

**Flash Update: US Rate Markets – Tuesday 12/10/2024**

- Rates tick higher, but remain range bound ahead of the CPI inflation data due tomorrow
- Last week’s employment report increased the odds that the Fed will proceed with a 25 bp rate cut at the December meeting
- Odds for a 25 bp rate cut at the December meeting are currently sitting at ~86%
- Next up for data: November CPI inflation data is set for release tomorrow, 12/11 at 8:30 AM
- PPI inflation data is due for release Thursday, 12/12 at 8:30 AM
- With inflation back in focus, traders will be paying close attention to the CPI results
- Next FOMC rate decision is due Wednesday 12/18 at 2:00 PM
- Fed-sensitive short-end SOFR swaps are currently trading ~1-2 bps higher this morning
- Long-term SOFR swap rates are ~1-3 basis points higher currently

US Treasury yields and SOFR swap rates drifted higher this morning as market participants await key inflation data ahead of next week’s FOMC meeting. Despite the slight uptick in rates this morning, SOFR swap rates remain range bound as traders await a fresh market catalyst (See Chart 2). 2Y SOFR swap rates have been trading in a 3.95% - 4.00% range since early *last* week. The November CPI report is due tomorrow, 12/11 at 8:30 AM (See Chart 3). Although traders will be looking for any sign that progress has stalled on the inflation front, I think it would take a really “bad” CPI number to significantly alter the rate cut outlook for December. Ideally, traders want to see a CPI number at or below expectations, which would reinforce current expectations for a 25 bp rate cut next week. At the moment, odds for a 25 basis point rate cut at the December meeting are sitting at ~86%, the highest they have been in over a month. *Traders are expecting a rate cut next at next week’s FOMC meeting.* Currently, SOFR swap rates are trading ~1-3 basis points higher than last night’s closing levels (See Chart 1).

Market participants are also closely monitoring the growing list of factors that have the potential to impact rates, and that is likely to continue through year-end. President-elect Trump’s policy initiatives are at the top of that list. The market did get some positive news yesterday – President-elect Trump said that he would not seek to oust FOMC Chairman Powell. The news was well received by the market. Geopolitical tensions in Ukraine, France, Syria and the broader Middle-East have also captured the market’s attention recently, and traders will continue to pay close attention to developments in those areas. It is also a major week for central banks, with the European Central Bank (ECB) expected to cut rates for the fourth time this year, amid a deteriorating economic outlook and political turmoil in France and Germany. The Swiss National Bank is also forecast to trim rates on Thursday, while Canada could do so tomorrow. (The FOMC meets next week, with the rate decision due Wednesday, 12/18 at 2:00 PM.)

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

	UST YIELDS	SWAP SPREADS	SOFR SWAP RATES
2Y	4.137 +0.012	-18.9897 -0.0997	3.9481 +0.0118
3Y	4.104 +0.016	-24.8250 +0.0605	3.8564 +0.0163
4Y	4.116 +0.017	-30.4660 -0.1260	3.7956 +0.0176
5Y	4.093 +0.019	-33.6142 -0.2392	3.7587 +0.0178
7Y	4.159 +0.024	-42.5282 -0.3689	3.7340 +0.0203
10Y	4.226 +0.025	-48.7500 -0.3750	3.7399 +0.0215
20Y	4.498 +0.035	-72.8100 -0.6875	3.7707 +0.0256
30Y	4.418 +0.031	-81.1500 -0.3808	3.6073 +0.0283

Source: Bloomberg, LLP | 9:30 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: SWAP RATES RANGE BOUND AHEAD OF KEY INFLATION DATA**

SOFR swap rates ticked slightly higher this morning as the market awaits fresh data. Overall, SOFR swap rates remain range bound as the market looks ahead to next week’s FOMC meeting. You can see from the graph below that SOFR swap rates across the curve have been trading in a ~10 basis point range for the prior 10 trading sessions. Thus far, President-elect Trump’s cabinet nominations have not really roiled the markets – traders like the nominee for Treasury Secretary and were encouraged by Trump’s straightforward comments regarding Chairman Powell. Additionally, recent economic data has come in basically “at expectations”, so no surprises for the market on that front. Barring a radical departure from expectations, tomorrow’s CPI data is not anticipated to move rates dramatically or alter the rate cut outlook for next week.

