

Flash Update: US Rate Markets – Friday 11/1/2024

- SOFR swap rates move lower on weaker-than-expected jobs data
- The October Employment Report showed non-farm payrolls increased by 12k vs. 115k expected
- Short-end SOFR swap rates are down ~4-6 bps this morning
- The presidential election will take center stage for the rate markets as we approach election day
- Note: Due to election day, the FOMC rate decision is announced Thursday, 11/7 at 2:00 PM
- *Expect choppy rate markets and pockets of intraday rate volatility to continue for the near term*

US Treasury yields and SOFR swap rates moved lower this morning after the October Employment Report came in significantly weaker-than-expected. The soft jobs data also calmed fears that the Fed would hold off on a rate cut next week. Traders are currently avoiding the temptation to “overreact” to the jobs data – the report released this morning did highlight a significant “hurricane and strike” impact on the numbers. The jobs data we saw this morning could easily be revised next month. Let’s also not forget that the majority of key economic data we saw in October was *significantly* stronger than expected. Yes, it is likely the Fed cuts rates 25 bps next week, but I also think it is still a real possibility that the Fed signals a shift to a “slower to lower” bias. Forward pricing also shifted this morning to reflect a greater likelihood of a rate cut at the *December* FOMC meeting - traders had been contemplating a possible “pause” in rate cuts in December.

Fed-sensitive short-end SOFR swap rates (1-3 years) are currently down ~4-6 bps this morning. For the week, short-end SOFR swaps rates are down ~1 bp. Rates simply moved toward the bottom of the recent trading range on the soft jobs data. Market participants seem reluctant to significantly move rates ahead of the next week’s election and FOMC meeting. ***SOFR Swap rates are likely to continue to bounce around today as the market digests the data.***

Forward pricing shifted slightly this morning to reflect a greater likelihood of forward rate cuts. The forward curve currently reflects ~24.9 bps of rate cuts for November and ~48.8 bps for 2024, indicating that traders believe it is a virtual certainty that the FOMC will cut rates 25 bps next week. The hotly contested presidential election will now take center stage for the rate markets. *I expect the choppy rate markets to continue next week as market participants work through the uncertainty surrounding the election and the FOMC’s path forward for rates.*

CHART 1: US RATES SNAPSHOT: 10:00 AM Eastern

UST YIELDS			SWAP SPREADS		SOFR SWAP RATES	
GV	Ask/Chg		SOFR/GV		SOFR OIS	
2Y	4.106	-0.064	-22.4948	+0.1595	3.8837	-0.0621
3Y	4.076	-0.057	-27.8406	-0.5888	3.8001	-0.0623
4Y	4.112	-0.054	-33.6250	-0.5030	3.7561	-0.0605
5Y	4.107	-0.051	-37.2500	-0.5000	3.7360	-0.0549
7Y	4.185	-0.040	-45.8000	-0.3037	3.7285	-0.0420
10Y	4.259	-0.027	-51.3000	-0.3000	3.7470	-0.0282
20Y	4.568	-0.022	-78.6300	+0.1504	3.7835	-0.0187
30Y	4.461	-0.013	-83.7485	-0.2349	3.6245	-0.0161

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

Note: First column is the current market level, second column is the change on the day; ‘Red’ = Lower; ‘Green’ = Higher; ‘White’ denotes active trading

CHART 2: October Employment Report Recap

The October Employment Report came in weaker-than-expected this morning, and the prior two months results were revised lower, a sign the US jobs market continues to soften. However, the October employment data was distorted by severe hurricanes and a major strike, making it difficult to draw any firm conclusions on the jobs market. Non-farm payrolls increased by only 12,000 last month vs. 100k expected. The non-farm payrolls data for September and August were also revised lower. The unemployment rate held at 4.1% and hourly earnings remained firm at +0.4% (vs. +0.3% expected).

Government officials said the hurricanes likely affected payrolls in some industries, but said it is not possible to quantify the “net effect” on the monthly change in national employment, hours or earnings estimates. They also noted the collection rate for the survey of businesses that informs those statistics was “well below average.” Officials also said there was no discernible effect on the national unemployment rate. I would anticipate that the October numbers will be revised once the full range of data can be collected and analyzed.

