

Flash Update: US RATE MARKETS – WEDNESDAY JULY 30, 2025

- US Treasury yields and SOFR swap rates ticked higher this morning as the market prepares for the FOMC rate decision
- 2Q GDP, Core PCE Price Index revised higher; The revised GDP price data rekindles inflation fears, reduces rate cut expectations
- ADP private payrolls data released this morning beat expectations, signaling that private sector employment remains solid
- Rates moved lower yesterday on renewed concerns tariffs will remain in place for longer, and at higher levels, than anticipated
- Meetings with China did not produce a new trade agreement, and the August 1st tariff “deadline” looms
- An extension of high tariffs makes it more likely that economic growth and/or inflation could be negatively impacted
- Next up for data: June PCE is released on 7/31 and the July Employment Report on 8/1
- Short-end SOFR swap rates are trading up ~2-5 bps this morning, depending on tenor
- Long-end SOFR swap rates are currently trading up ~3-5 bps, depending on tenor
- The FOMC rate decision is due this afternoon at 2:00 PM; The FOMC is widely expected to hold the overnight rate unchanged
- FOMC Chairman Powell’s post-meeting press conference is scheduled for 2:30 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*

Rates ticked higher this morning, as traders and portfolio managers prepare for the Fed rate decision and brace for the key economic and inflation data due for release this week. Important corporate earnings releases due this week, pending US Treasury issuance and oscillating trade developments are also continuing to weigh on markets. The tariff news this week has discouraged markets. The meetings with China did not result in a new trade agreement. President Trump this morning announced a 25% tariff against India and although the EU and Japanese trade announcements were initially received positively by the market, details show that the end-result tariffs in both cases will wind up higher than market participants and investors anticipated.

Today the focus will be on the FOMC rate decision due at 2:00 PM, although as mentioned, there are other factors competing for the market’s attention. Regarding the FOMC, I do not see Powell (or other FOMC members for that matter) caving to political pressure. I would also point out that, despite President Trump’s constant refrain that rate cuts would help the “cost” of government debt, *managing the country’s interest expense is not a Fed mandate*. Also keep in mind that lowering the overnight rate *does not* guarantee lower mortgage rates - it could take a while for rate cuts to lower mortgage rates and it is possible they actually *do not* move substantially lower if the Fed cuts rates. Fed rate cuts may not be the boon to the housing market that people expect.

I do believe that the Fed should cut rates soon, particularly if the inflation data remains static. Even if inflation shows a slight uptick, I do not think that moving the Fed Funds rate down 25 bps will have a meaningful impact on inflation. A rate cut would also be good for market sentiment – markets are clamoring for a rate cut and I think the Fed will provide one soon, probably in September. The FOMC rate decision is due this afternoon at 2:00 PM. FOMC Chairman Jerome Powell will hold his *highly* anticipated press conference immediately following the rate decision.

There are also a couple of key numbers due the remainder of the week. PCE, Personal Income and Personal Spending data are released on 7/31 and the July Employment Report on 8/1. Expectations for tomorrow release of the June PCE data are as follows: Headline PCE MoM, 0.3% (vs. 0.1% the prior month); Headline PCE YoY, 2.5% (vs. 2.3% prior); Core PCE MoM, 0.2% (vs. 0.2% prior); Core PCE YoY,

2.7% (unchanged from prior). We could definitely see elevated rate volatility later this week as the market digests the broad range of data and information that will be released.

SOFR Swap Rate Summary: The **1Y** SOFR swap rate is trading up ~2-3 bps this morning. **2Y** and **3Y** SOFR swap rates are up ~3-5 bps this morning. **5Y** and **10Y** SOFR swap rates are currently trading up ~4-5 bps. The very back-end of the swap curve is currently trading up ~3-4 bps.

