

Flash Update: US Rate Markets – Wednesday 2/12/2025

- **January CPI prints hotter-than-expected; Rates move higher in response**
- **Chairman Powell’s testimony has been largely overshadowed by the inflation data**
- **Most of the rate move this morning is attributable to the hot CPI print**
- **This morning’s inflation data further diminishes the chance for a Fed rate cut in the first half of 2025**
- **President Trump’s trade tariffs will likely continue to add to market volatility and uncertainty**
- **Short-end SOFR swap rates are currently trading ~9-12 bps higher than last night’s closing levels**
- **Long-end SOFR swap rates are up ~10-12 bps this morning**

US Treasury yields and SOFR swap rates gapped higher this morning after January CPI printed significantly hotter-than-expected. Rates moved higher as market participants further pared rate cut expectations. Traders are also closely monitoring President Trump’s trade initiatives. Chairman Powell’s semi-annual testimony in Washington, D.C., was almost completely overshadowed by the stronger-than-anticipated inflation data. Powell’s testimony did not really provide any new insights – he stuck to the script. He reiterated that we are making progress on inflation, but we are not there yet. He mentioned the solid labor market and resilient consumer demand. He said several times that the Fed is in no hurry to cut rates. He avoided answering any political questions. Perhaps the biggest tidbit from his testimony this morning was when he said that the FOMC would like to keep rates “restrictive” for now. That does not bode well for rate cuts in the foreseeable future.

We will see January PPI inflation data tomorrow at 8:30 AM. Should PPI follow CPI with a higher-than-forecasted result, rates are likely to creep higher again tomorrow. Here is a quick rundown of January PPI expectations: Headline PPI MoM, 0.3% (vs. 0.2% prior); Core PPI MoM, 0.3% (vs. 0.00% prior); Headline PPI YoY, 3.3% (vs. 3.3% prior); Core PPI YoY, 3.1% (vs. 3.3% prior).

Rate Summary: **1Y** swap rates are trading 4-6 bps higher this morning. **2Y** and **3Y** SOFR swap rates are trading ~9-12 bps higher than last night’s close; **5Y** and **10Y** SOFR swap rates are up ~10-12 bps this morning.

CHART 1: US RATES SNAPSHOT: 12:00 PM Eastern

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

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	4.372	+0.088	-14.1510	+1.0726	4.2321	+0.0974
3Y	4.405	+0.104	-19.4300	+2.0737	4.2124	+0.1149
4Y	4.462	+0.109	-23.8105	+1.9015	4.2084	+0.1233
5Y	4.485	+0.116	-27.5000	+1.3722	4.2115	+0.1287
7Y	4.568	+0.115	-34.4220	+1.6405	4.2248	+0.1313
10Y	4.643	+0.108	-39.8278	+2.1979	4.2458	+0.1295
20Y	4.898	+0.095	-61.7177	+3.0033	4.2817	+0.1254
30Y	4.833	+0.087	-71.4520	+3.7080	4.1200	+0.1235

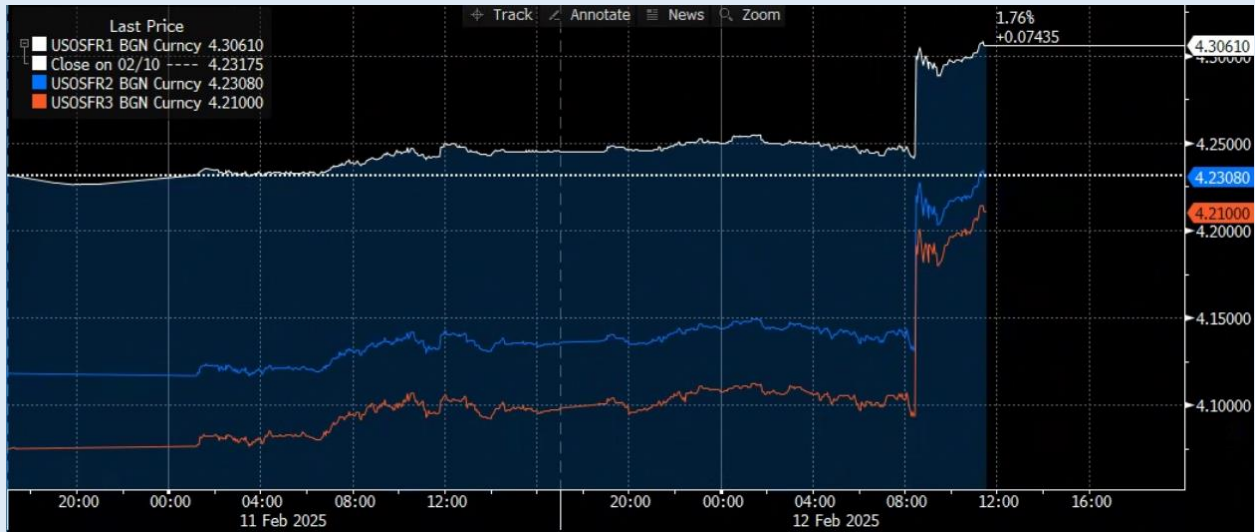
Source: Bloomberg, LLP | 12:00 PM NY Rates Snapshot

