



Source: Bloomberg, LLP | HISTORICAL PCE SINCE JANUARY 2022

CHART 3: SOFR Swap Rates Drop As Inflation Stabilizes And Spending Cools-Off

SOFR swap rates dropped slightly this morning after data showed a stabilization in inflation and weaker-than-expected consumer spending. Swap rates immediately moved lower after the number printed, but then quickly leveled off. The reaction to today's data felt like relief. Traders were growing increasingly worried that inflation was trending the "wrong-way". Today's PCE data assuaged those fears, at least for the time being. The softer consumer spending was an added bonus. The encouraging PCE data and softer consumer spending bolstered hopes that the Fed will have some breathing room to cut rates later this year.

The scale of the below graph is somewhat deceiving – 2Y SOFR swap rates are only down ~4-5 bps from last night's close – not a dramatic move by any means, but certainly directionally significant. The market clearly wants to believe that the Fed will be prompted to cut rates this year. The drop in rates yesterday and today tells me that traders are prepared to adjust rates down quickly to accommodate Fed interest rate cuts. The big question now is what will the Fed have to say about this at the June 12th meeting? And almost as important, what will the new consensus "dot-plot" show?

Next week is another important week for data and Fed officials will enter the pre-meeting "quiet period", so we won't really hear from Fed officials until after the meeting. We will see a wide range of economic and inflation data: ISM Manufacturing Prices Paid on 6/3, Factory Orders and Durable Goods on 6/4, ISM Services Prices Paid on 6/5 and the main event for the week, the Employment Report on 6/7. We also see a host of secondary numbers as well. More to come on that next week.

Chart 3: SOFR SWAP MARKET REACTION TO THIS MORNING'S PCE DATA

