Flash Update: US Rate Markets – Friday 3/8/2024

- **Chairman Powell's testimony was largely ignored by the market**
- **Today's weaker-than-expected Employment Report pushed rates lower, particularly on the short-end**
- **Next FOMC meeting March 20, 2024**

US Treasury and SOFR swap rates opened lower this morning as a weaker-than-expected jobs report gave the market confidence the FOMC will be prompted to begin rate cuts sooner rather than later. Hawkish Fed-speak and an uptick in inflation prompted concerns that the Fed could be in a holding pattern for most of the year. The jobs data this morning calmed market fears that the FOMC might indefinitely delay rate cuts. For the market, this week was about gaining confidence the FOMC will cut the overnight rate 25 basis points three times this year. The fear was Powell would be hawkish – he wasn't. He basically voiced the same consistent message the Fed has been broadcasting since the prior meeting – the Fed wants to see inflation continue to *sustainably* decline towards 2.00% and they think the economy is on solid footing. Powell said the FOMC needs "greater confidence" before cutting rates. Keep in mind the Fed is trying engineer a soft-landing or even better, a "no landing". From my perspective, Powell and his FOMC colleagues are trying to strike a delicate balance between keeping financial conditions from tightening too much, and pushing back against imminent rate cuts amid bumpy inflation data.

Many Fed officials have recently said that a recession is not a forgone conclusion and they have been saying that since the very first rate hike. That said, we have seen some cracks in the armor recently – there is pressure on the service and manufacturing sectors and the consumer may finally be showing some signs of slowing down. This morning's Employment Report is further evidence that the economy may be weakening from the peak levels witnessed the past two years. The market is still pricing in three 25 bp rate cuts for 2024. The odds for a 25 bp rate cut in May are sitting at ~25% and odds for a June rate cut are ~75%. At the moment, forward market pricing and the FOMC dot-plot are aligned. The FOMC releases a new dot-plot at the next meeting. We will talk more about that next week.

Even though Fed officials will be "blacked-out" ahead of the FOMC meeting on 3/20, the market will not get a breather. We see another batch of important economic data next week, including CPI on 3/12 and Retails Sales on 3/14. We could see some intra-day rate volatility as the market sorts through the data next week, but unless the numbers next week wildly diverge from expectations, the market will be looking ahead to the 3/20 meeting.

Chart 1: ***US RATES SNAPSHOT: 10:45 AM Eastern***

UST YIELDS | SOFR SWAP SPREADS | SOFR SWAP RATES

GV Ask/Chg			SOFR/GV		SOFR OIS	
2Y	4.457	-0.045	-9.4000	-0.2100	4.3640	-0.0465
3Y	4.236	-0.040	-17.4600	+0.0700	4.0630	-0.0401
4Y	4.129	-0.037	-23.7500	+0.3800	3.9043	-0.0303
5Y	4.045	-0.027	-23.0000	+0.6300	3.8164	-0.0211
7Y	4.071	-0.013	-32.7100	+0.8000	3.7440	-0.0067
10Y	4.087	+0.005	-36.7500	+0.6300	3.7205	+0.0090
20Y	4.364	+0.020	-65.3400	+0.5200	3.7120	+0.0260
30Y	4.270	+0.028	-73.5000	+0.5200	3.5366	+0.0320

Source: Bloomberg, LLP | 10:45 AM NY Rates Snapshot

Chart 2: ***Employment Report Recap***

Metric	Actual	Estimate
Change in payrolls (MoM)	+275,000	+200,000
Unemployment rate	3.9%	3.7%
Average hourly earnings (MoM)	+0.1%	+0.2%

Source: Bloomberg, LLP | Jobs Report Summary

The US jobless rate climbed to a two-year high in February even as hiring remained healthy, pointing to a cooler yet still resilient labor market.

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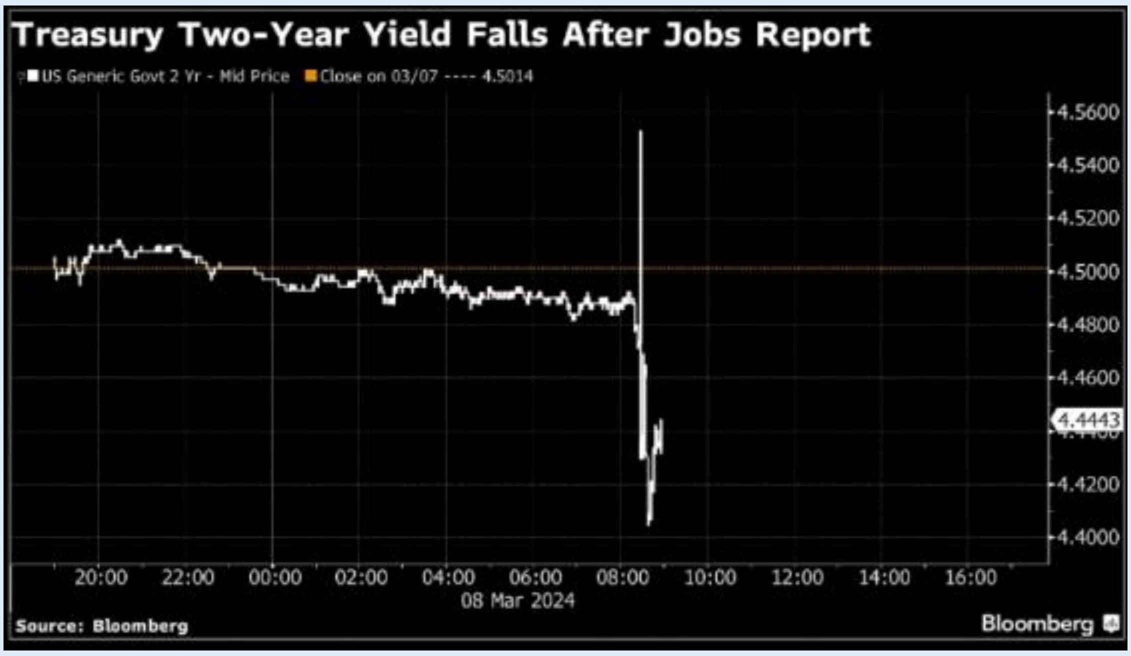
Nonfarm payrolls advanced 275,000 last month and the unemployment rate rose to 3.9%. Resilient job creation and moderate pay gains continue to provide consumers the wherewithal to sustain their spending, even as they're pinched by higher borrowing costs and prices. Average hourly earnings increased a modest 0.1%, slightly below expectations calling for 0.2%.

Federal Reserve officials are paying close attention to the job market and its impact on consumer spending as they assess the trajectory of inflation. The very gradual cooling in the labor market is part of the reason why policymakers have indicated they are in no hurry to cut interest rates. "We're seeing a labor market that is still tight, still strong, wages are moving up," Fed Chair Powell said in his testimony to Congress this week. He added: "And we're trying to use our policies to keep that growth going and to keep that labor market strong, while also achieving further progress on inflation."

Chart 3: ***Short Term Rates Drop After Employment Report***

The market reaction to the weaker-than expected jobs report was lower rates, particularly on the short-end of the yield curve. US Treasury rates dropped after the number was released, bounced back a bit and then settled in down ~4-5 basis points. Swap rates moved in tandem with Treasuries this morning. Swap rates have actually quietly crept lower all week – 2Y SOFR swaps began the week at 4.514% and are currently trading at 4.349%, a 16.5 basis point drop. 1Y SOFR swaps are down 10.8 basis points on the week.

2Y TREASURY NOTE



Source: Bloomberg, LLP | US 2Y TNOTE

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