

Flash Update: US RATE MARKETS – THURSDAY JULY 17, 2025

- US Treasury yields and SOFR swap rates are mostly unchanged this morning despite better-than-expected June Retail Sales Results
- The strong Retail Sales data adds to the uncertainty surrounding the timing of the next FOMC rate cut
- Yesterday, rates dipped after President Trump stepped up the anti-Powell rhetoric; Rates recovered as the rumors dissipated
- President Trump’s anti- Fed rhetoric and threats to fire Chairman Powell will continue to weigh on financial markets
- For the near term, traders will remain focused on tariffs, trade negotiations, geopolitics and inflation expectations
- Short-end SOFR swap rates are trading flat to up ~1 bp this morning, depending on tenor
- Long-end SOFR swap rates are currently trading flat to down ~1 bp, depending on tenor
- The next FOMC rate decision is due on Wednesday, July 30th at 2:00 PM
- *Expect rate markets to continue to be headline and data driven*
- *Elevated intraday rate volatility and/or sudden market movements are still possible for the near term*

US Treasury yields and SOFR swap rates had a mostly muted reaction to this morning’s strong Retail Sales report. Short-end rates drifted a bp or two higher on the release, then drifted back down. Long-term rates held mostly unchanged this morning. Bottom line, the inflation and consumer spending data we saw this week did not materially move the Fed needle, or for that matter interest rates. 2Y SOFR swap rates started the week at 3.635% - the 2Y swap rate is currently trading at 3.643%. Not a lot of movement given the amount of data and information we received this week. In short, I do not believe we have any greater clarity on the Fed’s next move, or the path forward for interest rates. Expect rates to remain range bound in the near term, but susceptible to “headline” volatility.

From my perspective, inflation concerns (or lack thereof) will continue to drive the market. The solid job market and consumer spending data is likely to keep the market’s primary focus on the forward inflation outlook. Tariff and trade related developments continue to be a primary market focus. The escalating political drama surrounding the Fed and Chairman Powell will also weigh on markets. Clearly, President Trump is using every back-room tactic he can to oust the Fed Chairman. Bottom line: The market’s overall tepid response to the data this week, and to President Trump’s “anti-Fed” rhetoric indicates “rate cut uncertainty” remains elevated. Fed officials will be heading into their pre-meeting “quiet period” beginning tomorrow. All eyes will slowly shift to the FOMC meeting (and Chairman Powell’s press conference) at the end of the month.

SOFR Swap Rate Summary: The **1Y** SOFR swap rate is trading flat to last night’s close. **2Y** and **3Y** SOFR swap rates are flat to up ~1 bp this morning. **5Y** and **10Y** SOFR swap rates are trading flat to down ~1 bp this morning. The very back-end of the swap curve is currently trading flat to down ~1 bp.

Please note: Market levels can change quickly - potentially, very quickly - in this type of market environment.

CHART 1: US RATES SNAPSHOT: 9:45 AM Eastern

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

UST YIELDS | SWAP SPREADS | SOFR SWAP RATES

2Y	3.896	+0.003	-25.3147	-0.4247	3.6449	+0.0004
3Y	3.867	-0.001	-30.8110	-0.4115	3.5598	-0.0030
4Y	3.926	-0.003	-36.3805	-0.2555	3.5645	-0.0037
5Y	3.987	-0.005	-38.5196	-0.0041	3.6034	-0.0041
7Y	4.206	-0.003	-48.5200	+0.1550	3.7219	-0.0038
10Y	4.449	-0.006	-55.8843	+0.2407	3.8929	-0.0030
20Y	5.004	-0.003	-82.1200	+0.3034	4.1852	-0.0015
30Y	5.006	-0.004	-86.8955	+0.3545	4.1389	-0.0009

Source: Bloomberg, LLP | 9:45 AM NY Rates Snapshot

CHART 2 & 2A: SOFR SWAP RATES MOSTLY UNCHANGED – MARKET SEEKS DIRECTION

SOFR swap rates were mostly unchanged this morning, despite better-than-forecasted June Retail Sales data. The strong Retail Sales data continues the recent trend of better-than-expected economic data. That said, rates had a mostly muted reaction to the consumer spending data and SOFR swap rates remain range bound. Longer-term swap rates are trading in a slightly wider range than short-term rates – this morning, longer-term rates are trading mostly flat to last night’s closing levels. This morning’s Retail Sales data, and the static CPI and PPI data we saw earlier this week, simply validated current market rate cut pricing – that is the primary reason rates did not move more meaningfully this week. SOFR swap rates continue to trade in a range (See Chart 2 & Chart 2A) – we may not see traders bold enough to carve out a new trading range until after the July FOMC meeting.

Currently, forward market pricing implies **~43.9 bps** of cumulative rate cuts for 2025. That number was ~46.2 at yesterday’s close. The current odds for a July rate cut are holding at ~2.5%; the odds for a September stabilized at ~55.1%; the odds for an October rate cut are sitting at ~77.6%, and the odds for a December rate cut are currently ~92.6%. There is also growing market speculation that the Fed could cut rates 50 bps in December (odds = ~42.1%). Currently, the market still favors two, 25 bp rate cuts in 2025, but those rate cuts are not anticipated to occur until the October and/or December FOMC meetings.