CHART 2 & 2A: SOFR SWAP RATES SPIKE ON HIGHER-THAN-EXPECTED CPI RESULTS; TREASURY YIELDS HIGHER

SOFR swap rates gapped higher this morning after the hot CPI print. Swap rates jumped up ~10-12 bps across the curve and have since been trading sideways all morning. Chairman Powell’s testimony was largely ignored by the market – the inflation data stole the show this morning. Swap rates are likely to

be biased higher in the near term. Tomorrow, we see PPI data at 8:30 AM. A hot PPI print likely pushes rates higher. President Trump’s tariffs also loom large in the background.

CHART 2: SOFR Swap Rates Gap Higher After Hot Inflation Data



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

CHART 2A: 10Y US TREASURY YIELD GAPS HIGHER AFTER HOT CPI PRINT



Source: Bloomberg, LLP | 10Y UST YIELD 2/12/2025

CHART 3 & 3A: CPI RECAP: HOT JANUARY CPI PRINT KEEPS FED RATE CUTS OFF THE TABLE FOR NOW

Consumer inflation picked up broadly at the start of 2025. Monthly CPI rose 0.5% in January (vs. 0.3% expected), the most since August 2023, led by a range of household expenses including groceries and gas, as well as housing costs. Core CPI climbed 0.4% (vs. 0.3% expected), fueled by car insurance, airfares and a record monthly increase in the cost of prescription drugs. YoY headline CPI came in at 3.0%, above expectations calling for 2.9%. Core YoY CPI, an inflation metric the FOMC watches closely, also posted higher-than-expected at 3.3% (vs. 3.1% expected).

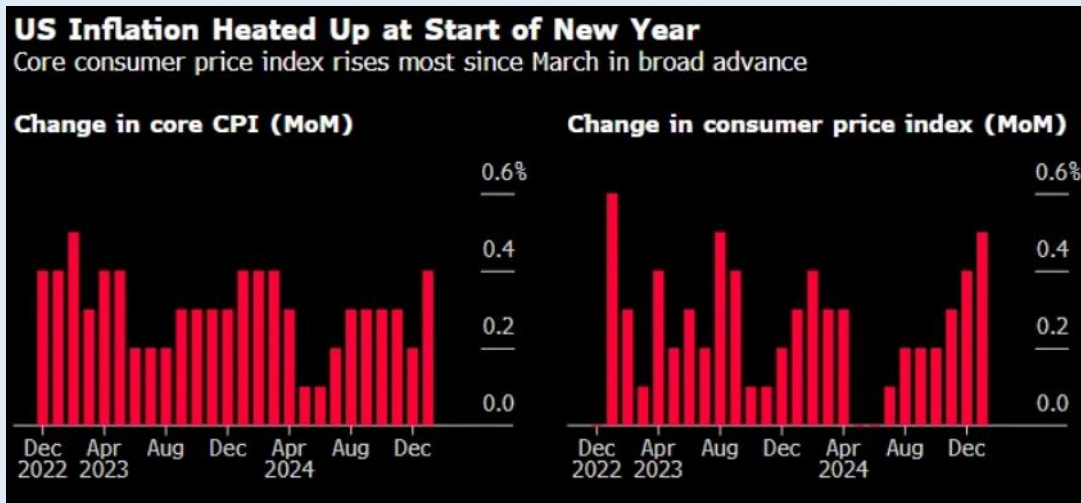
This morning’s CPI data provides further evidence that inflation progress has, at the very least, stalled. There is growing trepidation that inflation progress may be in danger of being reversed. Sticky inflation will likely keep the Fed on hold for the foreseeable future. The FOMC is also waiting for further clarity on President Trump’s policies, particularly tariffs, which are already causing consumer inflation expectations to rise. Today’s data further undercuts the chances for FOMC rate cuts this year. The market is still clinging to hopes that the FOMC will be able to cut rates one time in the latter part of the year.

CHART 3: JANUARY CPI RECAP

Metric	Actual	Estimate
CPI MoM	+0.5%	+0.3%
Core CPI MoM	+0.4%	+0.3%
CPI YoY	+3.0%	+2.9%
Core CPI YoY	+3.3%	+3.1%

Source: Bloomberg, LLP | JANUARY CPI RECAP

CHART 3A: CPI HEATS UP, FURTHER DIMINSHING RATE CUT HOPES FOR 2025



Source: Bloomberg, LLP | HISTORICAL HEADLINE & CORE CPI DATA SINCE DECEMBER 2022

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