

Flash Update: US Rate Markets – Wednesday 11/13/2024

- **October CPI prints “as expected”; Rates drop in response**
- **Although the inflation data is encouraging, prices remain “sticky”**
- **Fed-sensitive short-end SOFR swap rates are currently trading down ~5-6 bps**
- **Long-term swap rates are ~1-4 basis points lower this morning**
- **Fed-speak will be a focus for the market this week – there are a number of Fed officials scheduled to speak**
- **Chairman Powell delivers a speech on the economic outlook Friday, 11/15 at 3:00 PM**
- **Next up for data: PPI inflation data is released tomorrow at 8:30 AM & Retail Sales data is released on 11/15**
- **Expect the choppy market to continue as traders react to the election, Fed-speak and economic data**

US Treasury yields and SOFR swap rates dropped this morning after October CPI results printed “at expectations”, bolstering the case for the Federal Reserve to keep cutting interest rates. SOFR swap rates are currently down ~1-6 basis points across the curve, with the most pronounced decreases on the short-end of the curve (See Chart 1). Expect the choppy market we have seen recently to continue, as market participants react to political developments, economic data and Fed-speak.

PPI inflation data follows tomorrow at 8:30 AM, and the data for the week caps-off with Friday’s release of the October Retail Sales data. At his press conference last week, Powell reiterated that the FOMC remains data-dependent and will make monetary policy decisions on a meeting-by-meeting basis, so the economic data is a primary focus for market participants. MoM core PPI is anticipated to have increased 0.2% in October (vs. 0.0% in September). YoY Core PPI is expected to print at 3.0% (vs. 2.8% in September).

The FOMC will also have to contend with a new set of policies under President-elect Donald Trump, with companies already considering raising prices in anticipation of the higher tariffs he has promised on imported goods. After the Fed cut interest rates by a quarter point last week, Chair Jerome Powell said the election will have “no effects” on its decisions in the near term because it is too early to know the timing or substance of any potential fiscal policy changes. That is likely to change as Trump’s policies are implemented.

There is a full plate of Fed officials scheduled to speak this week, highlighted by Chairman Powell’s speech later this week on the economic outlook. Powell is scheduled to speak on Friday, 11/15 at 3:00 PM (See Chart 4). Given that Powell’s speech occurs late in the trading day, we may see may not see the full market reaction until Monday morning.

Prepare for a bumpy ride going forward – there are myriad forces impacting the rate markets, which are likely to keep rate volatility at elevated levels.

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

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.269	-0.071	-20.3690	+0.6824	4.0668	-0.0662
3Y	4.234	-0.067	-24.7319	+0.8301	3.9880	-0.0586
4Y	4.273	-0.057	-31.3525	+0.2725	3.9354	-0.0566
5Y	4.262	-0.052	-35.7520	-0.2520	3.9050	-0.0530
7Y	4.332	-0.045	-44.8545	+0.0709	3.8863	-0.0421
10Y	4.396	-0.032	-50.2500	+0.1346	3.8943	-0.0299
20Y	4.671	-0.018	-75.8500	+0.3701	3.9135	-0.0137
30Y	4.558	-0.009	-81.2500	+0.2500	3.7456	-0.0074

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 & 2A: OCTOBER CPI RECAP

October CPI printed at expectations this morning but showed inflation remained firm, underscoring the ongoing risks Fed officials face in trying to bring price pressures fully under control. Core CPI (which excludes food and energy costs) increased 0.3% for a third straight month and 3.3% from a year ago. Headline CPI rose 0.2% for a fourth consecutive month and 2.6% from a year before, marking the first acceleration on an annual basis since March.

The CPI data underscores the slow and frustrating nature of the battle against inflation. Recently, inflation has often moved sideways, sometimes for months at a time, on its broader path down. The latest inflation figures, along with resilient consumer spending and economic growth, will keep Fed officials cautious as they debate how quickly to reduce borrowing costs in the months to come.

