Flash Update: **US Rate Markets – Friday 4/11/2025**

- **US Treasury yields and SOFR swap rates drifted higher this morning, despite favorable PPI data**
- **Rates initially had a muted reaction to PPI, then drifted higher as the morning progressed**
- **Today's favorable PPI data follows yesterday's positive CPI print, signaling inflation remains in-check…for now**
- **President Trump's policy and trade initiatives will continue to create global market volatility and uncertainty in the near term**
- ***Expect rate markets to continue to be "headline" driven in the short term; expect increased rate volatility as a result***
- **Forward pricing remains volatile; Market pricing now implies ~88.1 basis points of cumulative rate cuts for 2025**
- **Next up for data: Import/Export Price Data prints on Tuesday, 4/15 at 8:30 AM; March Retail Sales prints 4/16 at 8:30 AM**
- **Short-end SOFR swap rates are currently trading up ~1-2 basis points**
- **Long-end SOFR swap rates are ~2-4 bps higher this morning, depending on the tenor**
- ***Expect elevated levels of intraday rate volatility to continue for the foreseeable future***

US Treasury yields and SOFR swap rates were initially mixed this morning, despite a better-than-expected March PPI print. Short-term rates edged lightly lower, but longer-term rates moved higher, leading to a steeper yield curve. As the morning progressed, rates across the curve moved slightly higher. Market participants were relieved that the inflation data this week (PPI, CPI) was favorable, but concerns about the impact of global tariffs remains the overriding market concern.

Last night, China announced it would raise tariffs on all US goods from 84% to 125% and warned that it plans to "resolutely counterattack and fight to the end" if the US continues to infringe on its "rights and interests". The increase in US/China trade tensions is weighing on global markets and leading to a US dollar "confidence crisis". The US dollar tumbled on concern its status as the world's reserve currency is being eroded. We have also seen global investors seeking "safe-havens" other than US Treasuries, a tariff-created phenomenon market participants likely did not expect. Should that sentiment continue, it will keep upward pressure on US Treasury yields, particularly in the belly of the curve.

I expect the potential for elevated intra-day rate volatility to continue for the foreseeable future. Market uncertainty remains *extremely* high. There are simply too many unknowns at the moment to draw any firm conclusions. *The market will remain "headline" driven for the foreseeable future, given the uncertain path forward.* Economic data, news headlines and Fed-speak will continue to be viewed though a tariff tinted lens for the foreseeable future. Tariffs will remain *the* story for global markets.

Borrowers looking to hedge rate risk in the near term should keep a close eye on SOFR swap rates. A drop in swap rates may present an opportunity to execute interest rate hedges at attractive levels. A quick resolution to the global "trade war" may cause rates to reverse quickly, which will push cap premiums higher.

PLEASE NOTE: Expect the potential for elevated intra-day rate volatility and whipsaw trading to continue for the near-term.

SOFR Swap Rate Summary: The **1Y** SOFR swap rate is up ~1-2 bps this morning. **2Y** and **3Y** SOFR swap rates are currently trading up ~1-2 bps. **5Y** and **10Y** SOFR swap rates are ~2-4 bps higher this morning, depending on the tenor. ***Please note – market levels can change quickly (potentially very quickly!) in this type of market environment.***

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

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

	UST YIELDS		SWAP SPREADS		SOFR SWAP RATES	
2Y	3.889	+0.028	-26.6250	-1.1934	3.6269	+0.0138
3Y	3.951	+0.039	-34.8596	-1.6946	3.6035	+0.0181
4Y	4.060	+0.046	-39.9000	-3.0250	3.6393	+0.0213
5Y	4.119	+0.047	-43.4000	-2.3095	3.6870	+0.0247
7Y	4.306	+0.061	-52.5685	-2.8898	3.7838	+0.0327
10Y	4.488	+0.062	-58.8562	-2.6112	3.9019	+0.0366
20Y	4.951	+0.047	-88.5721	-2.5495	4.0679	+0.0219
30Y	4.904	+0.035	-94.7500	-2.5750	3.9590	+0.0095

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

CHART 2 & 2A: March PPI Recap – Favorable Results Signal Inflation Remains In-Check…For Now

US wholesale prices unexpectedly fell in March by the most since October 2023. Prices were restrained by a significant drop in energy costs. This morning's PPI data adds to evidence of tame inflation leading up to a wave of tariffs. Headline PPI *fell* 0.4% from a month earlier following a revised 0.1% gain in February. Forcasts for headline CPI were calling for a 0.2% *increase* in March. Core PPI, which excludes more voltile food and energy prices, *eased* 0.1% in March, compared with expectations for a 0.3% *gain*. PPI also cotains key components that feed into PCE, the Fed's preferred inflation gauge – those components were also softer-than-forecasted. Overall, the inflation data this week significantly beat expectations across the board.

Rates should have declined on the positive inflation news received this week – however, that did not happen as there is still far too much uncertainty surrounding the "tariff" outcome. Yes, the inflation numbers were encouraging – however, they are *backward* looking indicators, not forward looking projections. Many economists and market particpants expect inflation to accelerate over the remainder of the year as President Trump's sweeping and constantly evolving tariffs on imported goods filter through into higher prices for businesses and households.

