

Flash Update: US Rate Markets – Thursday 5/16/2024

- Rates stabilized as market participants digested economic and inflation data and Fed-Speak
- Despite lower than expected CPI data yesterday, inflation remains a concern for the Fed and rate markets
- Market focus will shift to Fed-Speak as timing of the first rate cut still uncertain
- SOFR swap rates ticked higher this morning; 2Y SOFR swaps up ~3-5 basis points
- Rate markets will continue to be data dependent and will pay close attention to Fed-Speak in the near-term

US Treasury and SOFR swap rates stabilized overnight and drifted higher this morning, as lingering uncertainty about inflation and the timing of the first FOMC rate cut remains front-and-center for the rate markets. Yesterday's weaker CPI and Retail Sales data were encouraging in terms of rekindling rate cut optimism. However, the FOMC will likely need to see at least two more "rounds" of economic and inflation data before they have the confidence to cut rates ("round" = CPI, PPI, Employment Report, Retail Sales, PCE, GDP, Housing Data). One month's worth of data is not the "sustainable" decline in inflation the Fed wants to see prior to making the first rate cut. Similarly, a modest decline in Retail Sales should not be taken as a signal that US consumer demand will suddenly plummet. Yes, both the numbers released yesterday were encouraging from a rate cut perspective, and the forward curve adjusted accordingly. Swap pricing now has two 25 bp rate cuts firmly priced into the forward curve. Current rate-cut odds favor 25 bp rate cuts in September and December.

We did see some secondary data this morning. Housing Starts missed expectations, but the Import/Export price data exceeded forecasts. The price data reminded market participants that we are not out of the woods just yet on inflation. More data will definitely be required before drawing any firm conclusions about the forward path for US inflation. **SOFR swap are currently trading ~3-5 bps higher than last night's close (See Chart 1).**

For the time being, the market's focus will shift to Fed-Speak (See Chart 2). Fed officials have already been all over the tape this week – most have sounded "neutral-hawkish" despite the data we have seen that, from the market's view, supports rate cuts this year. Federal Reserve Bank of New York President John Williams said this morning that the latest US inflation data confirms price pressures are gradually easing, but he still needs to see more evidence to adjust interest rates. Williams said, "I don't see any indicators now telling me, oh, that there's a reason to change the stance of monetary policy now, and I don't expect that." He added: "I don't expect to get that greater confidence that we need to see on the inflation progress towards a 2% goal in the very near term." Williams also thinks monetary policy is in a good place, and he emphasized that in his comments saying, "Monetary policy is restrictive. It is helping the economy get into better balance. Monetary policy is in a good place." Keep in mind his comments were made *after* yesterday's CPI and Retail Sales data were released! Williams' Fed colleagues have echoed similar comments in recent days, including Chairman Powell earlier this week. The rate markets will be listening closely to Fed officials this week and next.

CHART 1: US RATES SNAPSHOT: 10:30 AM Eastern

UST YIELDS

SWAP SPREADS

SOFR SWAP RATES

2Y	4.778 +0.054	-9.1130 -0.1666	4.6886 +0.0535
3Y	4.553 +0.052	-13.5150 +0.3602	4.4206 +0.0547
4Y	4.455 +0.047	-21.7030 +0.2060	4.2547 +0.0488
5Y	4.387 +0.041	-23.2500 +0.1250	4.1553 +0.0438
7Y	4.367 +0.031	-31.2200 +0.2994	4.0573 +0.0355
10Y	4.361 +0.022	-35.7382 +0.5151	4.0057 +0.0272
20Y	4.604 +0.008	-63.8421 +0.9485	3.9665 +0.0179
30Y	4.506 +0.006	-72.9646 +0.9421	3.7758 +0.0138

Source: Bloomberg, LLP | 10:30 AM NY Rates Snapshot

Note: First column is the current market level, second column is the change on the day

CHART 2: Schedule of Fed Speeches Through 5/21/2024

Please see below for the schedule of Fed speeches through 5/21/2024. As you can see the Fed schedule is jammed-packed the rest of this week and early next week. The market will be paying close attention to Fed-Speak. Market participants will be listening to see if the data this week impacts the Fed’s timing for rate cuts.

Chart 2: FED SPEECH CALENDAR THROUGH 5/21/2024

Date	Time	A	M	R	Event
05/16	10:00				Fed's Barr Testifies to Senate Banking
05/16	10:00				Fed's Barkin on CNBC
05/16	10:30				Fed's Harker Speaks on Higher Education, Healthcare
05/16	12:00				Fed's Mester Gives Remarks on Economic Outlook
05/16	15:50				Fed's Bostic Speaks in Moderated Chat on Economy
05/17	10:15				Fed's Waller Speaks on Payments Innovation
05/17	10:15				Fed's Kashkari Gives Brief Introduction of Waller
05/17	12:15				Fed's Daly Gives Commencement Speech
05/18	17:45				Fed's Kugler Gives Commencement Speech
05/19	15:30				Fed's Powell Delivers Commencement Speech
05/20	08:45				Fed's Bostic Gives Welcome Remarks
05/20	09:00				Fed's Barr Gives Keynote Remarks
05/20	19:00				Fed's Bostic Moderates Keynote Remarks
05/21	09:00				Fed's Barkin Gives Welcome Remarks
05/21	09:00				Fed's Waller Discusses US Economy
05/21	09:05				Fed's Williams Gives Opening Remarks
05/21	09:10				Fed's Bostic Offers Brief Welcome Remarks
05/21	19:00				Fed's Bostic Moderates Panel with Collins and Mester

Source: Bloomberg, LLP | FED SPEECH CALENDAR

CHART 3A & 3B: SOFR Swap Rates Stabilize as Market Prepares for Next Round of Data, Fed-Speak

SOFR swap rates stabilized overnight, then ticked a few basis points higher on “neutral” Fed-Speak and disappointing Import/Export price data released this morning. Traders tried to carve out a new trading range for swaps after yesterday’s data, but the drop in rates lost momentum as market participants decided not to overreact to one data point. The rate markets are starting to realize that the Fed actually *is* in no hurry to cut rates, so

despite the market implied “odds” for rate cuts this year, the timing of that first rate cut is still very much up for debate. At least according to the people who hold the reigns on US monetary policy – the FOMC.

From my perspective, the market is probably priced at the right level – two 25 basis point rate cuts this year seems reasonable. Ok, maybe a bit optimistic still, but given the slower growth, more discerning consumer and slightly weaker jobs data we have seen recently, 50 bps of rate cuts this year is definitely possible. A resumption of the “disinflationary” trend we saw at the end of last year would also greatly help to bolster the odds for two rate cuts this year. One thing to point out – it would be far more dangerous for the Fed to cut rates too soon and risk fanning inflation and demand, than to cut too late. That message has been clearly communicated by the Fed recently – we will see if they begin to deviate from that script, or double down on the current “wait-and-see” monetary policy.

1Y SOFR swaps are down ~5 bps and 2Y swaps are ~10 bps lower since Tuesday morning.

Chart 3A: 1Y SOFR SWAPS, PRIOR 3 TRADING SESSIONS



Source: Bloomberg, LLP | 1Y SOFR SWAP CHART

Chart 3B: 2Y SOFR SWAPS, PRIOR 3 TRADING SESSIONS





Source: Bloomberg, LLP | 2Y SOFR SWAP CHART

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