Flash Update: US Rate Markets – Wednesday 1/29/2025

- **Rates steady as market prepares for this afternoon's FOMC rate announcement and Chair Powell's press conference**
- **Traders continue to monitor developments in the equity markets, particularly in the tech sector**
- **FOMC rate announcement due this afternoon at 2:00 pm; Chairman Powell press conference at 2:30 pm**
- **Traders are also awaiting a series of important economic data releases beginning tomorrow morning**
- **4Q GDP results are due tomorrow, 1/30 at 8:30 am**
- **December PCE inflation data is due Friday, 1/31 at 8:30 am**
- **Fed officials will emerge from the quiet-period and be back "on-the-tape" on 1/31**
- **Given the large amount of data and information we see the rest of the week, *there is the potential for elevated rate volatility***
- **Short-end SOFR swap rates are trading flat to last night's closing levels**
- **Long-end swap rates are down ~1-1.5 bps this morning**

US Treasury yields and SOFR swap rates are holding steady this morning as market participants prepare for this afternoon's FOMC rate announcement and Chairman Powell's press conference. The FOMC rate announcement is the "big show" today, but traders are also waiting for fresh economic data, which we will see later this week – Q4 GDP prints 1/30; December PCE prints 1/31 – both at 8:30 am.

We may see periods of elevated rate volatility the remainder of the week – traders will have a ton of information and data to process, not to mention President Trump's ongoing rapid fire policy initiatives and the added drama of the recent tech-sector woes. We are likely to see rates trade in a very tight range today – up or down a bp or two. The *real* action could begin after the FOMC rate announcement this afternoon at 2:00 pm – volatility may continue the remainder of the week. Chairman Powell's post-meeting press conference is scheduled for 2:30 pm.

Rate Summary: Short-term SOFR swap rates are trading flat to last night's close, maybe down half a basis point; Long-term SOFR swap rates are down ~1-1.5 bps this morning.

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	4.191	-0.005	-15.8099	+0.1561	4.0345	-0.0031
3Y	4.235	-0.003	-22.2010	-0.1420	4.0145	-0.0043
4Y	4.292	-0.009	-26.7765	-0.1515	4.0110	-0.0070
5Y	4.320	-0.008	-30.7500	+0.0104	4.0132	-0.0092
7Y	4.417	-0.007	-39.0500	-0.2712	4.0275	-0.0117
10Y	4.520	-0.013	-46.6304	-0.1304	4.0549	-0.0134
20Y	4.822	-0.016	-72.2400	+0.0700	4.1013	-0.0136
30Y	4.763	-0.012	-82.0000	+0.0356	3.9440	-0.0120

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

CHART 2: SOFR SWAP RATES DRIFT SLIGHTLY LOWER AHEAD OF FOMC RATE ANNOUNCMENT

Short-end (1-3 years) SOFR swap rates have been bouncing around in a relatively narrow 20 basis point trading range since the December FOMC meeting. Market participants have been waiting for guidance from the Fed and closely monitoring President Trump's new policy initiatives. We could potentially see a new trading range for short-term SOFR swaps beginning this afternoon – Chairman Powell speaks at

2:30 pm. The official Fed meeting statement released at 2:00 pm will also be closely scrutinized for language revisions. At the moment, market participants looking for rate cuts are fearful that a potentially reaccelerating US economy, combined with "inflation inducing" trade policies will keep the Fed on the sidelines for the foreseeable future. There have actually been recent whispers of a potential Fed rate hike at the back end of 2025! While it may be premature for that talk, there is still a tremendous amount of uncertainty surrounding the path forward for rate cuts this year.

