Flash Update: US RATE MARKETS – THURSDAY OCTOBER 23, 2025

- **US Treasury yields and SOFR swap rates are drifting higher this morning, but remain range bound as the market awaits economic data**
- **Last night, President Trump imposed sanctions against Russia's biggest oil producers**
- **The announcement of the sanctions led to a spike in crude oil prices and sparked renewed global inflation concerns, hence the uptick in rates**
- **The US government shutdown enters Day 23; There is currently no ETA for a resolution, though negotiations are ongoing**
- **The present government shutdown is now the second longest shutdown in US history, deepening market concerns**
- **The longest government shutdown, 35 days, occurred in 2019**
- **Short-end SOFR swap rates are trading up ~1-2 bps this morning, depending on tenor**
- **Long-end SOFR swap rates are currently trading to up ~2-4 bps, depending on tenor**
- **Next up for key data: _September CPI will be released tomorrow, October 24 at 8:30 AM_**
- **The September CPI data was originally scheduled for release on October 15th**
- **This CPI release is good news for the FOMC, enabling them to get a fresh look at consumer inflation prior to the meeting next week**
- **Fed officials will remain 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 higher this morning due to President Trump's announcement that the US is imposing sanctions against Russia's biggest oil producers. The announcement led to a spike in crude oil prices and renewed fears that tariffs and/or sanctions will create higher inflation. As a result, bond and swap rates ticked higher overnight and remain slightly above last night's closing levels. This is a developing situation, so it is unclear how much of an impact these sanctions will ultimately have on rates. At the moment, the market is laser focused on tomorrow's CPI release and next week's Fed rate decision.

For the week, SOFR swap rates have held mostly steady. Yes, there are *many* market "wildcards" in play at the moment, but there is a strong consensus among traders, market participants, investors and economists that the Fed is going to cut rates 25 bps *two* more times this year.

Market participants are likely to continue to be on edge this week as they monitor geopolitics, US trade negotiations, corporate earnings reports and the ongoing US government shutdown. *Most importantly, we need the government shutdown to end and the data flow to begin.*

There is *some* good news in terms of economic data. The BLS will release September's CPI results tomorrow at 8:30 AM after a delay due to the government shutdown. The data, originally slated for 10/15/25, will give Fed officials a key reading on inflation ahead of their policy meeting next week. Needless to say, *everyone* is waiting for the inflation data!

SOFR Swap Rate Summary: The **1Y** SOFR swap rate is trading up ~1-2 bps this morning. **2Y** and **3Y** SOFR swap rates are up ~1-2 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 ~2-4 bps. The yield curve steepened slightly.

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

CHART 1: _US RATES SNAPSHOT: 10:00 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

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2Y	3.465	+0.020	-23.3530	-0.2927	3.2339	+0.0190
3Y	3.469	+0.026	-27.6991	-0.3041	3.1936	+0.0221
4Y	3.530	+0.026	-31.3500	-0.2250	3.2136	+0.0248
5Y	3.583	+0.030	-32.8750	-0.2500	3.2546	+0.0265
7Y	3.764	+0.033	-39.8716	-0.2676	3.3658	+0.0288
10Y	3.982	+0.032	-44.5000	-0.1250	3.5385	+0.0307
20Y	4.540	+0.036	-67.7770	-0.2224	3.8620	+0.0317
30Y	4.565	+0.034	-72.8750	-0.2201	3.8381	+0.0323

