

Flash Update: US Rate Markets – Thursday 11/14/2024

- **October PPI prints hotter-than-expected; Market ignores data, rates edge lower**
- **YoY core PPI increases to 3.1% (vs. 3.0% expectations and a 2.8% reading in September)**
- **The October PPI data underscores the slow and frustrating nature of the battle against inflation**
- **US initial jobless claims fell to lowest level since May, suggesting a healthy demand for workers**
- **Fed-sensitive short-end SOFR swaps are currently trading ~2 bps lower**
- **Long-term swap rates are ~2-4 basis point lower this morning**
- **FOMC Chairman Powell’s speech on the economic outlook is today at 3:00 PM**
- **Next up for data: October Retail Sales data is released tomorrow, 11/15 at 8:30 AM**
- **Expect the choppy rate markets to continue as traders react to the election, Fed-speak and economic data**

US Treasury yields and SOFR swap rates edged lower this morning as traders largely ignored a hotter-than-expected October PPI print. The stronger-than-expected PPI data underscored the slow and frustrating nature of the battle against inflation. Weekly initial jobless claims fell to the lowest level since May, suggesting there is a healthy demand for workers.

The market’s reaction to PPI and the jobless claims data surprised me, but highlights the uncertainty that currently exists in the rate markets regarding the path forward for interest rates. An uptick in inflation and a resilient jobs market may influence the Fed to pause rate cuts at the December meeting – that typically leads to higher rates, particularly on the short-end of the curve. However, the market’s reaction this morning supports the opposite view. Clearly, the FOMC has a difficult task ahead, as they seek to balance the risks of cutting rates too quickly versus too slowly. SOFR swap rates are currently down ~2-4 basis points across the curve (See Chart 1). Expect the choppy rate markets we have seen recently to continue, as market participants react to political developments, economic data and Fed-speak.

The data releases for the week cap-off with October Retail Sales, due tomorrow at 8:30 AM. The October Retail Sales data is anticipated to have increased 0.3% in October (vs. 0.4% in September). The US consumer has been the engine driving a resilient economy for some time. Continued consumer strength will be essential to maintaining economic growth.

There is a full plate of Fed officials scheduled to speak this week, *highlighted by Chairman Powell’s speech this afternoon on the economic outlook. Powell is scheduled to speak today at 3:00 PM.* The market will be listening! 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	4.259	-0.027	-20.9000	+0.3699	4.0512	-0.0243
3Y	4.237	-0.031	-25.4400	+0.6150	3.9850	-0.0237
4Y	4.283	-0.028	-31.6500	+0.5375	3.9448	-0.0217
5Y	4.284	-0.023	-36.1500	+0.2236	3.9224	-0.0212
7Y	4.356	-0.027	-45.0000	+0.4650	3.9071	-0.0226
10Y	4.420	-0.032	-50.5378	+0.5872	3.9155	-0.0254
20Y	4.689	-0.043	-75.6930	+0.8470	3.9334	-0.0351
30Y	4.588	-0.047	-82.4206	+0.8675	3.7645	-0.0398

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 PPI RECAP – Market Ignores Hot PPI Print

The headline producer price index increased 0.2% from a month earlier and rose 2.4% compared with a year ago. Core PPI, which excludes volatile food and energy categories, climbed 0.3% month-over-month and 3.1% from a year ago.

The wholesale inflation data follows yesterday’s release of the more closely watched consumer price index (CPI), which showed that underlying inflation remained stubborn for a third consecutive month. While price pressures have largely abated this year, a lack of headway more recently suggests Fed policymakers may slow the tempo of interest rate cuts. Market participants will now look ahead to the release of the Fed’s “preferred” inflation gauge, PCE. There are components of PPI that feed into PCE, so this morning’s hot inflation reading does portend an uptick in PCE. A higher PCE reading would give the Fed a compelling reason to skip a December rate cut. October PCE data is released on 11/27 at 8:30 AM.

CHART 2: October PPI Recap – PPI Prints “Hotter-Than-Expected”

Metric	Actual	Estimate
PPI MoM	+0.2%	+0.2%
Core PPI MoM	+0.3%	+0.2%
PPI YoY	+2.4%	+2.3%
Core PPI YoY	+3.1%	+3.0%

Source: Bloomberg, LLP | OCTOBER PPI RECAP

CHART 2A: Historical PPI Data – Uptick In PPI Portends Higher PCE



Source: Bloomberg, LLP | HISTORICAL PPI DATA SINCE 2020

CHART 3: TRADERS IGNORE PPI DATA; MARKET PARTICIPANTS SEEK DIRECTION; RATES DRIFT LOWER

SOFR swap rates dipped lower this morning as market participants largely ignored a hotter-than-expected PPI print. Rates initially popped higher on the PPI release, but quickly reversed and drifted lower. Big picture, the rate move this morning is nothing dramatic. It may have more to do with asset reallocations than with the economic data. It is possible that market participants are parking assets in US Treasuries ahead of Chairman Powell’s speech this afternoon at 3:00 PM. We may see elevated volatility this afternoon when Powell is speaking. It is also possible Powell sticks to the same script he used at his press conference last week and does not provide the market with any fresh perspective. That result would likely add to market uncertainty and lead to pockets of elevated rate volatility.

CHART 3: 1Y (white), 2Y (blue) & 3Y (orange) SOFR Swap Rates, Prior (30) Days



Source: Bloomberg, LLP | 1Y, 2Y & 3Y SOFR SWAP RATES, PRIOR (30) DAYS

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