

Flash Update: US Rate Markets – Wednesday 4/10/2024

- **CPI prints hotter-than-expected; YoY Core CPI rises to 3.8% (3.7% expected)**
- **Treasury and SOFR swap rates soar on strong inflation data**
- **Short-end (2Y, 3Y) SOFR swaps up ~20 basis points this morning**
- **FOMC March meeting minutes released this afternoon at 2:00 PM**
- **PPI inflation data next up tomorrow at 8:30 AM**

Good Morning!

US Treasury yields and SOFR swap rates surged on hotter-than-expected CPI inflation data. Market participants had been hoping for weaker than expected CPI data, which would prompt the Fed to cut rates sooner than later. Instead, this morning's hotter-than-expected inflation data signaled the recent uptick in inflation was not due to seasonal factors. Today's CPI result is certainly not the sustained disinflation trend the FOMC wants to see before they begin rate cuts (See Chart 1). The market sees another key piece of inflation data tomorrow – PPI prints at 8:30 AM. We also have another busy week for Fed-speak (See Table 1). Market participants will be listening closely given the unexpected increase in consumer inflation.

Treasury and swap rates immediately gapped higher after the number was released (See Chart 1). The CPI data impacted the short-end of the swap curve more than the longer end - currently, 2Y, 3Y and 5Y SOFR swap rates are up ~18-20 basis points. The longer end of the swap curve is not as sensitive to FOMC rate decisions – 10-years and out swap rates are currently up between 6-15 basis points. Overall, swap rates are at the highs for the year (See Chart 3A & 3B).

From an FOMC perspective, today's hot inflation data makes it more likely the FOMC will hold off on rate cuts for the foreseeable future. The uptick in inflation is worrisome and the economy continues to roll along. At the moment, there is no compelling reason to cut rates anytime soon. Market pricing now reflects 2 rate cuts for the remainder of 2024 (See Chart 4).

Next up: PPI inflation data tomorrow at 8:30 AM. Traders will be paying close attention to the data. We also see the FOMC's March meeting minutes released today at 2:00 PM. Market participants will be dissecting the meeting minutes to see if they provide any more insights into the Fed's thinking on rate cuts. It seemed odd that right after the new dot-plot was released showing three potential rate cuts, Fed officials went out of their way to dial that back. We will see what the minutes reveal this afternoon.

TABLE 1: FED SPEECH CALENDAR FOR WEEK OF 4/8/2024

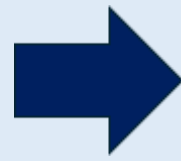
Date	Time	A	M	R	Event
04/10	08:45				Fed's Bowman Discusses Basel Capital Requirements
04/10	12:45				Fed's Goolsbee, Barkin Participate in Panel Discussion
04/10	14:00		🔔	📅	FOMC Meeting Minutes
04/11	08:45				Fed's Williams Gives Keynote Remarks
04/11	10:00				Fed's Barkin Takes Audience Questions
04/11	12:00				Fed's Collins Speaks at Economic Club of New York
04/11	13:30				Fed's Bostic Participates in Moderated Conversation
04/12	13:00				Fed's Schmid Gives Speech on Economic Outlook
04/12	14:30				Fed's Bostic Gives Speech on Housing
04/12	15:30				Fed's Daly Participates in Fireside Chat
04/15	02:30				Fed's Logan Speaks on Panel in Tokyo
04/15	20:00				Fed's Daly Gives Keynote Remarks

Source: Bloomberg, LLP | Fed Speech Calendar For April 8-15, 2024

Chart 1: US RATES SNAPSHOT: 11:00 AM Eastern

UST YIELDS | SOFR SWAP SPREADS | SOFR SWAP RATES

GV	Ask/Chg	SOFR/GV	SOFR OIS
2Y	4.960 +0.218	-9.2505 +0.5620	4.8683 +0.2241
3Y	4.771 +0.226	-15.5000 +1.4050	4.6186 +0.2264
4Y	4.664 +0.209	-22.8750 +0.5900	4.4435 +0.2100
5Y	4.570 +0.197	-24.4800 -0.4900	4.3269 +0.1917
7Y	4.539 +0.168	-34.1575 -0.7119	4.2002 +0.1611
10Y	4.495 +0.133	-37.8750 -0.1875	4.1171 +0.1316
20Y	4.685 +0.091	-66.7090 -0.9804	4.0200 +0.0815
30Y	4.563 +0.067	-75.3750 -0.4981	3.8095 +0.0615



Short-end SOFR swap rates surged on hotter-than-expected CPI inflation data. No break for the market: FOMC March meeting minutes are released at 2:00 PM today; PPI prints tomorrow at 8:30 AM.

