

Flash Update: US Rate Markets – Wednesday 2/5/2025

- Rates drift lower as market braces for key employment data
- The highly anticipated January Employment Report is due Friday 2/7 at 8:30 AM
- A weaker-than-expected jobs report could increase the odds for an FOMC rate cut this Spring
- Yesterday’s JOLTS report showed US job openings fell by more than forecast to the lowest level since September
- However, this morning’s ADP report showed January private payrolls increased more than anticipated
- Short-end SOFR swap rates are trading ~2-4 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 dipped lower this morning, as the market braces for Friday’s key employment data and assesses the outlook for new trade tariffs. From a data perspective, the big data “show” this week is Friday’s (2/7) release of the key December Employment Report. Traders will be paying very close attention the employment data – signs of labor market weakness would increase the odds for a rate cut this Spring. Currently, market participants do not expect the next Fed rate cut until June. Yesterday’s JOLTS jobs report showed job openings fell to the lowest level since September. However, ‘quit levels’ posted better-than-expected, somewhat offsetting the decrease in job openings. This morning’s ADP report showed January private payrolls *increased* significantly more-than-forecasted: 183k vs. 150k expected. The mixed employment data this week makes Friday’s Employment Report all the more important. The market is already on “inflation” alert thanks to the new trade tariffs – Friday’s jobs data will tell us if we need to be on alert for a weaker jobs market.

Market participants will be paying attention to this morning’s 10:00 AM release of the ISM Services Index data, including the “prices paid” component. Activity in the services sector likely grew more slowly in January amid winter storms across much of the country and wildfires on the West Coast. It is worth noting that the Fed pays close attention to the services sector, so the market may react to the data if it misses expectations. Expectations are as follows: ISM Services Index, 54.0; ISM Services Prices Paid, 65.1.

Rate Summary: Short-term SOFR swap rates are trading ~2-4 bps lower than last night’s close; Long-term SOFR swap rates are down ~4-6 bps this morning.

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

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

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.197	-0.016	-15.4195	-0.3629	4.0435	-0.0197
3Y	4.221	-0.025	-22.0110	-0.1411	4.0010	-0.0287
4Y	4.256	-0.039	-26.4500	-0.2150	3.9837	-0.0374
5Y	4.273	-0.046	-29.6300	+0.1305	3.9771	-0.0441
7Y	4.364	-0.052	-38.3500	+0.3075	3.9807	-0.0507
10Y	4.454	-0.056	-45.5831	+0.2769	3.9990	-0.0552
20Y	4.736	-0.067	-70.5000	+0.8150	4.0327	-0.0590
30Y	4.679	-0.068	-80.8348	+0.7995	3.8705	-0.0607

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

CHART 2: SHORT-TERM SOFR SWAP RATES RANGE BOUND; LONG-TERM SWAP RATES DROP AS CURVE FLATTENS

SOFR swap rates dipped lower this morning, led by the medium-to-long-end of the swap curve. Right now, massive uncertainty is keeping the market from carving out a new trading range – or even testing

one. Rates have shaken-off the tariff news for the time being, and thanks to a flat PCE print, inflation worries have also been subdued for the moment. I think that is the main reason rates are bouncing around in a range, particularly on the short-end. 2Y SOFR swaps were trading at 4.039% on January 27th – they are currently trading 4.041%. The back end of the curve has dropped a touch – 10Y SOFR swaps were trading at 4.07% on 1/27/25 – they are currently priced at 4.002%. I would expect continued pockets of elevated intraday volatility, especially with today’s ISM data printing at 10:00 AM.

CHART 2: SOFR SWAP RATES, PRIOR (30) DAYS



Source: Bloomberg, LLP | 1Y (white), 2Y (blue), 3Y (orange), 5Y (purple) & 10Y (gold) SOFR SWAP RATES – PRIOR (30) DAYS

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