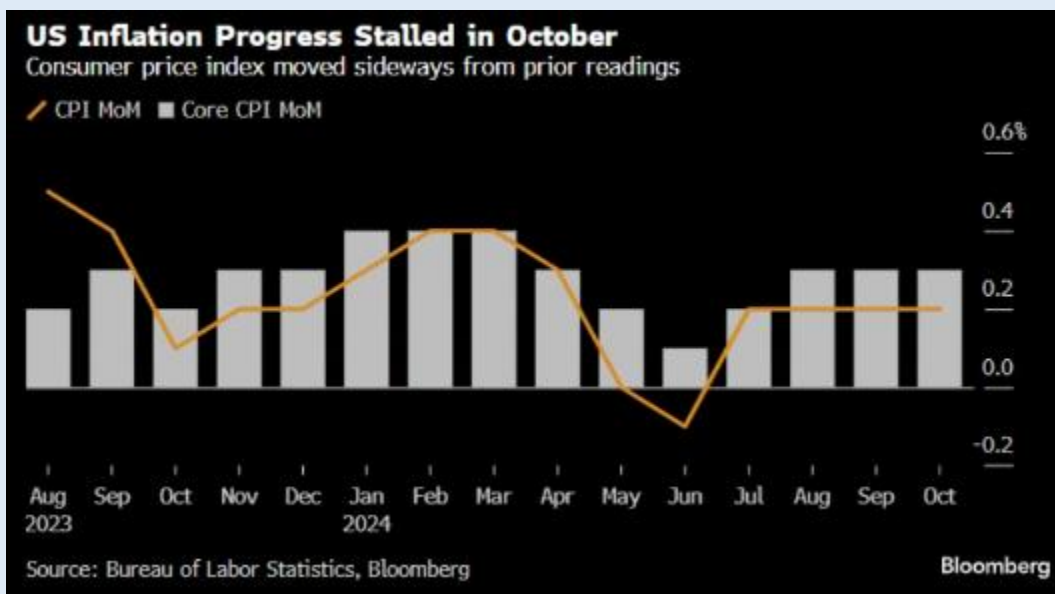
The rate move today may be a bit of an overreaction by the market – we will see PPI inflation data tomorrow and Retail Sales results on Friday. *From my perspective, the market may be viewing this morning's CPI results more favorably than the FOMC will.*

CHART 2: October CPI Recap – Data Prints “As Expected”

Metric	Actual	Estimate
CPI MoM	+0.2%	+0.2%
Core CPI MoM	+0.3%	+0.3%
CPI YoY	+2.6%	+2.6%
Core CPI YoY	+3.3%	+3.3%

Source: Bloomberg, LLP | OCTOBER CPI RECAP

CHART 2A: Historical CPI Data – Inflation Remains “Sticky”



Source: Bloomberg, LLP | HISTORICAL CPI DATA SINCE AUGUST 2023

CHART 3: SOFR SWAP MARKET REACTION TO OCTOBER CPI DATA

SOFR swap rates dipped lower this morning after October CPI met expectations (see graph below, far right). Traders viewed the static inflation data as a positive for future Fed rate cuts. Odds for a 25 bp rate cut in December ticked up to just over 72% this morning. (Odds for a 25 bp cut in December were

hovering around 55% yesterday). Short-end SOFR swap rates were the most impacted this morning – Fed-sensitive 2Y SOFR swaps are down ~6.6 bps currently. The drop in rates this morning feels more like a sigh of relief from the market, rather than a desire to take rates materially lower and carve out a new range. Expect swap rates to remain volatile as the market sorts through the rest of the data we see this week, digests Fed-speak and prepares for the new administration.

CHART 3: 1Y (white), 2Y (blue) & 3Y (orange) SOFR Swap Rates, Prior (5) Trading Sessions



Source: Bloomberg, LLP | 1Y, 2Y & 3Y SOFR SWAP RATES, PRIOR (5) TRADING SESSIONS

CHART 4: Fed-Speak Ramps Up This Week...Traders Will Be Listening!

With the November meeting in the rearview mirror, Fed-speak ramps-up again with a host of Fed officials scheduled to speak this week. The broad range of Fed speakers we hear this week may potentially provide fresh insights on their monetary policy outlooks. The highlight of the week will be Chairman Powell’s speech on Friday at 3:00 PM. Powell is scheduled to speak on the economic outlook, so market participants will be listening carefully to his comments. As we have seen in recent months, Fed-speak has the potential to create elevated volatility as traders react to the information.

CHART 4: Schedule of Fed Speakers Through November 21, 2024

Date	Time	A	M	R	Event
11/13	08:30				Fed's Kashkari Appears on Bloomberg Television
11/13	09:30				Fed's Williams Gives Welcome Remarks
11/13	09:45				Fed's Logan Gives Opening Remarks at Energy Conference
11/13	13:00				Fed's Musalem Speaks on Economy, Monetary Policy
11/13	13:30				Fed's Schmid Gives Keynote Remarks at Energy Conference
11/14	07:00				Fed's Kugler Speaks on Economic Outlook
11/14	09:00				Fed's Barkin Discusses Economy in Fireside Chat
11/14	15:00				Powell Speaks on Economic Outlook in Dallas
11/14	16:45				Fed's Williams Speaks at NYFed Event
11/15	09:00				Fed's Collins Gives Opening Remarks
11/15	13:15				Fed's Williams Gives Opening Remarks
11/18	10:00				Fed's Goolsbee Gives Welcome Remarks
11/21	08:45				Fed's Hammack Gives Welcome Remarks
11/21	12:25				Fed's Goolsbee Participates in Moderated Q&A
11/21	12:30				Fed's Hammack Moderates Conversation

Source: Bloomberg, LLP | SCHEDULE OF FED SPEAKERS THROUGH 11/21/2024

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