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

CHART 1: US RATES SNAPSHOT: 9:30 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	3.920	+0.046	-24.7570	-0.4270	3.6649	+0.0391
3Y	3.863	+0.049	-30.1250	-0.3350	3.5631	+0.0436
4Y	3.898	+0.052	-35.8295	-0.6095	3.5498	+0.0429
5Y	3.947	+0.052	-37.7500	-0.9812	3.5748	+0.0420
7Y	4.136	+0.048	-46.6550	-1.1895	3.6775	+0.0423
10Y	4.368	+0.048	-53.0050	-0.4791	3.8390	+0.0425
20Y	4.890	+0.039	-77.2767	+0.0807	4.1178	+0.0378
30Y	4.897	+0.041	-83.3782	-0.4664	4.0644	+0.0350

Source: Bloomberg, LLP | 9:30 AM NY Rates Snapshot

CHART 2 & 2A: SOFR SWAP RATES DRIFT HIGHER AHEAD OF FOMC RATE DECISION

SOFR swap rates ticked higher this morning, but remain range bound as the market seeks direction. Swaps are likely to continue to trade in a range today, at least until we hear from the Fed.

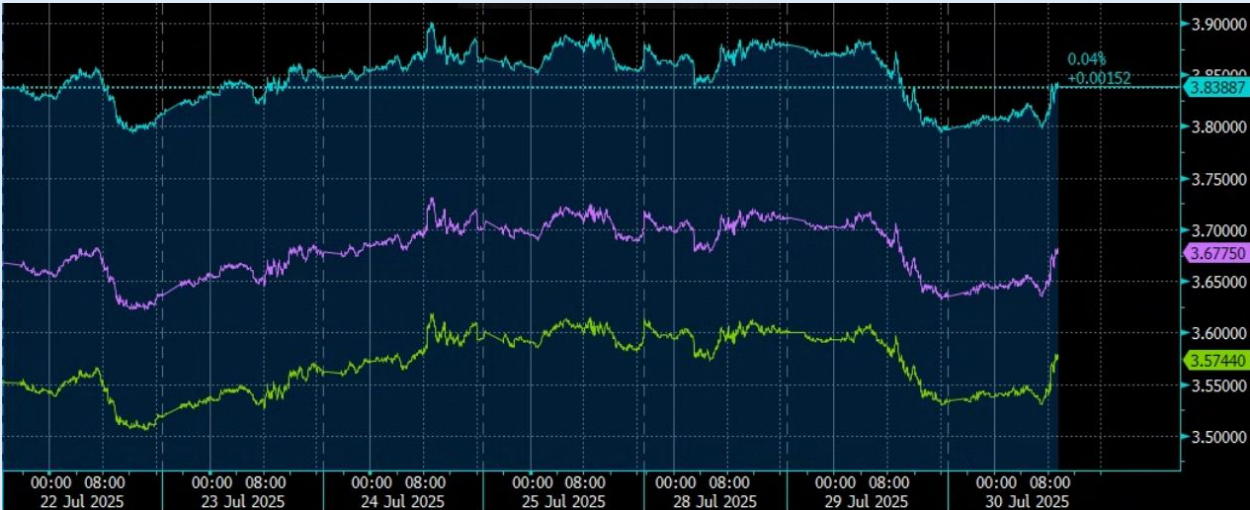
Heading into the FOMC rate decision, forward market pricing implies **~44.5 bps** of cumulative rate cuts for 2025. That number was ~46.2 at yesterday’s close. The current odds for a July rate cut have dropped to ~2.1%; the odds for a September cut notched a touch higher to ~62.2%. The odds for an October rate cut are sitting at ~80.1%, and the odds for a December cut are currently holding steady at ~93.4%. There is some market speculation that the Fed could cut rates 50 bps in December (odds = ~43.2%). 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. A September rate cut is also still a possibility, although those odds have decreased over the past two weeks.

CHART 2: Short-End SOFR Swap Rates Drift Higher On Positive Economic News



Source: Bloomberg, LLP | 1Y (white), 2Y (blue) & 3Y (orange) SOFR SWAP RATES, PRIOR (7) DAYS

CHART 2A: Long-End Swap Rates Drift Higher On Renewed Concern Tariffs Will Create Inflation



