

Flash Update: US Rate Markets – Thursday 2/13/2025

- January PPI prints hotter-than-expected; Rates move *lower* in response
- Last month’s headline and Core PPI numbers were revised significantly *higher*
- PPI components that feed into PCE were largely favorable, a possible explanation for the market reaction to PPI
- Despite the positive market “spin”, the inflation data this week greatly reduces Fed rate cut hopes
- This morning’s inflation data further diminishes the chance for more than one Fed rate cut in 2025
- President Trump’s trade tariffs will likely continue to add to market volatility and uncertainty
- Next up for data: January Retail Sales prints tomorrow, 2/14 at 8:30 AM
- Short-end SOFR swap rates are currently trading ~3-5 bps lower than last night’s closing levels
- Long-end SOFR swap rates are down ~4-6 bps this morning

US Treasury yields and SOFR swap rates moved lower this morning, despite a stronger-than-expected January PPI print. PPI not only missed expectations to the upside, but the December data was revised significantly higher. Following yesterday’s hot CPI print, rates *should* have moved higher this morning. Instead, they moved *lower* as the PPI data also revealed that the components of the report that feed into PCE were actually tame and provided some comfort that inflation remains in check – sticky, yes, but not ready to surge. Traders may have overreacted to yesterday’s data and are repositioning and regrouping.

President Trump has announced he will provide details on “retaliatory” tariffs today at 1:00 PM. The details are ambiguous, so the market will be paying very close attention to the President’s comments. Given the growing market uncertainty surrounding the President’s new tariffs, we could see increased volatility this afternoon.

Next up for data: January Retail Sales prints tomorrow at 8:30 AM. Expectations are calling for -0.2% for January Retail Sales vs. 0.4% in December.

Rate Summary: 1Y SOFR swap rates are trading 2-3 bps lower this morning. 2Y and 3Y SOFR swap rates are trading ~3-5 bps lower than last night’s close; 5Y and 10Y SOFR swap rates are down ~4-6 bps this morning.

CHART 1: US RATES SNAPSHOT: 10:00 AM Eastern

**SOFR Swap Rates & Change-On-Day (In Bps) – Refer Two Far Right Columns*

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.317	-0.038	-14.0476	+0.0134	4.1778	-0.0374
3Y	4.337	-0.048	-19.3750	-0.1025	4.1447	-0.0498
4Y	4.386	-0.036	-23.7175	-0.0925	4.1335	-0.0586
5Y	4.402	-0.065	-27.1158	+0.1342	4.1320	-0.0647
7Y	4.478	-0.069	-33.1640	+0.6140	4.1463	-0.0667
10Y	4.554	-0.067	-37.9500	+0.9385	4.1726	-0.0640
20Y	4.826	-0.067	-60.5960	+1.1049	4.2213	-0.0555
30Y	4.769	-0.063	-70.4344	+1.1656	4.0661	-0.0509

Source: Bloomberg, LLP | 10:00 AM NY Rates Snapshot

CHART 2: SOFR SWAP RATES DROP ON HOT HEADLINE PPI; TREASURY YIELDS LOWER

SOFR swap rates surprisingly moved lower after a hotter-than-expected January PPI result. On paper, rates should have moved higher on the inflation news, much as they did yesterday after CPI printed. From my perspective, the drop in rates is being driven more by the improvement in the PPI components that feed into PCE, the Fed’s “preferred” inflation metric. Those PPI/PCE categories were more favorable in January, registering declines in most health care items and in airfares. It feels like traders may have overreacted to the CPI data yesterday. There is also a “January effect” that can come into play when analyzing the inflation data – many producers and retailers increase prices at the beginning of the year, which can distort January data. I think a sensitive and jittery market overreacted to the inflation data and is simply trying to slow things down today and regroup.