Source: Bloomberg, LLP | 11:00 AM NY Rates Snapshot

Chart 2A & 2B: March CPI

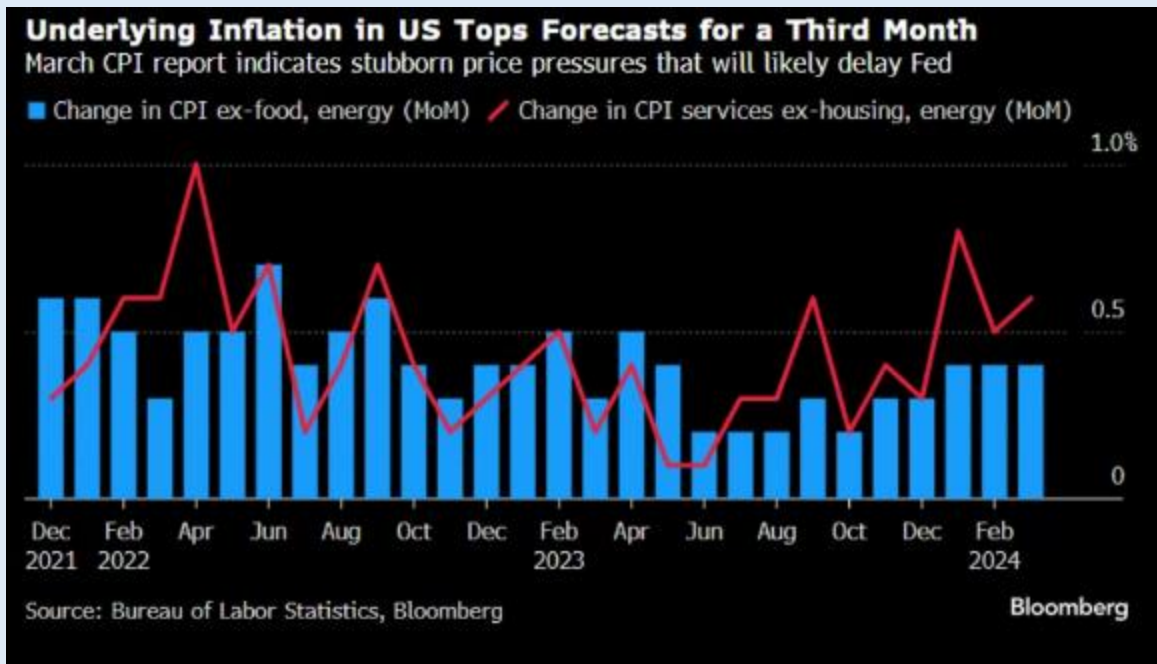
March CPI printed hotter-than-expected this morning, indicating inflation remains extremely stubborn. Headline YoY CPI measured 3.5% vs expectations calling for 3.4% and the MoM increase was 0.4%, vs. 0.3% expected. Core CPI also ticked higher. YoY Core CPI printed at 3.8% against an expectation of 3.7%. MoM Core CPI also edged higher to 0.4%. All categories of CPI printed above expectations – certainly not the gradual downward trend the FOMC has repeatedly said it wants to see prior to cutting rates. The 3.8% core CPI figure is particularly worrisome – we are still *far* away from the Fed’s target inflation level of 2.00%. From my perspective, the door to a June rate cut is now closed. Odds for a 25 basis point June rate cut are now sitting below 20%. Tomorrow’s PPI data is also important, especially after today’s CPI data. A strong PPI number probably just sustains the market view – two rate cuts. Should PPI show some unexpected producer price relief, swap rates may back up a tad as the market pauses to reassess. The trend higher in inflation is definitely cause for concern.

Chart 2A – March CPI Recap

Metric	Actual	Estimate
CPI MoM	+0.4%	+0.3%
Core CPI MoM	+0.4%	+0.3%
CPI YoY	+3.5%	+3.4%
Core CPI YoY	+3.8%	+3.7%

Source: Bloomberg, LLP | March CPI Recap

Chart 2B: Inflation Tops Forecasts Yet Again



Source: Bloomberg, LLP | Employment Report Historical Detail

Chart 3A & 3B: Rates Surge on Hotter-Than-Expected CPI Data; Short-End Swaps Most Impacted