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

CHART 3 & 3A: FOMC RATE DECISION, ECONOMIC DATA, TARIFFS, CORPORATE EARNINGS & US TREASURY ISSUANCE WEIGH ON MARKETS

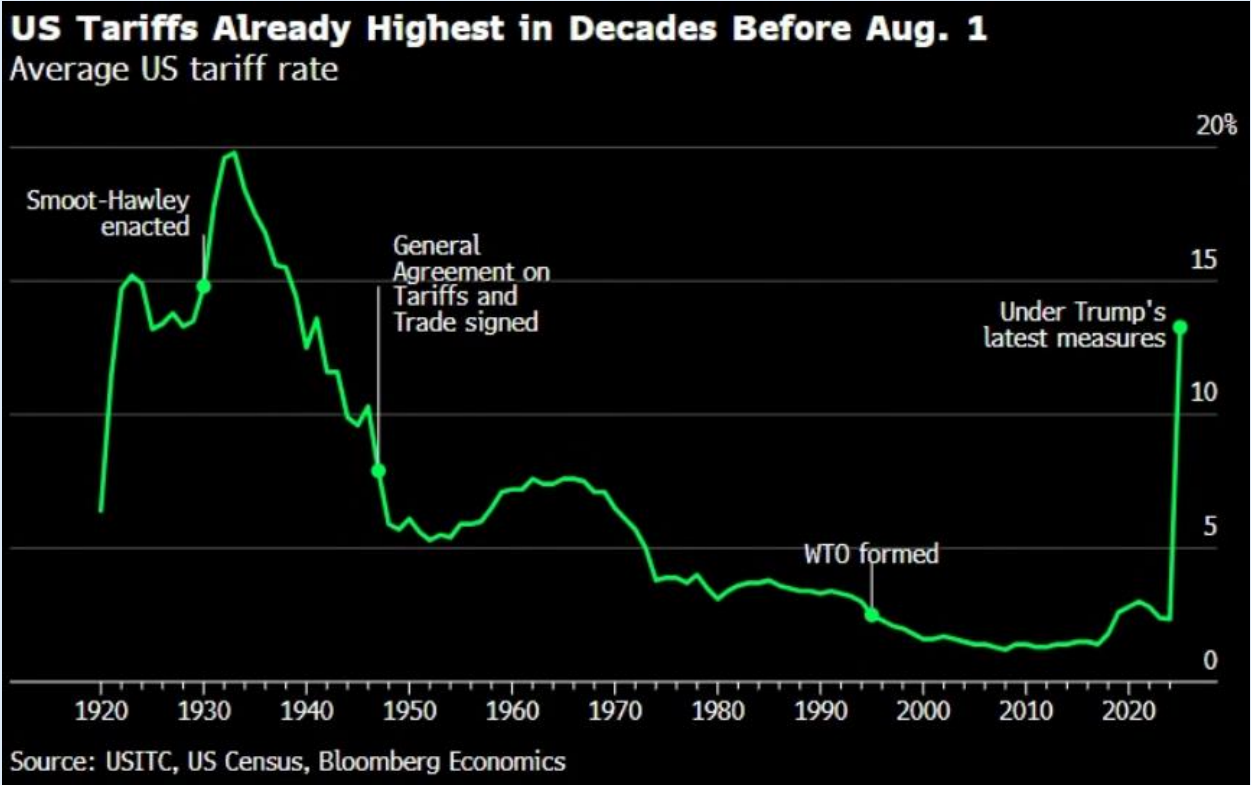
There are many variables captivating the market currently. This morning, 2Q GDP and the Core PCE Price Index were both revised higher. That keeps inflation on trader’s minds and also provides some relief that tariffs have not yet significantly damaged economic growth. *The revised GDP data does not support a Fed rate cut.* President Trump’s erratic and confusing tariff and trade announcements are also contributing to a spike in market anxiety and increased uncertainty. Markets are also dealing with ongoing geopolitical risk, imminent US Treasury issuance and a full plate of corporate earnings reports that are due this week. Sprinkle in the key economic data we see this week and the recipe for rate volatility and/or a new trading range is certainly present – perhaps the Fed will be the catalyst the market is waiting for.

CHART 3: GDP RECAP – 2Q GDP, CORE PCE PRICE INDEX REVISED HIGHER

Indicator	Actual	Estimate
GDP	+3.0%	+2.6%
Personal consumption	+1.4%	+1.5%
PCE price index, excl. food, energy	+2.5%	+2.3%

Source: Bloomberg, LLP | 2Q GDP REVISIONS RECAP

CHART 3A: Tariffs Continue To Create Uncertainty...



Source: Bloomberg, LLP | HISTORICAL AVERAGE US TARIFF RATE SINCE 1920

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