

Flash Update: US Rate Markets – Wednesday 12/11/2024

- November CPI prints as expected; SOFR swap rates drift lower, particularly on the short-end of the swap curve
- Odds for a 25 bp rate cut at the December meeting have jumped to ~97.6%
- Next up: November PPI inflation data is released tomorrow, 12/12 at 8:30 AM
- November Retail Sales is set for release Tuesday, 12/17 at 8:30 AM
- FOMC rate decision is due Wednesday, 12/18 at 2:00 PM; Chairman Powell’s press conference to follow
- Fed-sensitive short-end SOFR swaps are currently trading ~2-4 bps lower this morning
- Long-term SOFR swap rates are ~1-3 basis points lower currently

US Treasury yields and SOFR swap rates drifted *slightly* lower this morning after the November CPI data printed in line with expectations. Overall, the market had a subdued reaction the consumer inflation data – traders were mostly relieved that CPI did not exceed expectations. Currently, SOFR swap rates are trading ~1-4 basis points lower than last night’s closing levels (See Chart 1). Odds for a 25 basis point rate cut next week increased on the CPI data and are currently sitting at ~97.6%, the highest they have been in over a month. *Traders are expecting a rate cut next at next week’s FOMC meeting.* The market will see additional inflation data tomorrow – November PPI is released at 8:30 AM.

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

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.103	-0.039	-19.1397	-0.2657	3.9131	-0.0436
3Y	4.059	-0.037	-23.7035	+0.9708	3.8239	-0.0384
4Y	4.078	-0.042	-29.8235	+0.5380	3.7648	-0.0354
5Y	4.063	-0.032	-33.4600	+0.1650	3.7298	-0.0322
7Y	4.130	-0.028	-42.4400	+0.2120	3.7078	-0.0256
10Y	4.209	-0.018	-49.2200	-0.0950	3.7173	-0.0189
20Y	4.487	-0.009	-73.4500	-0.2461	3.7540	-0.0112
30Y	4.415	-0.005	-82.1323	-0.3255	3.5942	-0.0078

Source: Bloomberg, LLP | 9:30 AM NY Rates Snapshot

CHART 2 & 2A: MARKET REACTION TO CPI DATA: SOFR Swap Rates Dip Lower; December Rate Cut Odds Solidify

SOFR swap rates edged slightly lower this morning (see Chart 2A), particularly on the short-end of the swap curve. The “as expected” CPI result this morning increased the odds for a rate cut at next week’s Fed meeting to 97.6%. The drop in rates this morning is primarily due to “relief” in bond and swap markets that the inflation data did not come in higher than expected. That relief is translating into a green light for rates traders to firm up their expectations for a quarter-point rate cut from the Federal Reserve this month. Market participants also added a few more basis points to their cumulative outlook for reductions into 2025. The forward curve currently implies 80 basis points of rate cuts over the next 12 months. Traders will now look ahead to tomorrow’s PPI data release and next week’s Retail Sales print. Neither are anticipated to have a significant impact on the rate cut outlook for next week – traders expect a 25 bp rate cut.

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



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

CHART 2A: Fed Rate Cut Expectations Solidify After “As Expected” CPI Print



Source: Bloomberg, LLP | FOMC RATE CUT EXPECTATIONS

CHART 3 & 3A: NOVEMBER CPI RECAP

November CPI printed “as expected” this morning, calming markets and bolstering the odds that the Fed will proceed with a 25 basis point rate reduction next week. However, US consumer prices continued to rise in November at a pace that is fueling concerns the progress toward taming inflation is stalling. Although today’s number was in line with forecasts, inflation is likely to remain a primary focus for the Fed going forward. While price pressures have subsided from a peak seen during the pandemic recovery, progress has leveled off more recently. That, along with receding concerns over the labor market, helps explain why several US central bankers have recently argued for a more gradual pace of interest-rate cuts.

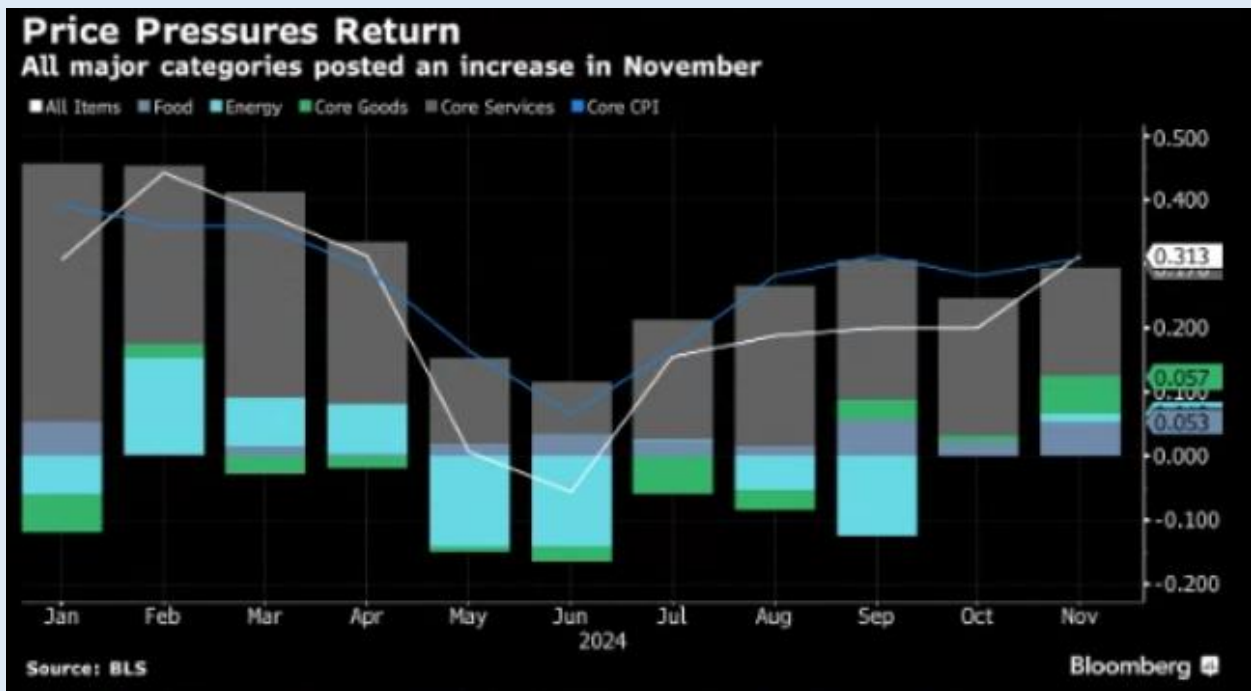
Headline CPI rose 0.3% from the prior month and 2.7% from a year before. Shelter costs accounted for nearly 40% of the overall advance. Economists have paid close attention to shelter prices, the largest category within services and one of the most persistent sources of inflation in recent years. That metric advanced 0.3% in November after a 0.4% gain in the prior month. Core CPI — which excludes more volatile food and energy costs — increased 0.3% for a fourth straight month. From a year ago, core CPI increased 3.3%.

CHART 3: November CPI Recap – CPI Prints In Line With Expectations

Metric	Actual	Estimate
CPI MoM	+0.3%	+0.3%
Core CPI MoM	+0.3%	+0.3%
CPI YoY	+2.7%	+2.7%
Core CPI YoY	+3.3%	+3.3%

Source: Bloomberg, LLP | NOVEMBER CPI RECAP

CHART 3A: Despite An “As Expected” CPI Result, Price Pressures Remain



Source: Bloomberg, LLP | YTD CPI DATA BREAKDOWN

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