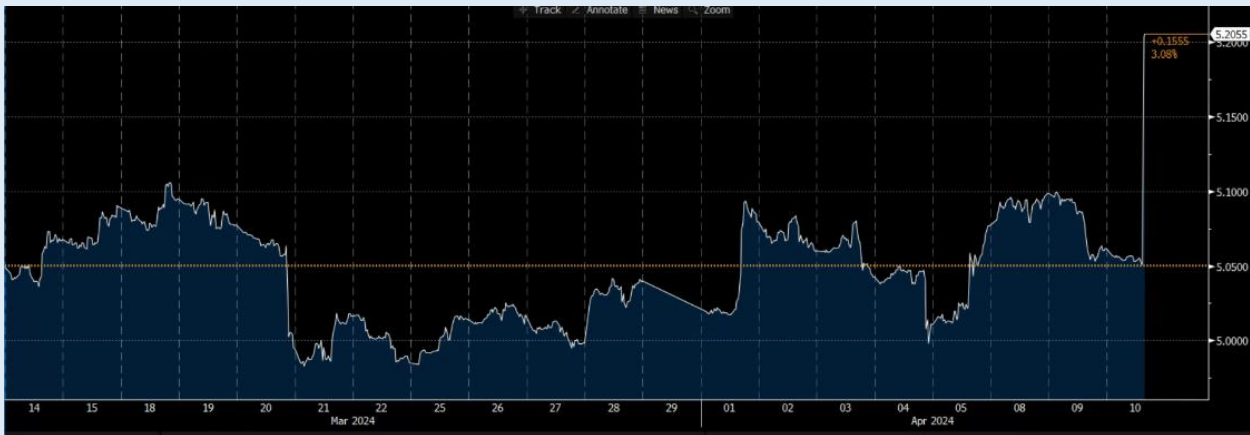
SOFr swap rates surged on the stronger-than-expected CPI inflation data released this morning. The surge in rates basically completely removed the possibility of a June rate cut. Short-end swap rates broke out of the current range and are currently sitting approximately 20 bps higher than last night’s close. Rates may bounce around over the next few days – we continue to see a broad range of data and there are a host of Fed officials on the tape this week – market participants will want to hear their take on CPI and the outlook for inflation. As mentioned, we also see the FOMC March meeting minutes today at 2:00 PM. Perhaps the minutes will provide some intel on the Fed’s current mindset on inflation. The market wants to know – how worried are they? Back-end swap rates were also up substantially this morning, but not to the degree of short-end swaps, which are much more sensitive to monetary policy pivots.

Chart 3A: 2Y (White) and 3Y (Green) SOFR Swap Rates Prior 30 Days



Source: Bloomberg, LLP | 2Y & 3Y SOFR Swap Prices – Prior Month

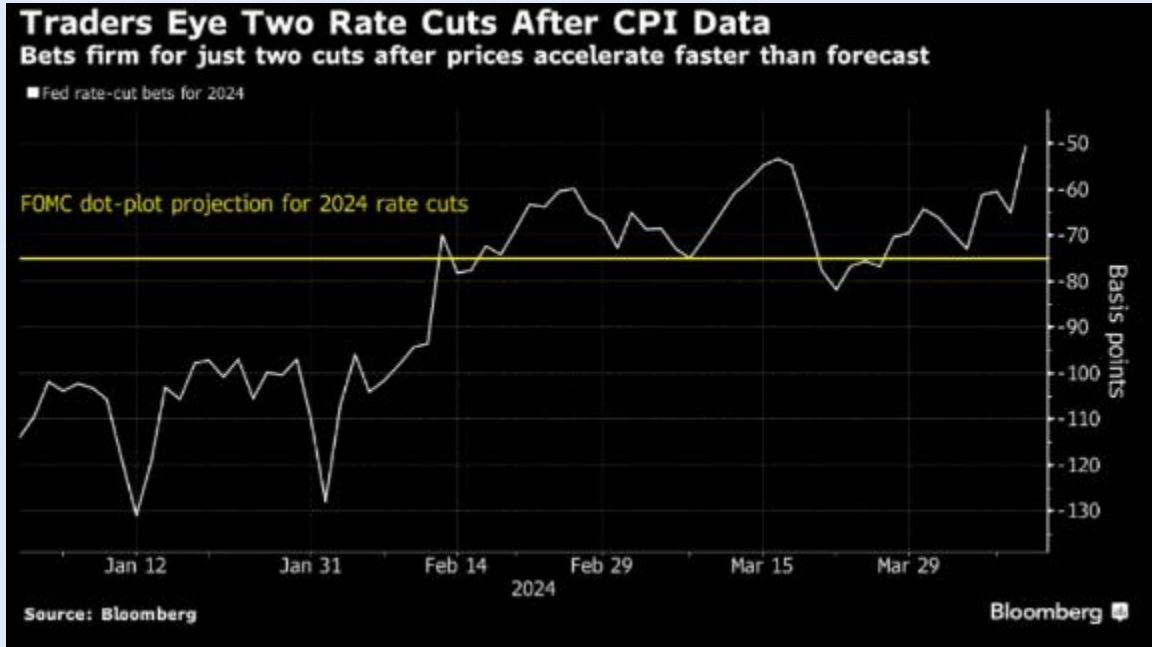
Chart 3B: 1Y SOFR Swap Rate Prior 30 Days



Source: Bloomberg, LLP | 1Y SOFR Swap Prices – Prior Month

Chart 4: Market Pricing Shows Two Rate Cuts After CPI Data

Today’s hotter-than-expected CPI inflation data further dampened market hopes for a June rate cut. Currently, traders have two 25 bp rate cuts priced into the forward curve. That contrasts with the Fed’s most recent consensus “dot-plot” calling for three 25 bp rate cuts this year. Odds for a June rate cut have plunged to below 20%, and odds for a 25 bp July rate cut are currently sitting at ~38%. There is no August FOMC meeting. The longer the Fed has to wait to cut rates, the more complex the situation could become. By the September Fed meeting, we will be in the thick of US election season – that always makes the Fed’s job more difficult. I will be commenting more on the US election and potential FOMC impact over the coming months.



Source: Bloomberg, LLP | Forward Fed Funds Pricing

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