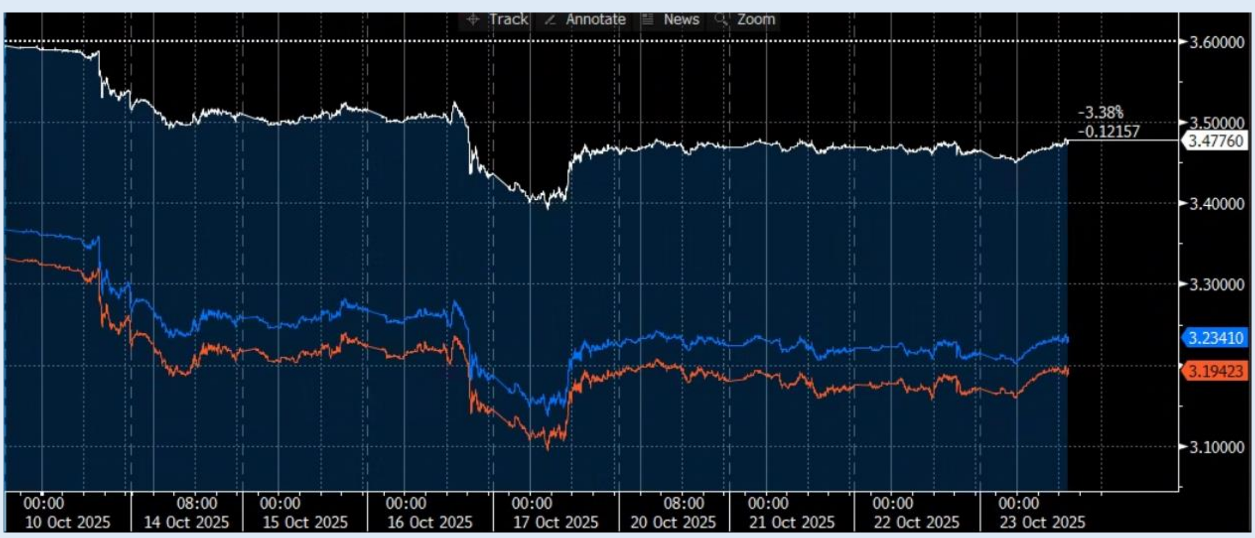
Source: Bloomberg, LLP | 10:00 AM NY Rates Snapshot

CHART 2 & 2A: SOFR SWAP RATES TICK HIGHER AS MARKET ASSESSES "RUSSIA SANCTIONS" AND PREPARES FOR SEPTEMBER CPI DATA RELEASE

SOFR swap rates moved a touch higher this morning, as traders assess the sanctions against Russia, monitor the shutdown and prepare for the CPI release. Traders have been mostly flying blind on the economic data front, so the release of the CPI data is welcome news! Despite the slight uptick in rates this morning, swap rates have held mostly steady this week. The 2y SOFR swap rate opened the week at 3.224% and is currently trading at ~3.234%.

Odds for a 25 bp rate cut in October are sitting at ~98.9%. The odds for a 25 bp rate cut in December are currently ~93.4%, down *slightly* from yesterday. The odds for a 50 bp cut in December have ticked-up to 6.6%. Current cumulative rate cut pricing implies the market remains confident the Fed will cut rates 25 bps in October *and* December. Currently, forward market pricing implies **~47.7 bps** of cumulative rate cuts for 2025. That number was ~48.9 bps at yesterday's close.

CHART 2: ***Short-End SOFR Swap Rates (1Y, 2Y, 3Y) – Prior 10 Days***



Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES, PRIOR 10 DAYS

CHART 2A: ***Long-End SOFR Swap Rates (5Y, 7Y, 10Y) – Prior 10 Days***

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

<u>CHART 3 & 3A:</u> SEPTEMBER CPI PREVIEW

Market participants are anxiously awaiting tomorrow's CPI data release. September CPI is the first key economic data release since the government shutdown began. Traders are relieved they will be able to see the consumer inflation data prior to next week's Fed rate decision. The data will also help the FOMC make a more informed decision next week.

The expectations for tomorrow's CPI release are detailed below. Both headline and core CPI are anticipated to rise above 3.00%. Normally, the Fed would be very concerned that inflation was trending in the wrong direction. However, I think the Fed's most pressing concern is centered on labor market weakness, so I don't see tomorrow's number having any material impact on next week's Fed rate decision – they are going to cut rates 25 bps.

