

Flash Update: US RATE MARKETS – FRIDAY OCTOBER 17, 2025

- US Treasury yields and SOFR swap rates ticked slightly higher this morning as market sentiment improved
- President Trump has moved to calm fears of a trade war with China, further calming jittery markets
- President Trump told reporters that current tariffs on China were “not sustainable” and confirmed he would meet with Xi Jinping in South Korea in the coming weeks
- Yesterday, rates dropped *quickly and unexpectedly*, as the market mood suddenly soured and a “risk-off” sentiment gripped traders
- Disappointing Regional Bank earnings reports and renewed geopolitical tensions were the primary catalysts for lower rates yesterday
- The US government shutdown continues, and there is no ETA for a resolution
- *Due to the shutdown, September Housing Starts and Import/Export Price Index data will not be released today*
- Non-government, private-sector economic data will continue to be released during the shutdown
- Short-end SOFR swap rates are trading up ~2-3 bps this morning, depending on tenor
- Long-end SOFR swap rates are currently trading up ~1-3 bps, depending on tenor
- SOFR swap rates are currently sitting at YTD lows
- Next up for key data: *TBD*
- Fed officials will be in the pre-meeting “quiet-period” from October 18 – October 30
- The next FOMC rate decision is due on Wednesday, October 29th at 2:00 PM

SOFR swap rates and US Treasury yields ticked a touch higher this morning. Yesterday, disappointing regional bank earnings reports and growing fears of a trade war with China quickly and unexpectedly turned the market mood sour. The ensuing “risk-off”, flight-to-quality trading pushed swap rates lower. At one point, two-year SOFR swap rates were down almost 10 basis points, but wound up down ~8 basis points on the day. As a result, short-term swap rates are currently sitting at YTD lows.

Market sentiment recovered somewhat overnight – President Trump hit the tape to calm fears of an imminent trade war with China and the regional bank earnings “surprise” seems to be isolated to two banks that were the victims of fraud. That said, market participants will continue to be on edge as they monitor US trade negotiations and regional bank earnings reports. Most importantly, we need the government shutdown to end and the data flow to begin!

Rates could continue to drift higher today if traders reallocate assets to equities from Treasuries. However, rates could also trade in a narrow range, or drift lower, if traders remain cautious and stay on the sidelines heading into the weekend. The lack of economic data makes it a tough market for traders to navigate.

SOFR Swap Rate Summary: The **1Y** SOFR swap rate is trading up ~2-3 bps this morning. **2Y** and **3Y** SOFR swap rates are up ~2-3 bps this morning. **5Y** and **10Y** SOFR swap rates are currently trading up ~2-3 bps. The very back-end of the swap curve is currently trading up ~1-2 bps.

Please note: Market levels can change quickly - potentially, very quickly - in this type of market environment.

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

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

UST YIELDS | SWAP SPREADS | SOFR SWAP RATES

2Y	3.449 +0.025	-23.5515 +0.2029	3.2151 +0.0286
3Y	3.455 +0.028	-28.0329 +0.2671	3.1760 +0.0310
4Y	3.519 +0.029	-32.2245 +0.2755	3.1951 +0.0315
5Y	3.576 +0.029	-34.1143 +0.1357	3.2367 +0.0311
7Y	3.766 +0.028	-41.4600 +0.0028	3.3535 +0.0277
10Y	3.997 +0.023	-46.6250 -0.1250	3.5326 +0.0227
20Y	4.568 +0.017	-70.3900 -0.0610	3.8665 +0.0167
30Y	4.598 +0.014	-75.2597 -0.0097	3.8460 +0.0139

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

CHART 2 & 2A: SOFR SWAP RATES DRIFT HIGHER AS MARKET JITTERS EASE

SOFR swap rates are inching higher this morning after a material drop in rates yesterday, prompted primarily by disappointing regional bank earnings reports. Growing fears of a trade war with China also contributed to the sudden drop in rates yesterday. This week swap rates bounced around - overall rates slid lower for the week. The market is still dealing with the shutdown and the resulting scarcity of economic data. The 2-year SOFR swap rate began the week at ~3.271% - it is now trading at ~3.215%. 10-year SOFR swap rates started the week at ~3.552% and are presently trading at ~3.533%.