CHART 2: October Employment Report Recap

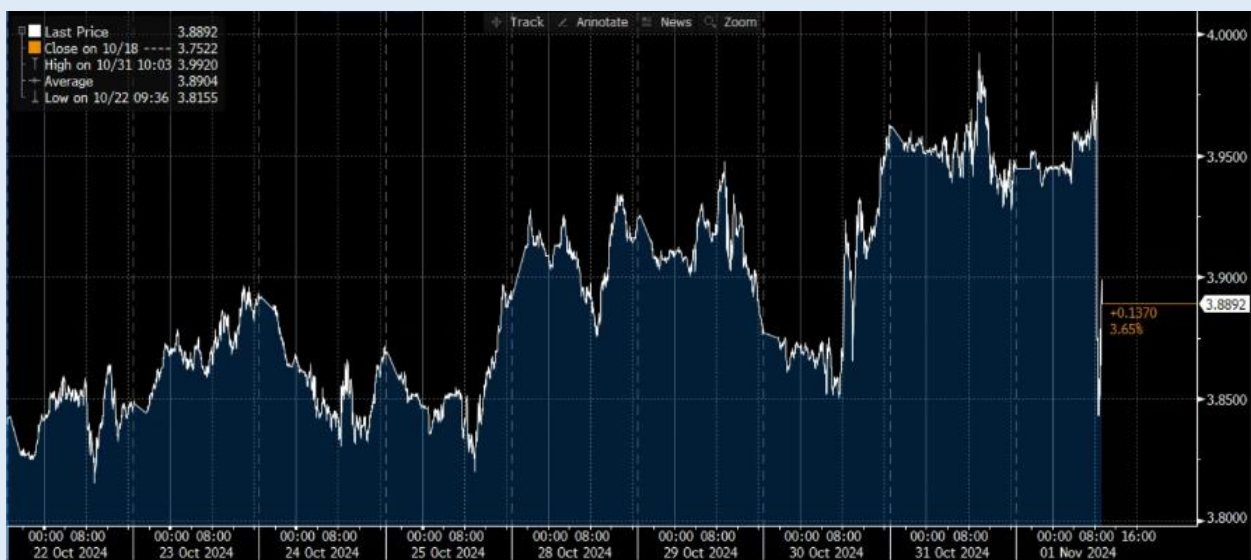
Metric	Actual	Estimate
Change in payrolls (MoM)	+12,000	+100,000
Unemployment rate	4.1%	4.1%
Average hourly earnings (MoM)	+0.4%	+0.3%

Source: Bloomberg, LLP | OCTOBER EMPLOYMENT REPORT RECAP

CHART 3: Rates Move Lower On Weak Jobs Report

SOFR swap rates moved lower this morning on the “weak” October jobs report. Initially, swaps rates gapped down 10 basis points but quickly stabilized and have settled in ~4-6 bps lower. Market participants are being careful not to overreact to the weaker-than-anticipated jobs data this morning. Traders are also looking ahead to next week’s hotly contested election – it is definitely a wildcard for the market that could have a significant impact on the rate markets. Despite the soft jobs data released this morning, the broad range of strong economic data we saw in October calls into question just how far the Fed will need to go on rate cuts. The slight uptick in inflation also supports pumping the brakes on rate cuts, or at least slowing the pace. *Bottom line: From my perspective, there is a real risk the market will need to recalibrate their rate cut expectations very quickly if it turns out the economy needs far less support than they previously thought.*

CHART 3: 2Y SOFR SWAP RATES PRIOR (10) TRADING SESSIONS



Source: Bloomberg, LLP | 2Y SOFR SWAP RATES PRIOR (10) TRADING SESSIONS



Disclaimer: *The information provided in this communication is intended for discussion purposes only. Nothing presented in this communication should be taken as a recommendation or forecast. All market data shown is indicative only and subject to change depending on current market conditions.*

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