Good Morning - Please find below a market flash update on the CPI data released this morning at 8:30 a.m. Please let us know if you would like additional market color or have any questions. We are also always happy to provide indications for Caps, Swaps or other derivative hedging products. Please feel free to reach out anytime! ***-RCA Hedging Desk***

RCA MARKET UPDATE: November CPI

- **CPI showed lower than expected consumer inflation, a positive sign that suggests inflation may be peaking**
- **Treasury and swap rates plummet in immediate response to CPI print**
- **CPI data does *not* likely materially change Fed policy, but it gives the Fed much needed breathing room**

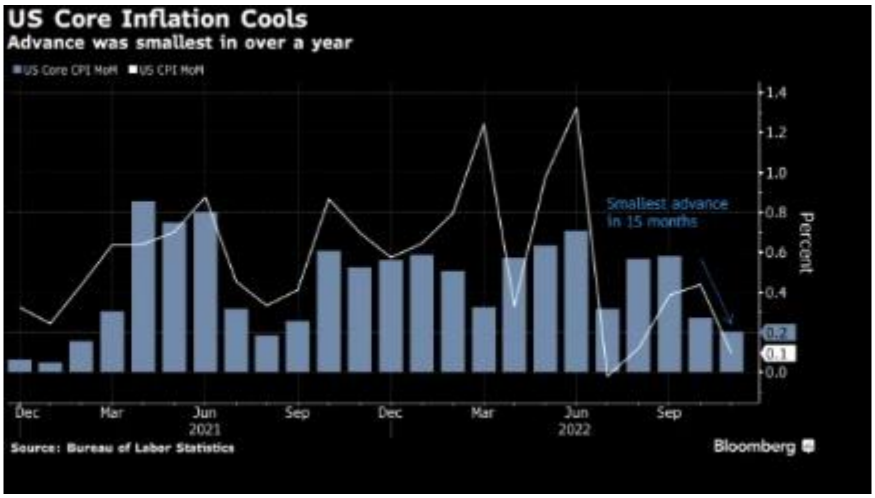
US consumer prices posted the smallest monthly advance in over a year, indicating the worst of inflation may have passed and validating an anticipated slowdown in the pace of FOMC interest-rate hikes. Headline CPI increased 0.1% from the prior month and was up 7.1% from a year earlier, as lower energy prices helped offset rising food costs. "Core" CPI (which excludes food and energy), widely held to be the best gauge of underlying inflation by economists, rose 0.2% in November and was up 6% from a year earlier. Treasury and swap rates dropped immediately following the CPI data, as the market breathed a sigh of relief on the inflation news. 2-year and 3-year SOFR swap rates plunged ~18-20 basis points and are holding at those levels currently. The rate drop this morning reflects traders and market participants removing any last inclinations that the FOMC may raise 75 basis points at tomorrow's meeting.

The market is currently pricing in a 50 basis point rate hike at tomorrow's FOMC meeting, the last of 2022. I do not think today's CPI data fundamentally changes anything for the FOMC – while the Fed will certainly welcome the inflation deceleration, it is only one number. Chairman Powell has communicated many times recently that the committee needs to see a *"sustained"* drop in inflation. Furthermore, annual inflation of 7.1% is still too high and far from the Fed's stated inflation target. What today's inflation data *does* do is provide the Fed some breathing room to raise rates 50 bps tomorrow, then sit back and see how the next 6 weeks develop. The Fed has also recently been *very* vocal about the "uncertainty" that exists with the US economy. Please keep in mind that after tomorrow's meeting, the FOMC does not convene again until Feb 1, 2023, so they will get to see and digest another *huge batch* of key economic and financial data before the February '23 meeting. If you layer in the geopolitical instability we are witnessing, a *lot* can happen prior to that February meeting!

As mentioned, the FOMC finishes up a two-day meeting tomorrow and will announce their rate decision at 2:00 p.m. Please pay particular attention to Chair Powell's post-meeting press conference. Powell has a knack for moving the market with his comments, so his press conferences are often as anticipated, if not more so, than the actual rate decision! Stay tuned!

CHART OF THE DAY:

The Bloomberg chart below details CPI for the past 12 months. The November advance in US CPI was the smallest in 15 months and sent an encouraging signal to the market that price pressures have peaked. The FOMC will be pleased by this morning's inflation numbers but they will need to see this trend down in inflation on a sustained basis prior to declaring victory.



Best regards,

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