CHART 2: ***1Y, 2Y & 3Y SOFR SWAP RATES, PRIOR (6) MONTHS***

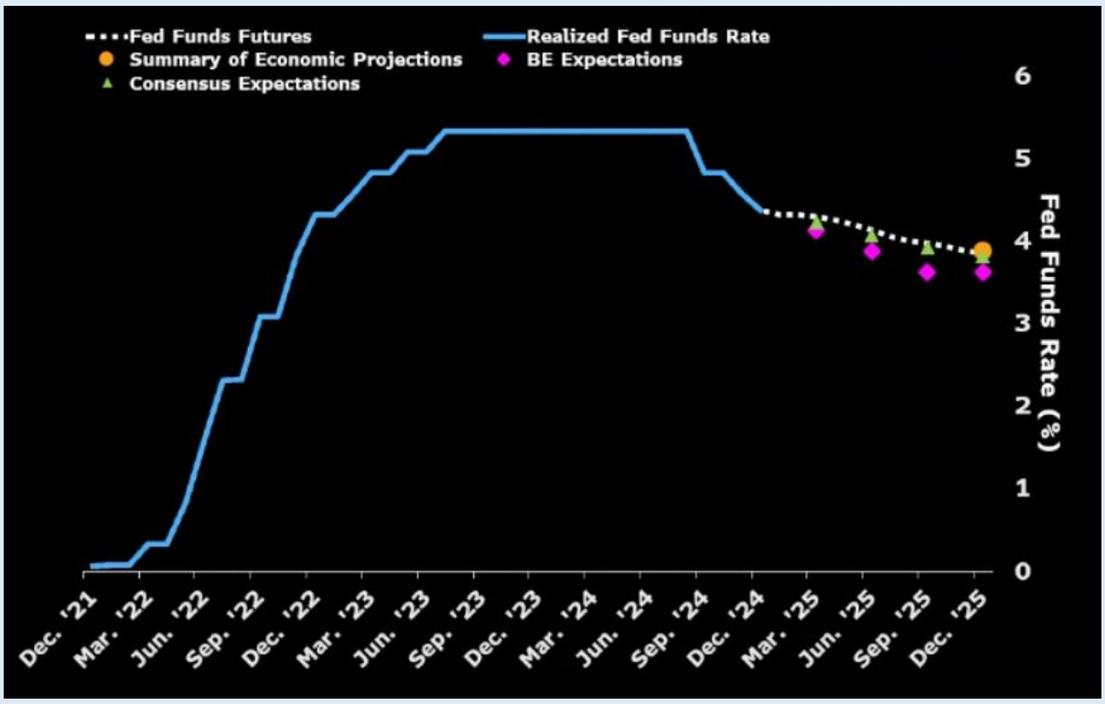
Source: Bloomberg, LLP | 1Y (WHITE), 2Y (BLUE) & 3Y (ORANGE) SOFR SWAP RATES, PRIOR (6) MONTHS

CHART 3: JANUARY FOMC MEETING PREVIEW

The FOMC is widely anticipated to announce today that they will hold rates steady, the first pause since they began the rate-cut cycle in September. Fed-speak since the December meeting has leaned hawkish, economic data has been stronger-than-expected and inflation remains in check, at least for the time being. Traders are fearful that President Trump's new trade policies will rekindle inflation, perhaps quickly. All of those factors support a pause by the Fed – the bigger question remains: Is it an "extended" pause, or will the Fed get back to business and cut rates again in the first half of the year? The answer to that question will likely be provided by upcoming economic and inflation data. The Fed is still squarely focused on the jobs market and inflation – their dual mandate. It is also clear that the FOMC and Chairman Powell will be subjected to increased political scrutiny and pressure to lower rates. Given past statements, Powell does not plan to capitulate to political pressure. Despite the increased political noise, the FOMC will remain data dependent. We will get the first glimpse of that "data" later this week when we see Q4 GDP results and December PCE inflation data. This week's data and next week's critical Employment Report will likely set the tone for rates for the remainder of the quarter.

Currently, market participants still (barely) favor two, 25 bp rate cuts in 2025, although current pricing reflects ~1.5 rate cuts for the year, so traders and investors are by no means convinced. Fed Funds futures imply a year-end 2025 overnight rate of 3.86%. Market participants see the next rate cut at the June or July FOMC meeting, although they only give that a 50/50 chance currently. There is also *some* speculation that Powell may signal today that a rate cut in March (or perhaps, May) is on the table. I think that may be too optimistic – we will hear what the Fed thinks this afternoon.

CHART 3: ***FOMC Rate Cut Expectations – Market Favors Two Rate Cuts For 2025***



Source: Bloomberg, LLP | FOMC Rate Cut Expectations Through December 2025 – Various Sources

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