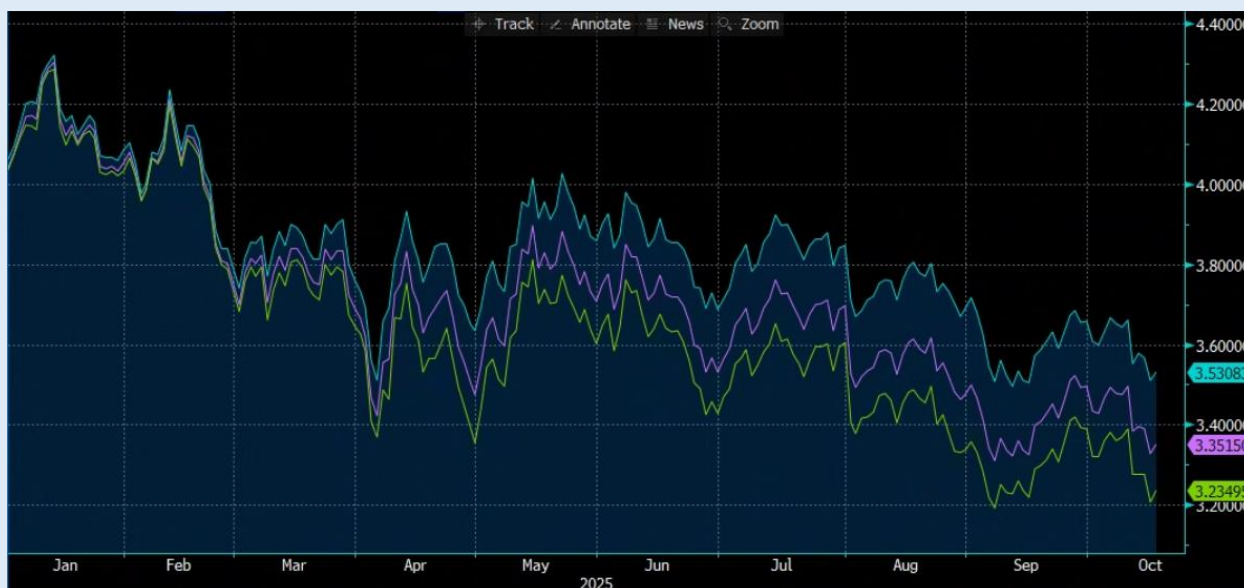
The most important news I wanted to share this morning is that, despite the slight uptick in rates this morning, SOFR swap rates are sitting at year-to-date lows. (See Chart 2 & Chart 2A)

CHART 2: Short-End SOFR Swap Rates – Year-To-Date 2025



Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES, YTD 2025

CHART 2A: Long-End SOFR Swap Rates – Year-To-Date 2025



Source: Bloomberg, LLP | 5Y (green), 7Y (purple) & 10Y (light blue) SOFR SWAP RATES, YTD 2025