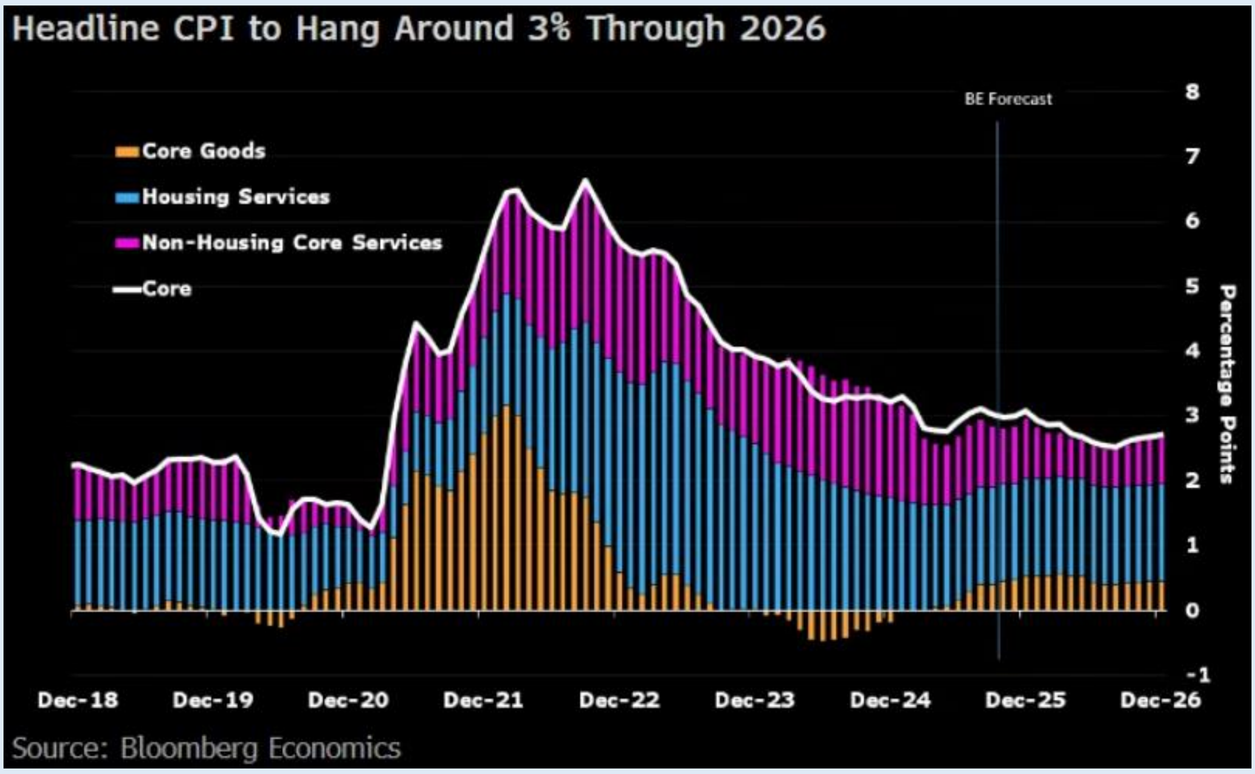
The risk is that we see a "surprise" CPI result tomorrow. A much higher-than-expected CPI print could cast doubts on forward (2026) rate cuts, and swap rates could tick higher. A dramatically lower-than-expected CPI result could reignite talk of a 50 bp rate cut in December and swap rates, particularly on the short-end of the curve, would likely drop as rate cut bets increase.

<u>CHART 3:</u> *Market Expectations For September CPI*

CPI MoM	Sep	0.4%
Core CPI MoM	Sep	0.3%
CPI YoY	Sep	3.1%
Core CPI YoY	Sep	3.1%

Source: Bloomberg, LLP | SEPTEMBER CPI EXPECTATIONS AND PRIOR MONTH'S RESULTS

<u>CHART 3A:</u> *Headline CPI Anticipated To Hold Near 3.0% During 2026*



Source: Bloomberg, LLP | BLOOMBERG ECONOMISTS' HEADLINE CPI EXPECTATIONS FOR 2026

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