

Flash Update: US Rate Markets – Monday 12/16/2024

- Rates drift lower this morning on rate cut optimism
- Odds for a 25 bp rate cut at the December meeting are sitting at ~97.2%
- Market participants are expecting a 25 bp rate cut on Wednesday
- Next up for data: November Retail Sales is set for release tomorrow, 12/17 at 8:30 AM
- FOMC December rate decision is due Wednesday, 12/18 at 2:00 PM
- Chairman Powell’s press conference will immediately follow the rate decision
- Fed-sensitive short-end SOFR swaps are currently trading ~2-3 bps lower this morning
- Long-term SOFR swap rates are ~1-2 basis points lower currently

SOFR swap rates drifted *slightly* lower this morning as traders prepare for an FOMC rate cut on Wednesday. Despite the sticky inflation data we saw last week, market participants are still full steam ahead for a 25 bp rate cut. Odds for a 25 basis point rate cut this week have increased to ~97.2%. Currently, SOFR swap rates are trading ~1-3 basis points lower than Friday’s closing levels (See Chart 1). The more important question for the market is, *what is the FOMC going to do next?* Signs of still-elevated inflation pressures and uncertainty surrounding President-elect Trump’s policy agenda will likely keep the market on edge for the foreseeable future.

Retail Sales is scheduled for release tomorrow at 8:30 AM, the final piece of key data the Fed will see prior to the rate decision on Wednesday. November Retail Sales are expected to print up 0.5% (vs. 0.4% the prior month) and Retail Sales less autos is expected to come in up 0.4% (vs. 0.1% in October). An “as expected” print would underscore the continued resilience of the US consumer – the aforementioned forecasts are “strong” numbers. Although robust Retail Sales argues *against* a rate cut, tomorrow’s Retail Sales data is not anticipated to have an impact on the Fed’s rate decision on Wednesday. Market participants expect a 25 bp rate cut this week.

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

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.226	-0.018	-19.6500	-0.5450	4.0304	-0.0251
3Y	4.199	-0.022	-23.5500	-0.3870	3.9640	-0.0273
4Y	4.231	-0.024	-29.4825	-0.2275	3.9192	-0.0248
5Y	4.227	-0.023	-33.5293	-0.0038	3.8928	-0.0229
7Y	4.303	-0.021	-42.8100	+0.2350	3.8757	-0.0207
10Y	4.377	-0.020	-49.2500	+0.1250	3.8854	-0.0186
20Y	4.670	-0.010	-75.3541	+0.1559	3.9171	-0.0104
30Y	4.595	-0.006	-83.9022	+0.0128	3.7570	-0.0062

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

CHART 2: SOFR SWAP RATES – PRIOR (30) DAYS – Swap Rates Remain Range Bound, But That Could Change This Week

Despite periods of elevated intraday volatility, SOFR swap SOFR swap rates have trades in a relatively narrow range (~8-10 bps) over the prior 30 days. SOFR swap rates drifted lower over the past 30 days in anticipation of a December rate cut. Despite the strong economic data and sticky inflation figures released during the past month, the market is convinced the Fed will cut rates on Wednesday. The more important question is, what is next for the FOMC? Market participants will be paying *very* close attention to Powell’s post-meeting press conference. We will also see a new Fed “dot-plot” and economic projections, so there will be plenty of new information for the market to digest. We may see elevated levels of rate volatility later this week.

CHART 2: 1Y (white), 2Y (blue), 3Y (orange) & 5Y (purple) SOFR Swap Rates – Prior (30) Days



Source: Bloomberg, LLP | 1Y, 2Y, 3Y & 5Y SOFR SWAP RATES – PRIOR (30) DAYS

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