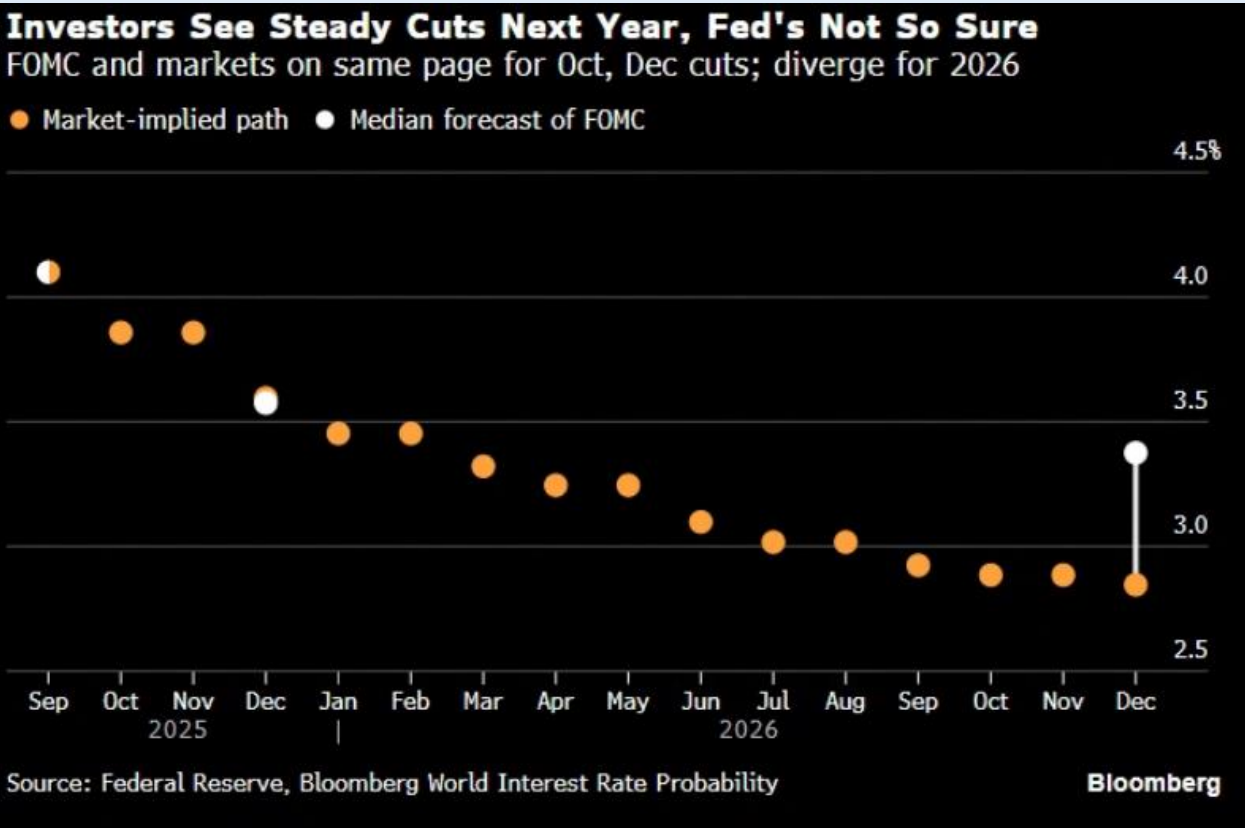
CHART 3 & 3A: FED SET TO CUT RATES 25 BPS AT OCTOBER MEETING; WHISPERS OF A 50 BP CUT IN DECEMBER GROW LOUDER

Currently, forward market pricing implies **~52.8 bps** of cumulative rate cuts for 2025. That number was ~48.2 bps on Tuesday morning. The fact that the implied number is now over 50 signals traders are beginning to flirt with the possibility of a 50 bp cut in December. Traders are being cautious in the absence of economic data, but there is a growing feeling the Fed may be tempted to cut rates 50 bps in December due to a weakening labor market. Right now, the odds for a 50 bp cut in December are negligible, but once the djinn is out of the bottle, it can take on a life of its own. We will see how this tracks over the next week or so.

Odds for a 25 bp rate cut in October have increased to ~99.1%. The odds for a 25 bp rate cut in December are currently ~90.4%, and the odds for a 50 bp cut in December have increased slightly to ~9.5%. Cumulative rate cut pricing implies the market remains confident the Fed will cut rates 25 bps in October *and* December. As mentioned, forward pricing and market chatter are once again hinting that the Fed *may* be prompted to cut rates 50 bps in December.