**CHART 2: 1Y (white), 2Y (gold), 3Y (orange) & 5Y (purple) SOFR Swap Rates – Prior (10) Trading Sessions**

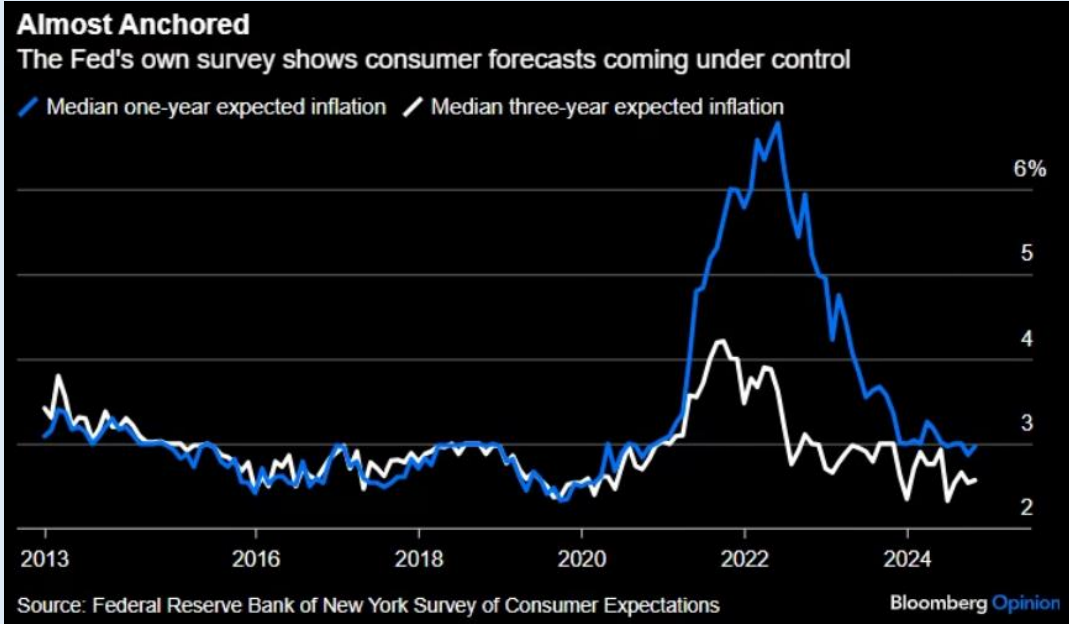


Source: Bloomberg, LLP | 1Y, 2Y, 3Y & 5Y SOFR SWAP RATES – PRIOR (10) TRADING SESSIONS

**CHART 3: CPI PREVIEW**

The November CPI data is set for release tomorrow at 8:30 AM. Headline CPI is expected to print at 0.3% MoM (vs. 0.2% last month) and 2.7% YoY (vs. 2.6% last month). Core CPI is expected to remain static – 0.3% MoM (vs. 0.3% last month) and 3.3% YoY (vs. 3.3% last month). The core CPI data is probably a bit higher than the Fed would like to see. However, projections show that inflation is *almost* anchored at current levels (at least for *now*), which would make it more likely the Fed will be able to continue to lower rates. Although inflation is not at the Fed’s target level, they seemed satisfied with the progress made to date and could likely get comfortable if inflation stabilizes slightly above 2.00%.

**CHART 3: Forward Inflation Expectations Are Stabilizing – A Positive For Rate Cuts**



Source: Bloomberg, LLP | Consumer Inflation Expectations Survey

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