CHART 2: Short-End SOFR Swap Rates Mostly Unchanged Despite Strong Retail Sales Data



Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES, PRIOR (10) DAYS

CHART 2A: Long-End Swap Rates Hold Steady As Traders Digest Data



Source: Bloomberg, LLP | 5Y (green), 7Y (purple) & 10Y (light blue) SOFR SWAP RATES, PRIOR (10) DAYS

CHART 3: JUNE RETAIL SALES RECAP – CONSUMER SPENDING REBOUNDS

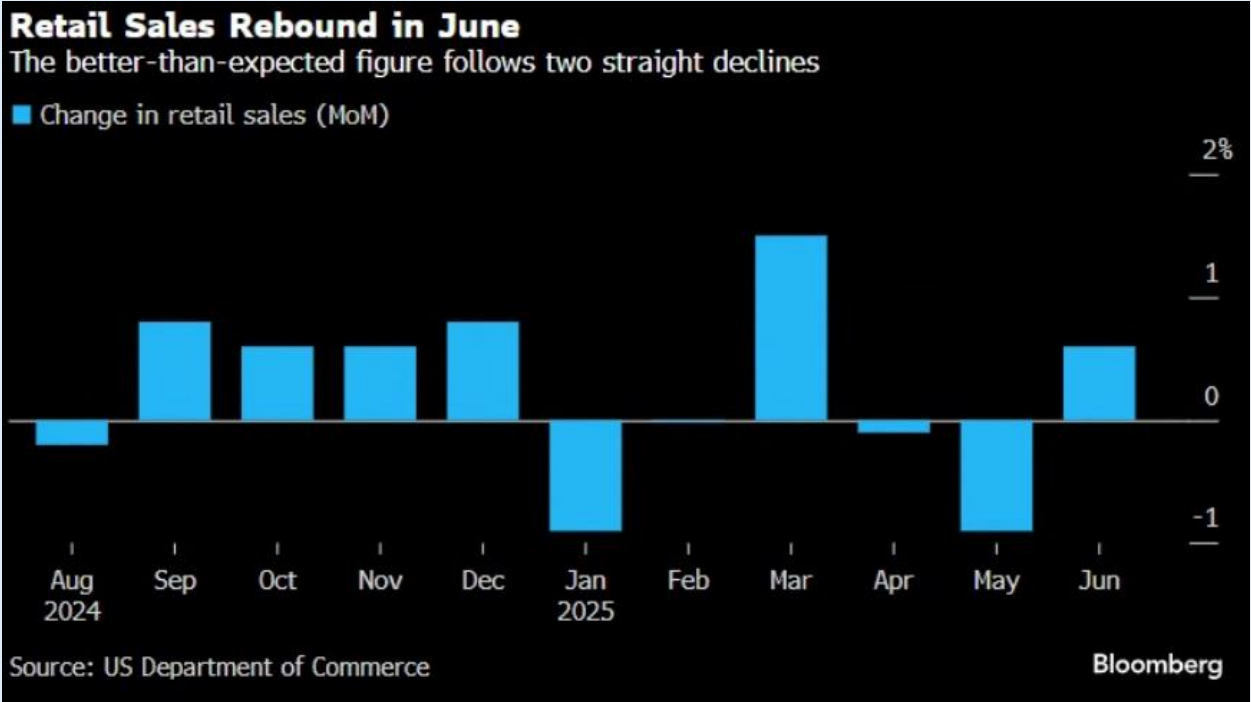
June Retail Sales rebounded in a broad advance, tempering market concerns about a slowdown in consumer spending. Headline Retail Sales increased 0.6% (vs. 0.1% expected) after declines in the prior two months. Excluding automobiles, sales climbed 0.5% in June (vs. 0.3% expected). This morning’s Retail Sales report offers some relief amid mounting anxiety around the health of the consumer. The strong retail sales data supports the Fed’s current “wait-and-see” approach, but the market reaction to the data was muted. The data this morning further clouds the outlook for Fed rate cuts.

CHART 3 & 3A: June Retail Sales Recap

Metric	Actual	Estimate
Retail sales (MoM)	+0.6%	+0.1%
Sales ex. autos (MoM)	+0.5%	+0.3%
‘Control group’ sales (MoM)	+0.5%	+0.3%

Source: Bloomberg, LLP | JUNE RETAIL SALES RECAP

CHART 3A: Historical Retail Sales Data



Source: Bloomberg, LLP | HISTORICAL RETAIL SALES DATA SINCE AUGUST 2024

Disclaimer: The information provided in this communication is intended for discussion purposes only. Nothing presented in this communication should be taken as a recommendation or forecast. All market data shown is indicative only and subject to change depending on current market conditions.

AST Defeasance Consultants, one of the nation's leading commercial real estate consulting firms, was founded in 2007. We have extensive experience in commercial real estate defeasance, hedging, derivatives, and financial instruments. More than \$50 billion worth of transactions have been executed by the AST team. Only AST can combine innovation, expertise, and exceptional customer service.

Rate Cap Advisors was established in 2015 that focus on providing commercial real estate interest rate cap solutions. Our innovation and desire to explore new possibilities that benefit our clients have allowed us to save our clients millions of dollars. No matter the service or product, we take great pride in our pursuit of perfection with a unparalleled closing track record.
