

Flash Update: US Rate Markets – Monday 12/2/2024

- SOFR swap rates climbed higher this morning; Traders await key economic data due later this week
- Last week’s solid economic data and sticky PCE inflation data are also contributing to higher rates this morning
- The November Employment Report is due for release Friday, 12/6 at 8:30 AM
- The FOMC November meeting minutes showed a majority of policymakers think that it would be appropriate to move gradually toward a more neutral policy stance
- Fed-sensitive short-end SOFR swaps are currently trading ~4-6 bps higher this morning
- Long-term SOFR swap rates are ~3-6 basis points higher currently

US Treasury yields and SOFR swap rates climbed higher this morning as traders repositioned after the holiday weekend and braced for key employment data due later this week. Last week’s economic data generally came in as expected, underscoring the resiliency of the US economy. PCE inflation data printed as expected, but traders were hoping for a slightly softer reading. This morning’s uptick in rates can also be attributed to a “delayed” market reaction to last week’s economic data. We do see a broad range of economic and employment data this week, but the highlight is definitely the release of the November jobs report on Friday, 12/6 at 8:30 AM. The November FOMC meeting minutes released last week showed policymakers viewed upside risks to the inflation outlook as "little changed," while downside risks to employment and activity had "decreased somewhat" since September. Despite this, "almost all" participants judged that risks to the Fed's goals remained roughly balanced, and that it would be appropriate to move gradually toward a more neutral policy stance. At the moment, it seems likely that the Fed will cut rates at either the December 2024 or January 2025 meetings, but not both. Currently, SOFR swap rates are ~3-6 bps higher across the curve (See Chart 1). Expect periods of elevated rate volatility to continue for the near term.

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

	UST YIELDS	SWAP SPREADS		SOFR SWAP RATES	
2Y	4.219 +0.068	-17.4645	-1.2770	4.0465	+0.0465
3Y	4.161 +0.071	-23.4300	-2.2136	3.9277	+0.0490
4Y	4.154 +0.084	-28.8455	-0.8455	3.8531	+0.0581
5Y	4.121 +0.073	-31.5100	+0.1150	3.8068	+0.0648
7Y	4.172 +0.068	-40.7990	+0.3860	3.7656	+0.0603
10Y	4.226 +0.059	-46.8750	+0.5000	3.7586	+0.0531
20Y	4.488 +0.040	-71.3260	+0.7990	3.7761	+0.0416
30Y	4.396 +0.037	-78.8750	+0.6550	3.6082	+0.0372

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’ de notes active trading

CHART 2: SOFR Swap Rates Remain Range Bound As Market Awaits Direction

SOFR swap rates climbed higher this morning as traders repositioned after the long weekend and prepared for the key employment data we see later this week. Last week swap rates drifted slightly lower, but overall, SOFR swap rates have been trading in a tight range the past two weeks. We have seen periods of intraday volatility within the range, but traders seem reluctant to carve out a new range in the face of the political and rate uncertainty we are facing. Last week’s data affirmed more of what we already know – core inflation remains sticky and the US economy remains resilient. Those factors, coupled with growing speculation that the FOMC will take a more gradual approach to rate cuts, has forced the market to reprice rate cut expectations and kept upside pressure on interest rates. Odds for a 25 bp rate cut at the December meeting are currently sitting at ~62%. Currently, SOFR swap rates are sitting near the bottom of the recent trading range.

CHART 2: 1Y (white) & 2Y (gold) SOFR Swap Rates, Prior (10) Trading Sessions

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