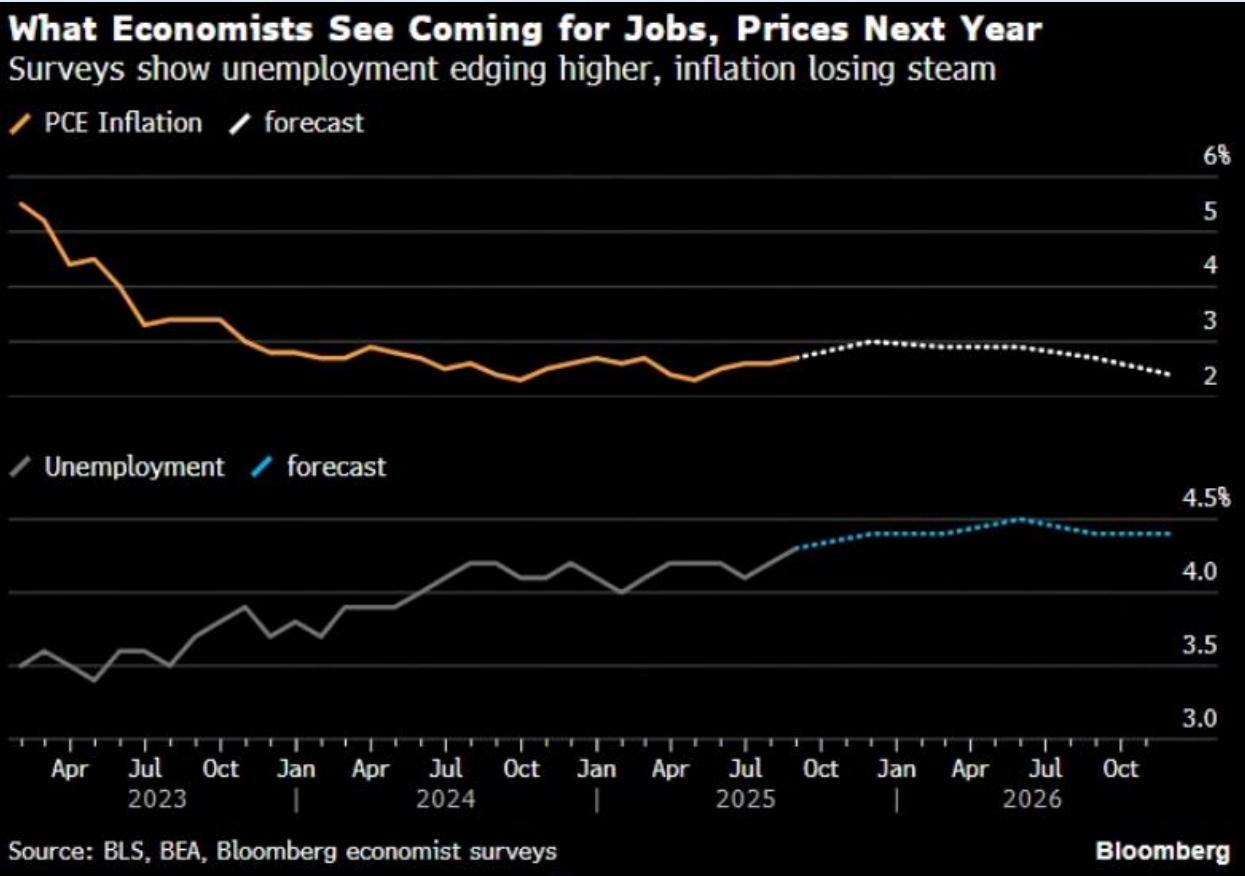
Economists see job growth weakening next year, but inflation remaining relatively subdued. That would be an ideal recipe for additional rate cuts. Currently, economists' expectations for 2026 rate cuts are a bit more aggressive than the Fed's most recent forecast. Bottom line, the central bank is ready to cut interest rates again this month, because right now a weakening job market outweighs inflation fears. That balance may not hold for very long.

CHART 3: Economists/Market See Sustained Rate Cuts Next Year...Will The Fed Agree?



Source: Bloomberg, LLP | FOMC VS. MARKET FED RATE CUT EXPECTATIONS THROUGH 2026

CHART 3A: Bloomberg Economist Survey: Data Will Support Additional Rate Cuts Next Year



Source: Bloomberg, LLP | BLOOMBERG ECONOMISTS' 2026 FORECASTS FOR EMPLOYMENT & PCE INFLATION

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