

Flash Update: US Rate Markets – Tuesday 5/21/2024

- **Next FOMC Meeting is on June 12, 2024 at 2:00 PM**
- **Traders will be focusing on Fed-Speak this week; This is a relatively light week for economic data**
- **See Chart 2 for a complete listing of Fed “speeches” this week and next week**
- **SOFR swap rates are stuck in a relatively narrow range as the market contemplates what is next for rates**
- **Earnings reports due this week, including NVIDIA, could help set the market’s tone for the near term**
- **SOFR swap rates were quiet overnight and opened ~2-4 bps lower this morning**

Good Morning!

US Treasury yields and SOFR swap rates continue to be stuck in a relatively tight range, as market participants await fresh data and brace for a host of Fed officials on the tape this week. There are also some important earnings reports released this week, including NVIDIA, which could potentially set the market’s tone for the near term. SOFR swap rates opened ~2-4 bps lower this morning likely due to defensive positioning by traders ahead of the myriad Fed speakers on the tape this week (See Chart 1 and Chart 2). That said, swap rates have been trading in a narrow range since the last batch of economic data was released. Over the past three days, 2Y SOFR swaps closed at 4.72%, 4.75% and 4.73% respectively, and is currently trading at 4.725% - that is a pretty narrow range.

Fed officials, for the most part, have thus far this week stuck to the script: The Fed needs to be patient and let restrictive monetary policy finish the job on inflation. However, there have been undercurrents in the Fed-Speak this week and last that have given the market confidence that the FOMC will need to cut rates this year. The fact that the market has barely moved is also a signal that traders are very comfortable with the two 25 basis point rate cuts penciled in for this year, likely in September and December. Odds for a rate cut for the next several meetings are as follows: June 12th FOMC Meeting – 4%; July 31st – 22%; September 18th – 65%; November 7th – 70% and December 18th – 90%. We will see if the Fed-speak this week shifts the odds or simply reinforces that current market pricing is probably accurate.

Today we are light on economic data – just one secondary number printed this morning. The focus will clearly be on the Fed-Speak. Yes, the market is range bound and it feels like traders are comfortable with current market levels. However, that comfort still feels a bit uncertain, and as we have seen recently, market sentiment can shift quickly and decisively. Federal Reserve Governor Waller said this morning that the Fed needs to see “several more months” of lower inflation in order to be prompted to cut rates 25 bps. Regarding the latest inflation data, he said: “The latest CPI data was a reassuring signal that inflation is not accelerating and data on spending and the labor market suggest to me that monetary policy is at an appropriate setting to put downward pressure on inflation.” However, he added that the recent data on prices showed only modest progress toward the central bank’s 2% inflation goal. Although the recent Fed-Speak has firmly supported the current “wait-and-see” monetary policy stance, the tone of the remarks tells me that the Fed remains uncertain on the timing of the first rate cut. That is part of the reason why Fed officials are not able to provide more clarity on the timing of the first rate cut – they do not yet know themselves.

CHART 1: US RATES SNAPSHOT: 10:15 AM Eastern

UST YIELDS

SWAP SPREADS

SOFR SWAP RATES

2Y	4.820	-0.028	-9.8562	-0.2627	4.7217	-0.0323
3Y	4.596	-0.037	-14.3500	-0.2060	4.4546	-0.0367
4Y	4.494	-0.039	-22.4760	-0.1960	4.2874	-0.0396
5Y	4.425	-0.042	-23.9790	-0.0264	4.1862	-0.0417
7Y	4.408	-0.045	-32.1796	+0.0079	4.0884	-0.0431
10Y	4.402	-0.041	-36.6188	-0.1188	4.0370	-0.0438
20Y	4.643	-0.040	-64.5080	-0.1430	3.9995	-0.0413
30Y	4.543	-0.041	-73.3469	+0.1531	3.8107	-0.0391

Source: Bloomberg, LLP | 10:15 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 5/28/2024

Please see below for the schedule of Fed speeches through 5/28/2024. 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. Additionally, the market will see the minutes for the May FOMC meeting released on 5/22 at 2:00 PM. The minutes could potentially have an impact on the market. The meeting minutes can provide insight into the FOMC’s thought process and provide more “inside” details than were revealed immediately after the meeting and in subsequent Fed speeches. That said, it can also be extremely routine - the release of the meeting minutes is often a non-event for the rate markets. Regardless, the market will be paying close attention to the FOMC meeting minutes. We will recap all of today’s Fed-Speak in tomorrow’s update.

Chart 2: FED SPEECH CALENDAR THROUGH 5/28/2024

Date	Time	A	M	R	Event
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	11:45				Fed's Barr Speaks in Fireside Chat
05/21	13:00				Fed's Waller Appears on CNBC
05/21	19:00				Fed's Bostic Moderates Panel with Collins and Mester
05/22	09:40				Fed's Goolsbee Gives Opening Remarks
05/22	14:00		🔔	⬇️	FOMC Meeting Minutes
05/23	15:00				Fed's Bostic Participates in Student Q&A
05/24	09:35				Fed's Waller Gives Keynote Address on R*
05/28	00:55				Fed's Mester Speaks at Bank of Japan Event

Source: Bloomberg, LLP | FED SPEECH CALENDAR – 5/28/2024

CHART 3: SOFR Swap Rates Are Stuck In A Narrow Range – Traders Focusing on Fed-Speak

1-Year SOFR swap rates have also been stuck in a tight trading range since last week. The 3-Day chart below shows that 1Y SOFR swaps are trading in a 5 basis point range since last week. 1Y swaps can be volatile, particularly with a potential shift to monetary policy looming. The tight range in short term SOFR swaps also tells me that the market is satisfied with current forward pricing.

Thus far, the much anticipated Fed-Speak this week has not really moved the needle. If the market continues to shake off Fed officials' comments, it is likely because they are looking ahead to the economic and inflation data we see next week (GDP 5/30, PCE 5/31). We do see some housing data this week (Existing Homes 5/22, New Home Sales 5/23), along with other secondary numbers, like Durable Goods on 5/24, but they are not anticipated to have a major impact on the market. That said, unexpected data prints can always put pressure on the rate markets, so traders will definitely be keeping "one eye" on the numbers this week, just in case!

Chart 3: 1Y SOFR SWAP RATE, PRIOR 3 TRADING SESSIONS



Source: Bloomberg, LLP | SOFR SWAP CHART – 1Y SWAP RATE, PRIOR 3 TRADING SESSIONS

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