed to do over the next three months. A year ago it yielded 4.09 per cent against fed funds at 4.33, below the Fed because cuts were expected. Today it is 4.00 against 3.63, above the top of the target range.



Fed funds effective rate and the three month bill. Data from FRED via TREMOR

A quarter point rise would put the top of the range at 4.00, which is where the bill already is. The market has priced one and no more.

The two crossed on 12 January 2026 and the bill has stayed above ever since, and decisively above since July, when the gap first passed 25 basis points.

SOURCES FRED daily, via TREMOR. Target range from the Federal Reserve

WHAT THE LONG END IS PRICING

Almost none of the rise is inflation

The Treasury sells two kinds of ten year bond, and the gap between them is the inflation rate the market expects. One pays a fixed 4.95 per cent. The other, TIPS, pays 2.55 plus whatever inflation turns out to be. A buyer is indifferent between them at 2.40 per cent inflation, and that is the market's number.

	SEP 2025	SEP 2026	CHANGE
Ten year Treasury	4.04%	4.95%	+91bp
Ten year TIPS, the real yield	1.69%	2.55%	+86bp
The gap, expected inflation	2.35%	2.40%	+5bp

The whole rise in the ten year is the real cost of money. The bond market has repriced borrowing and has not repriced inflation, at any horizon: five year, five year forward expectations moved four basis points.

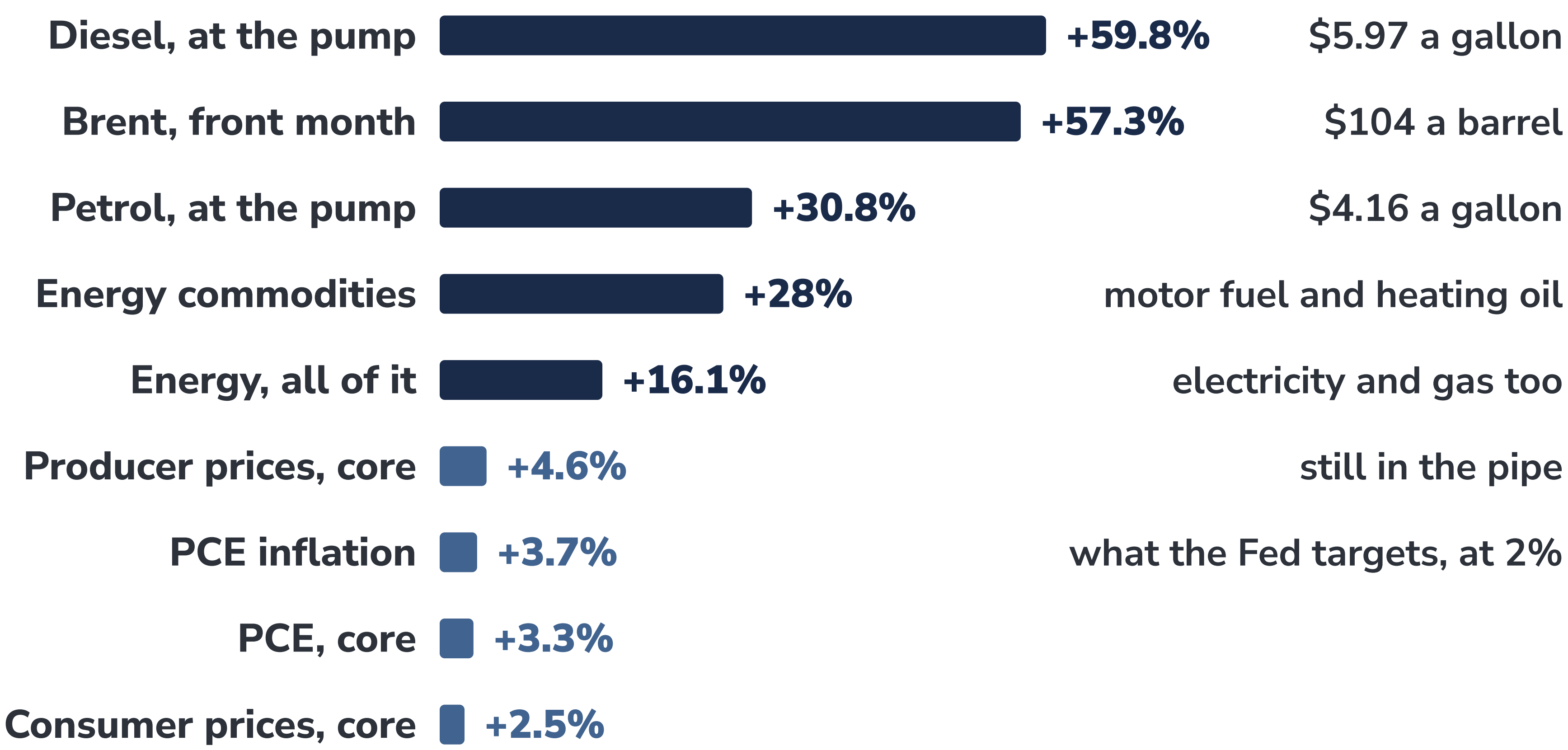
The Chair says the same thing from the other side. Medium term inflation expectations, in his words, by and large look stable.

SOURCES FRED, daily. DGS10, DFII10 and T10YIE. The gap is FRED's own published breakeven and it reproduces exactly as the first row less the second

FUEL

A rise does not reach the cause

Higher interest rates reduce demand for credit. They do not produce oil, and they do not reopen a shipping lane. The Fed sets its two per cent target on PCE inflation, which is 3.7 per cent. Take out food and energy and it is 3.3. On the consumer price index the core reading is 2.5.



