

Flash Update: US Rate Markets – Thursday 2/6/2025

- Rates drift slightly higher as market prepares for tomorrow’s key employment data
- Overall, SOFR swap rates continue to trade in a relatively narrow range ahead of tomorrow’s jobs data
- The highly anticipated January Employment Report is due tomorrow, 2/7 at 8:30 AM
- A weaker-than-expected jobs report could increase the odds for an FOMC rate cut this Spring
- Traders will be monitoring corporate earnings reports; Amazon earning results are due this afternoon
- Short-end SOFR swap rates are trading ~2-3 bps higher than last night’s closing levels
- Long-end SOFR swap rates are up ~3-4 bps this morning

US Treasury yields and SOFR swap rates drifted a touch higher this morning, as the market braces for tomorrow’s key employment data and continues to assess the outlook for new trade tariffs. From a data perspective, the big data “show” this week is tomorrow’s release of the January Employment Report. Traders will be paying *very* close attention the jobs 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. 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 labor market.

This morning’s data was largely ignored by the market – weekly jobless claims posted a tad higher-than-forecasted (219k vs. 213k expected), and Unit Labor Costs printed below expectations (3.0% vs. 3.4% expected). The muted market reaction this morning tells me that the market is squarely focused on tomorrow’s employment data. Here is a quick rundown of tomorrow’s Employment Report consensus forecasts: Change In Non-Farm Payrolls, 170k (vs. 256k prior); Average Hourly Earnings, 0.3% (vs. 0.3% prior); Unemployment Rate, 4.1% (vs. 4.1% prior).

There is a bit of a wildcard regarding tomorrow’s jobs data. Each year the US Census Bureau adjusts the “weights” in the Current Population Survey, the source data for labor statistics like the unemployment rate. The adjustments incorporate updated estimates of the population’s size and composition. In the latest vintage, the Census modified its approach to estimating net international migration, which had the effect of substantially boosting its estimate of the US population since 2020. The January Employment report (released tomorrow) will reflect these adjustments. Market participant and economists see a risk that a large population adjustment this year could raise the aggregate unemployment rate by raising the weight of recent immigrants, who tend to have higher unemployment rates than the general population. Again, this is a bit of a wildcard for tomorrow – it may have a minimal impact or it could add to the current market uncertainty.

Rate Summary: Short-term SOFR swap rates are trading ~2-3 bps higher than last night’s close; Long-term SOFR swap rates are up ~2-4 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	4.214 +0.026	-15.6875 -0.2705	4.0592 +0.0235
3Y	4.232 +0.025	-21.9510 +0.0990	4.0145 +0.0280
4Y	4.263 +0.028	-25.8480 +0.3855	3.9969 +0.0314
5Y	4.276 +0.028	-28.6425 +0.4890	3.9910 +0.0337
7Y	4.362 +0.030	-36.8675 +0.5925	3.9942 +0.0355
10Y	4.442 +0.024	-43.2500 +1.2500	4.0108 +0.0358
20Y	4.710 +0.017	-66.5000 +2.1270	4.0470 +0.0379
30Y	4.654 +0.017	-76.8948 +2.1052	3.8862 +0.0396

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

CHART 2: SOFR SWAP RATES DRIFT HIGHER AS MARKET AWAIT CRITICAL EMPLOYMENT DATA

SOFR swap rates drifted higher 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 primary reason rates are bouncing around in a narrow range, particularly on the short-end of the curve. 2Y SOFR swaps were trading at 4.039% on January 27th – they are currently trading 4.059%. 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 4.010%.

Overall, the swap curve has flattened this week – a classic sign of market uncertainty. The 2’s-10’s swap spread has flattened ~20 bps in the last week or two. We will see if tomorrow’s key employment data can shake this market out of the current range.

CHART 2: SOFR SWAP RATES, PRIOR (10) TRADING SESSIONS



Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES – PRIOR (10) TRADING SESSIONS

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