CHART 2: SOFR Swap Rates Drop As Traders Digest PPI Data



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

CHART 3 & 3A: JANUARY PPI RECAP – INFLATION TICKS HIGHER, BUT REPORT DETAILS SHOW A BRIGHT SPOT

US wholesale prices for January exceeded forecasts, driven by higher food and energy costs. Headline PPI climbed 0.4% in January following an upwardly revised 0.5% increase in December. Compared with a year ago, PPI increased 3.5% (vs. 3.3% expected). The PPI report showed a 1.1% increase in food prices, including a 44% increase in egg prices from a month earlier amid an ongoing influenza outbreak among US poultry flocks. Energy prices rose 1.7%. Core PPI, which excludes food and energy, increased 0.3% MoM (vs. 0.2% expected), and 3.6% from January of last year. December Core PPI was revised higher to 0.4%, vs. the initial print of 0.1%. The January PPI report showed services prices rose 0.3%.

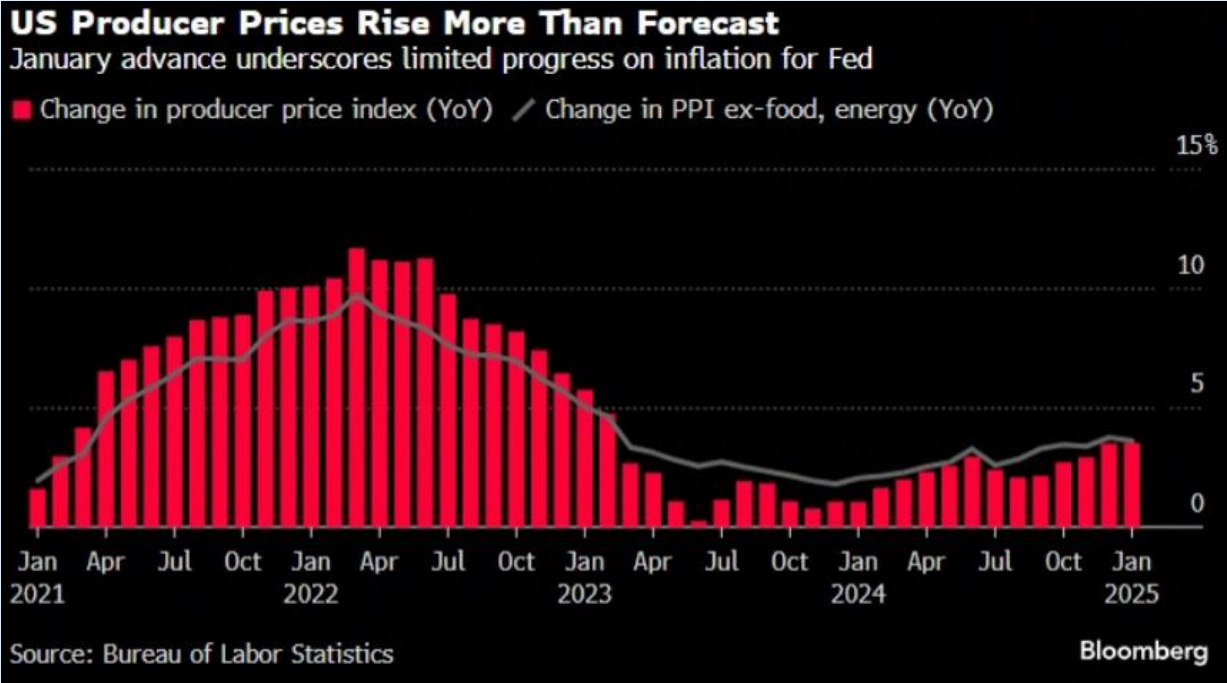
Economists pay close attention to the PPI report because several of its components feed into the Federal Reserve’s “preferred inflation measure”, PCE. Those categories were more favorable in January, and on the whole, tamer than some of the more volatile components in the PPI report. That is a big reason why rates dropped this morning after the PPI data printed.