Fuel to Sep 2026, consumer and producer prices to Aug 2026

Change over twelve months. Data from FRED and EIA via TREMOR

In August alone the gasoline index rose 3.9 per cent while all items rose 0.4.

SOURCES Consumer prices are BLS series, taken from FRED via TREMOR. Fuel is the EIA weekly fuel survey, FRED series GASDESW and GASREGW, weekly to 7 September 2026. PCE is from the BEA

THE PIPELINE

The cost has not fully reached the consumer

Diesel is the number to watch. Gasoline is something households buy, so it shows up in the headline figure and central banks are expected to look through it. Diesel is what moves freight, farms and building sites. It arrives later, inside the price of everything carried.

Producer prices excluding food and energy are rising at 4.6 per cent. The core consumer measures are 2.5 on the consumer price index and 3.3 on PCE.

Producer prices are above both of them.

Producer prices are the costs businesses are already paying. Consumer prices are what those businesses have charged on to the consumer. Producer prices are above both consumer measures, so a part of this cost has not been passed on yet.

None of this has finished. Fuel costs are far above last year and more of that cost is still to come.

SOURCES Producer and consumer prices from BLS, FRED series via TREMOR, to August 2026. Diesel and gasoline are the EIA weekly fuel survey, FRED series GASDESW and GASREGW

THE AI HYPERSCALERS

Promised, and not yet borrowed

The hyperscalers have committed 2.9 trillion dollars they have not paid for. Total capital spending by the five was 184 billion in the June quarter, so a large part of this is still ahead of them, though JP Morgan Asset Management says a substantial part of the purchase commitments already sits inside near term capex expectations.

Promised and not yet paid for, $bn. The source gives no period. The red bar is total capital spending by the five in the June quarter, covering everything they build

None of it is borrowed yet. What it costs is set in the bond market when each piece is drawn, and that repricing has already happened. JP Morgan Asset Management calls the recent rise in the cost of debt a marginal headwind and says it is not expected to change capex plans. That is the cost of issuance already planned. This is the part that is not.

SOURCES Commitments and spreads from JP Morgan Asset Management, 20 August 2026. Capital spending from SEC filings

THE PRESSURE

The whole administration is pushing one way

The politics is obvious. The argument underneath it is a real one, and this analysis gets to the same place from the data.

The President, the Vice President and the Treasury Secretary have each said in public that the Fed should not raise, and in some cases that it should cut. That is a broader campaign than the usual one, and it comes two months before the midterms.

The Treasury Secretary's argument is a technical one, and it is the argument this analysis comes back to: a central bank does not normally raise into a supply shock until the second and third round effects show up. Whether those effects have arrived is the real disagreement, and the Chair has an answer.

The pressure has not moved the market for three month Treasury bills. Those are short term government debt, and they had already moved before any of this campaign started.

A month ago the market put a quarter point rise at 33 per cent. It is now 86.5. It was 59 in the first week of September. CME FedWatch, 14 September.

SOURCES Reported by CNBC, 5 September 2026. Odds from the CME FedWatch tool, 14 September. Meeting dates from the Federal Reserve

THE OTHER SIDE

What the Chair actually said

His case is that the rise is broad and that it has lasted. Over the past twelve months 54 per cent of the PCE basket rose by more than 3 per cent. Before the pandemic that figure was 32 per cent. He counts 65 months of sustained, elevated inflation.

PCE is 3.7 per cent over twelve months and 4.1 over six, so on his own gauge it is accelerating. He reads the labour market as consistent with full employment, which removes the argument that there is slack to absorb a shock.

Two things in the same speech are a different angle. Medium-term inflation expectations, in his words, by and large look stable, and swap market inflation compensation says the same. And he gave no guidance at all. His own words were that he stands **"committed to a discipline, not to a decision."**

Wednesday is a projections meeting, so the Committee publishes rate projections from its members alongside the decision. The Chair did not submit one of his own in June, and he has said that publishing forecasts to show how the Fed will react works better in theory than in practice.

SOURCES All figures from the speech in full, 28 August 2026. Meeting and projection dates from the Federal Reserve

MY READ

Where I come out

I am not going to call the decision. What I would say is that the decision counts for less than it looks, because the market has already made most of it.

Whether the Fed raises on Wednesday or holds, bond yields have already risen, and somebody pays for that. Consumers pay it on mortgages and car loans. Companies pay it when they refinance. Governments pay it on every bond they roll over.

I wrote about this at the start of September.

Bond markets are sounding an alarm

The thirty year was at 5.25 per cent, a level it had not passed since 2007, and Europe and Japan are moving the same way. That piece sets out the pressures arriving together: valuations, AI debt, delinquencies and charge-offs, oil, private credit and employment.

SOURCES This page is my own view. Everything before it is sourced and linked, and my earlier analysis is at tigzig.com/analysis

Previous analysis

All my analysis **tigzig.com/analysis**

External sources

This analysis also draws on my earlier work. These are the external sources used.

Federal Reserve	H.15 rates and the FOMC calendar
Federal Reserve	Warsh at Jackson Hole, 28 August 2026
SEC	Quarterly filings for the five hyperscalers
JP Morgan Asset Management	Hyperscalers, now also a credit story, 20 August 2026
Vanguard	The AI buildout comes to the bond market
CNBC	Trump turns up the heat on Warsh, 5 September 2026
EIA	Weekly retail fuel survey
BEA	Personal consumption expenditures price index
Series in the charts	BLS, FRED and Yahoo Finance, pulled through TREMOR