

Flash Update: US Rate Markets – Thursday 12/5/2024

- Rates moved higher this morning as market participants position for tomorrow’s employment data
- Chairman Powell’s comments yesterday are also contributing to higher rates this morning
- Powell’s comments hinted that the Fed may be taking a more “cautious” approach to rate cuts next year
- The Fed’s Beige Book showed the economic outlook for 2025 was cautiously optimistic
- However, the report expressed concerns related to regulatory uncertainty, potential import tariffs and immigration-policy changes under President-elect Donald Trump
- Data released this morning showed that the US trade deficit narrowed in October as companies dialed back imports
- Key data this week: The November Employment Report is set for release tomorrow, 12/6 at 8:30 AM
- Fed-sensitive short-end SOFR swaps are currently trading ~2-3 bps higher this morning
- Long-term SOFR swap rates are ~1-3 basis points higher currently

US Treasury yields and SOFR swap rates climbed higher this morning as market participants position for tomorrow’s employment report release and mull the path forward for the FOMC. SOFR swap rates are currently ~1-3 bps higher across the curve (See Chart 1). The uptick in rates signals that traders anticipate the employment data to be stronger-than-forecasted. That would cast further doubt on the pace and magnitude of Fed rate cuts for the near term. The government’s monthly job report due Friday will provide more insight on labor demand. Economists estimate that nonfarm payrolls rose by 215,000 in November, rebounding after two hurricanes and a now-ended strike lowered October numbers. The jobless rate is seen unchanged at 4.1%. Powell commented on the jobs market yesterday – he said that the jobless rate is “a little higher” than it was a couple of years ago, but added, “it’s a very, very low level.”

Chairman Powell’s comments yesterday are also contributing to the uptick in rates this morning. Powell’s comments were upbeat – he said that the US economy is “in remarkably good shape right now”. He added that the economy is currently “stronger than we thought it would be in September”. He also mentioned that the underlying economic strength means the central bank can afford to be cautious as its tries to estimate the neutral level for rates. Powell’s upbeat tone on the economy and acknowledgement that the Fed may be “slower to lower” next year stalled the bond rally and pushed rates higher. From my perspective, it feels like this month’s policy decision is still far from settled. However, market odds for a 25 bp rate cut in December are hovering around 70%. Traders still believe there is a strong probability that the Fed cuts the overnight rate 25 bps at the December 18th FOMC meeting. The adjustment to the forward curve this week has been focused on the early 2025 meetings - January and March. Current odds for a 25 bp rate cut in January have dwindled to ~18%. The market anticipates a 25 bp rate cut in either December or January, but not both. At the moment the odds still favor a December rate cut.

CHART 1: US RATES SNAPSHOT: 10:30 AM Eastern

	UST YIELDS	SWAP SPREADS	SOFR SWAP RATES
2Y	4.167 +0.042	-18.9900 -0.7800	3.9782 +0.0319
3Y	4.121 +0.033	-24.6600 -0.3837	3.8767 +0.0298
4Y	4.128 +0.030	-30.0060 -0.3810	3.8103 +0.0278
5Y	4.097 +0.030	-32.8750 -0.3750	3.7691 +0.0259
7Y	4.148 +0.025	-41.8000 -0.3920	3.7323 +0.0229
10Y	4.199 +0.020	-47.5315 -0.1075	3.7255 +0.0190
20Y	4.450 +0.012	-71.3898 +0.3387	3.7368 +0.0137
30Y	4.352 +0.009	-78.8750 +0.4553	3.5641 +0.0110

Source: Bloomberg, LLP | 10:30 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 STEADY AHEAD OF KEY EMPLOYMENT DATA DUE TOMORROW

SOFR swap rates drifted a touch higher this morning but are holding mostly steady ahead of tomorrow's highly anticipated jobs report. Swap rates have been choppy intraday, but have generally drifted lower over the past week or so as the initial post-election increase in rates has abated. Overall, swap rates are slightly lower than they were 30 days ago. There may still be room for short-term swap rates to move lower – although the Fed has signaled a more cautious approach to rate cuts, they have also been very clear that they are in fact planning to continue easing rates next year. Higher rates are also a possibility, but that will likely be driven by President-elect Trump's new policies rather than the Fed.

Regarding tomorrow's jobs data release, should we see stronger-than-anticipated data, swap rates are likely to tick higher. A softer-than-expected result would increase the odds for a December rate cut and rates would likely slide lower, particularly on the short-end of the curve.

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



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

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