CHART 3: January PPI Recap – Wholesale Inflation Ticks Higher; Prior Month Revised Higher

Event	Period	Surv(M)	Actual	Prior	Revised
Annual Revisions: PPI					
PPI Final Demand MoM	Jan	0.3%	0.4%	0.2%	0.5%
PPI Ex Food and Energy MoM	Jan	0.3%	0.3%	0.0%	0.4%
PPI Ex Food, Energy, Trade MoM	Jan	0.2%	0.3%	0.1%	0.4%
PPI Final Demand YoY	Jan	3.3%	3.5%	3.3%	3.5%
PPI Ex Food and Energy YoY	Jan	3.3%	3.6%	3.5%	3.7%
PPI Ex Food, Energy, Trade YoY	Jan	3.1%	3.4%	3.3%	3.5%

Source: Bloomberg, LLP | JANUARY PPI RECAP & DECEMBER REVISIONS

CHART 3A: Historical PPI Data – Hot Inflation Data An Unexpected Challenge For The FOMC

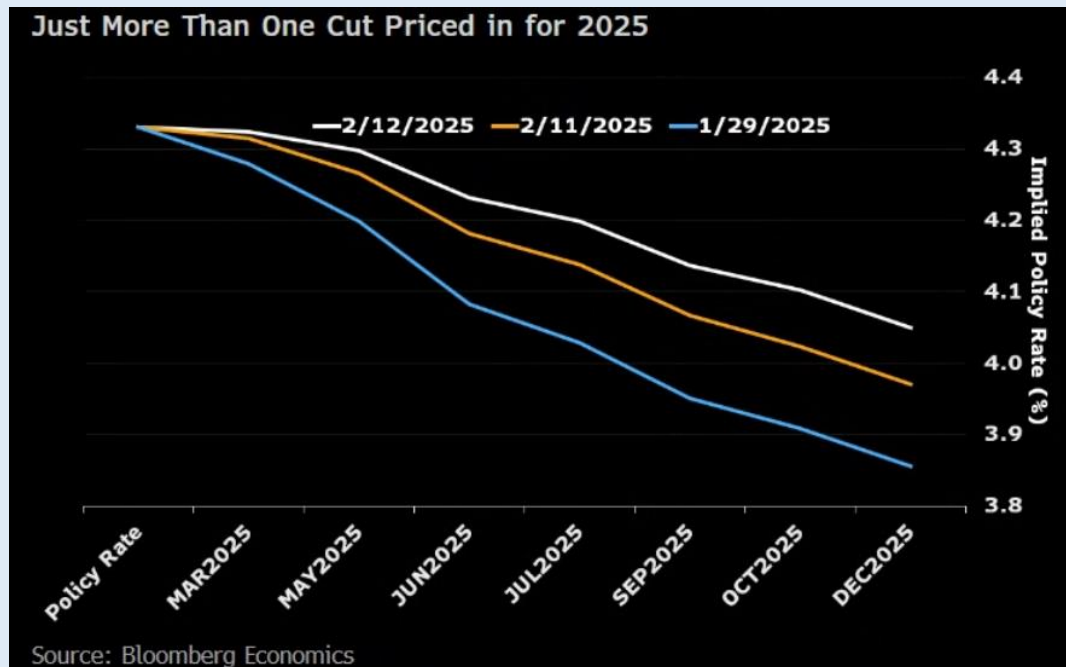


Source: Bloomberg, LLP | HISTORICAL PPI SINCE JAN 2021

CHART 4: MARKET PRICING CURRENTLY REFLECTS ONE RATE CUT FOR 2025

Forward pricing has been shifting all week as the market processes the hot inflation data and the outlook for President Trump’s new tariffs. Current forward pricing reflects just over one rate cut for 2025: ~29 bps of rate cuts are priced into the curve. One month ago, forward pricing reflected “just about” two, 25 bp rate cuts for 2025. The PPI data today followed a surprising CPI report Wednesday that showed underlying consumer inflation at the start of the year was the highest since March. The CPI figures sharply reduced odds that the FOMC will cut interest rates more than once in 2025. This morning’s PPI did not help those odds improve.

CHART 4: Traders Pare Rate Cut Bets On Hot Inflation Data



Source: Bloomberg, LLP | MARKET EXPECTATIONS FOR FED RATE CUTS IN 2025

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