CHART 2: ***March PPI Recap***

Event	Period	Surv(M)	Actual	Prior	Revised
PPI Final Demand MoM	Mar	0.2%	-0.4%	0.0%	0.1%
PPI Ex Food and Energy MoM	Mar	0.3%	-0.1%	-0.1%	0.1%
PPI Ex Food, Energy, Trade MoM	Mar	0.3%	0.1%	0.2%	0.4%
PPI Final Demand YoY	Mar	3.3%	2.7%	3.2%	--
PPI Ex Food and Energy YoY	Mar	3.6%	3.3%	3.4%	3.5%
PPI Ex Food, Energy, Trade YoY	Mar	3.3%	3.4%	3.3%	3.5%

Source: Bloomberg, LLP | MARCH PPI RECAP

CHART 2A: ***Historical Core YoY PPI Data***

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Source: Bloomberg, LLP | HISTORICAL CORE YOY PPI DATA SINCE MARCH 2019

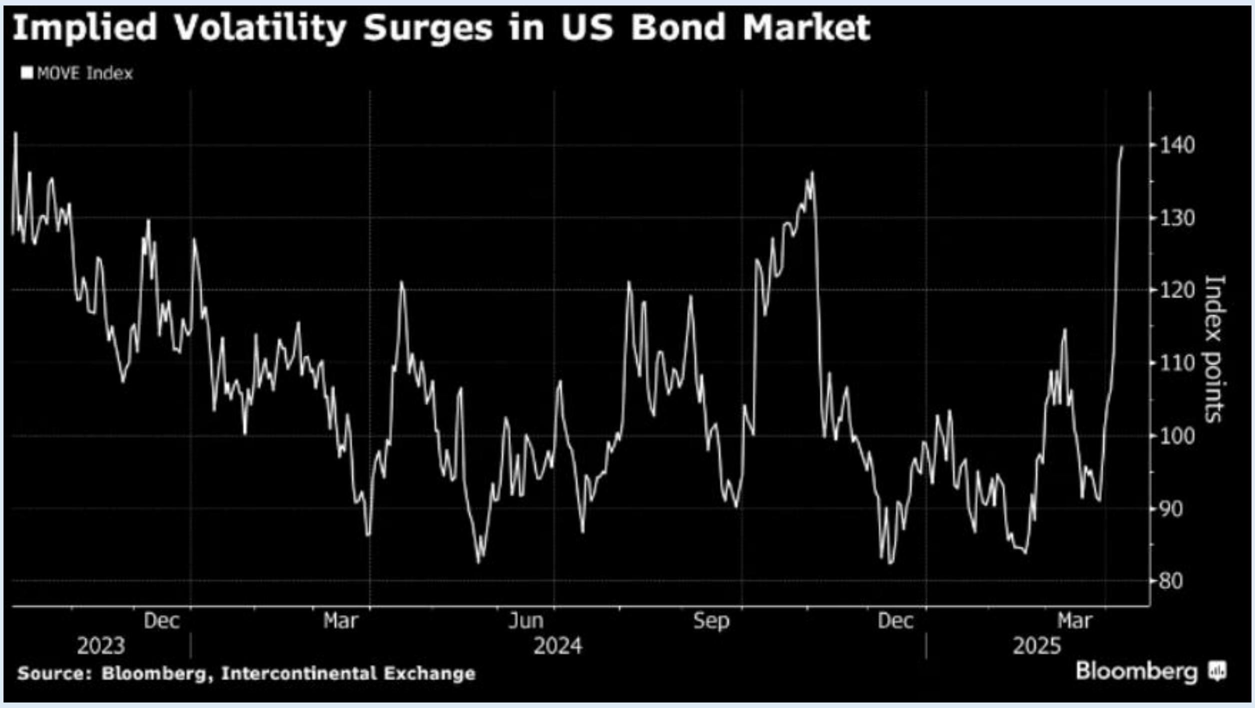
<u>CHART 3 & 3A:</u> SOFR Swap Rates Have Muted Reaction To Favorable PPI Data; Swap Rates Mixed

SOFR swap rates were initially mixed this morning – short-term swap rates edged slightly lower, while longer-term rates drifted higher. It felt like the short-end of the curve wanted to move higher as well – and it did after the equity markets opened this morning. I think the muted reaction to PPI shows that traders are by no means convinced that inflation will remain in-check. There is still a very real concern that tariffs will fuel inflation. Secondly, I think the market's reaction to CPI yesterday was about as far as market participants are willing to go right now in terms of lower rates. There is simply too much uncertainty and fear in the market for traders to carve out a definitive trading range. There *is* no trading range at the moment. From my perspective, it is still *way* too early in the game to draw any conclusions on the "tariff" outcome – for economic growth *or* inflation. ***Expect intra-day rate volatility to remain at elevated levels.*** We could see short-end rates drift lower this afternoon as traders park assets in US Treasuries for the weekend.

<u>CHART 3:</u> *SOFR Swap Rates Edge Higher Despite Favorable PPI Data*

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

<u>CHART 3A:</u> *Implied US Treasury Volatility Surges*



Source: Bloomberg, LLP | IMPLIED US TREASURY YIELD VOLATILITY – BLOOMBERG 'MOVE' INDEX

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