Flash Update: US Rate Markets – Thursday 1/16/2025

- **Solid December Retail Sales results show US consumer remains resilient**
- **Traders expected a strong Retail Sales result, so the market reaction has been somewhat muted**
- **SOFR swap rates and US Treasury yields are trading close to unchanged this morning**
- **Market participants will now shift focus to President-elect Trump's inauguration and more importantly, his policy initiatives**
- **Fed officials will be in their pre-meeting "external communications blackout" from 1/18 through 1/30**
- **The next FOMC rate decision is due on January 29th at 2:00 PM**
- **The Fed is expected to hold rates steady at the January meeting**
- **Short-end SOFR swap rates are trading ~1-2 bps higher than last night's closing levels**
- **Long-end swap rates are up ~1-2 basis points this morning**

US December Retail Sales came in close to expectations, underscoring yet again the tremendous resilience of the US consumer (See Chart 2). Traders expected a strong result, so US Treasury yields and SOFR swaps rates had a mostly muted reaction to the data (See Chart 1). In retrospect, market participants were far more nervous about yesterday's CPI release – the inflation data was clearly the main focus for the market this week. The soft CPI data and steady, but not out-of-control, Retail Sales data definitely keeps one, and probably two, Fed rate cuts on the table for 2025. SOFR swap rates across the curve are mostly unchanged from last night's closing levels (See Chart 3).

Please note Fed officials will be entering their "quiet period" ahead of the 1/29 FOMC meeting. As such, traders will be focused on economic data and more importantly, the impact of President-elect Trump's new policies. We do not see any significant economic data until after the FOMC meeting (GDP 1/30; PCE 1/31), so traders will be laser focused on what President Trump will do in his first few weeks in office.

CHART 1: ***US RATES SNAPSHOT: 9:30 AM Eastern***

****SOFR Swap Rates & Change-On-Day (In Bps) Two Far Right Columns***

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.285	+0.021	-13.9494	-0.3494	4.1467	+0.0175
3Y	4.354	+0.016	-21.3320	+0.1975	4.1412	+0.0169
4Y	4.431	+0.011	-25.8845	+0.3005	4.1462	+0.0144
5Y	4.454	+0.007	-30.2000	+0.4250	4.1538	+0.0124
7Y	4.555	+0.002	-38.6310	+0.7290	4.1704	+0.0094
10Y	4.655	+0.003	-45.9660	+0.5340	4.1963	+0.0069
20Y	4.954	+0.002	-72.2360	+0.2310	4.2317	+0.0037
30Y	4.876	-0.003	-81.5722	+0.5328	4.0615	+0.0027

Source: Bloomberg, LLP | 9:30 AM NY Rates Snapshot

CHART 2 & 2A: **DECEMBER RETAIL SALES RECAP**

December US Retail Sales increased a solid 0.4% in December, driven by strong consumer demand during the holiday season. Retail Sales excluding autos and gasoline rose 0.3% in December vs. 0.2% in November. Ten of the thirteen sales categories that comprise the Retail Sales data posted gains in December, including furniture and sporting goods stores. The "Control-group Sales" component of the data, which feeds into GDP calculations, increased 0.7% in December, the most in three months, indicating the US consumer continues to power forward.

CHART 2: ***December Retail Sales Results – Strong Data Underscores US Consumer Resilience***

Metric	Actual	Estimate
Retail sales (MoM)	+0.4%	+0.6%
Sales ex. autos, gas (MoM)	+0.3%	+0.4%
'Control group' sales (MoM)	+0.7%	+0.4%

Source: Bloomberg, LLP | December Retail Sales Recap

CHART 2A: ***US Consumer Powers On! "Control-Group" Sales Jumps Most In 3-Months***

Source: Bloomberg, LLP | Historical Retail Sales Data Since October 2023

CHART 3: SOFR SWAP MARKET REACTION TO RETAIL SALES DATA

SOFR swap rates had a muted reaction to this morning's Retail Sales print. The market was prepared for a strong number, so the market reaction was mostly muted. SOFR swap rates started-off the day up ~4-5 bps – there was some fear that the sales number might crush expectations – that did not happen. The Retail Sales data was solid but within expectations. As a result, SOFR swap rates settled down and are currently trading close to unchanged for the day (+1-2 bps).

The graph below clearly shows the decline in rates after yesterday's CPI print. Traders tested higher rates this morning ahead of Retail Sales, but that fizzled out after the solid but not overwhelming results. Weekly jobless claims also posted "as expected", contributing to the muted market reaction this morning.

CHART 3: ***SOFR Swap Rates: Muted Reaction To Retail Sales Data – CPI Was Clearly "The Show" This Week***

Source: Bloomberg, LLP | 1Y (WHITE), 2Y (BLUE) & 3Y (ORANGE) SOFR SWAP RATES, PRIOR (3) TRADING SESSIONS

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