

## **Flash Update: US RATE MARKETS – WEDNESDAY AUGUST 13, 2025**

- US Treasury yields and SOFR swap rates drifted lower this morning on yesterday's "as-expected" July CPI results
- Despite the overall static retail inflation data, core CPI is still running at the hottest levels since January
- There is no economic or inflation data scheduled for release today
- Next up for data: July PPI inflation data is released tomorrow, 8/14 at 8:30 AM; July Retail Sales prints on 8/15 at 8:30 AM
- Short-end SOFR swap rates are trading down ~3-4 bps this morning, depending on tenor
- Long-end SOFR swap rates are currently trading down ~3-4 bps, depending on tenor
- *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*

SOFR swap rates and US Treasury yields drifted lower this morning, as traders breathed a sigh of relief after yesterday's "as expected" July CPI print. An unexpected increase in inflation could have jeopardized Fed rate cuts this year. Even though Core CPI printed hotter-than-expected, traders took comfort that big picture, inflation remains in check for now. Somewhat surprisingly, tariffs were not behind the uptick in Core CPI. You can take that revelation one of two ways as it pertains to rate cuts - as a positive (there is no discernable tariff related inflation effect to date = more rate cuts ) or as a negative (the categories that did show an uptick in inflation are "core" to the economy and not related to one-time tariffs = less rate cuts). The former view argues for multiple Fed rate cuts this year. The latter view supports Fed caution with respect to more than two rate cuts this year. Bottom-line, market participants will need to see more data before going "all-in" on more than two rate cuts this year. I think that is the primary reason traders did not overreact to yesterday's CPI print.

The next data points we see will be July PPI, released tomorrow at 8:30 AM and July Retail Sales results, released on 8/15 at 8:30 AM. Expectations for tomorrow's PPI data are as follows: Headline CPI MoM, 0.2% (vs. 0.0% the prior month); Headline CPI YoY, 2.5% (vs. 2.3% prior); Core CPI MoM, 0.2% (vs. 0.0% prior); Core CPI YoY, 3.00% (vs. 2.6% prior). You can see that even if PPI prints "as-expected" tomorrow, the increases month-over-month and year-over-year are likely to concern market participants, and rates could tick higher. A softer-than-expected result would likely lead to slightly lower rates. It would also continue to fan speculation for a 50 bp rate cut in September. July Retail Sales expectations are as follows: Headline Retail Sales MoM, 0.6% (vs. 0.6% the prior month); Retail Sales Ex-Autos MoM, 0.3% (vs. 0.5% prior). I think the inflation data will be the big show this week, but the Retail Sales results will definitely be in focus for the market.

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

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

### **CHART 1: US RATES SNAPSHOT: 10:00 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	3.687	-0.044	-24.4080	+0.3680	3.4441	-0.0406
3Y	3.656	-0.048	-29.1225	+0.4174	3.3658	-0.0430
4Y	3.717	-0.046	-34.3750	+0.2500	3.3725	-0.0449
5Y	3.774	-0.049	-36.2500	+0.1250	3.4130	-0.0458
7Y	3.982	-0.048	-44.9000	+0.3160	3.5350	-0.0437
10Y	4.234	-0.040	-52.8750	+0.2500	3.7193	-0.0400
20Y	4.813	-0.041	-77.1700	+0.4000	4.0427	-0.0383
30Y	4.842	-0.039	-83.0040	+0.1210	4.0110	-0.0374

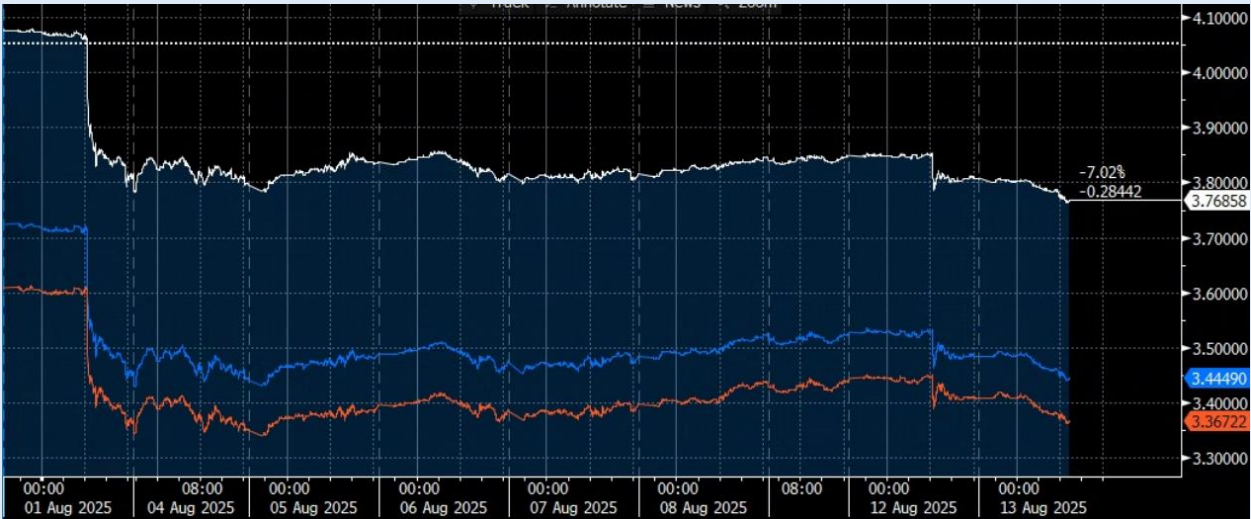
Source: Bloomberg, LLP | 10:00 AM NY Rates Snapshot

CHART 2 & 2A: SOFR SWAP RATES DRIFT LOWER AS MARKET PREPARES FOR PPI & RETAIL SALES DATA

SOFR swap rates dipped a touch lower this morning, as traders continue to prop-up rate cut odds after yesterday’s relatively tame CPI results. Yes, core CPI did tick a touch higher, which is a concern, but it was not enough to derail market rate cut expectations. Overall, SOFR swap rates are down ~3-4 bps this morning – for the week, short-end swap rates are down ~6-8 bps. Should the PPI and/or Retail Sales data come in “at expectations” (or weaker-than-expected), rates are likely to drift lower. Static inflation (read: no tariff effect) and weaker consumer spending would likely increase market speculation that the Fed will cut rates 50 bps at the next meeting. I still think the talk of a 50 bp rate cut in September is premature – the increase in Core CPI does concern me – and it is likely to concern the Fed as well. From my perspective, the FOMC is going to take great care not to cut rates too fast, too soon. They cannot risk igniting runaway inflation.

Currently, forward market pricing implies ~62.9 bps of cumulative rate cuts for 2025. That number was ~60.1 at yesterday’s close. After the relatively positive CPI data we saw yesterday, the odds for a 25 bp September rate cut ticked up to ~99.9%. There is also growing speculation the FOMC may cut rates 50 bps at the September meeting, but those odds are currently sitting under 5%.

CHART 2: Short-End SOFR Swap Rates Dip As Rate Cut Expectations Inch Higher



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

CHART 2A: Long-End Swap Rates Drift Lower On “As Expected” CPI Print



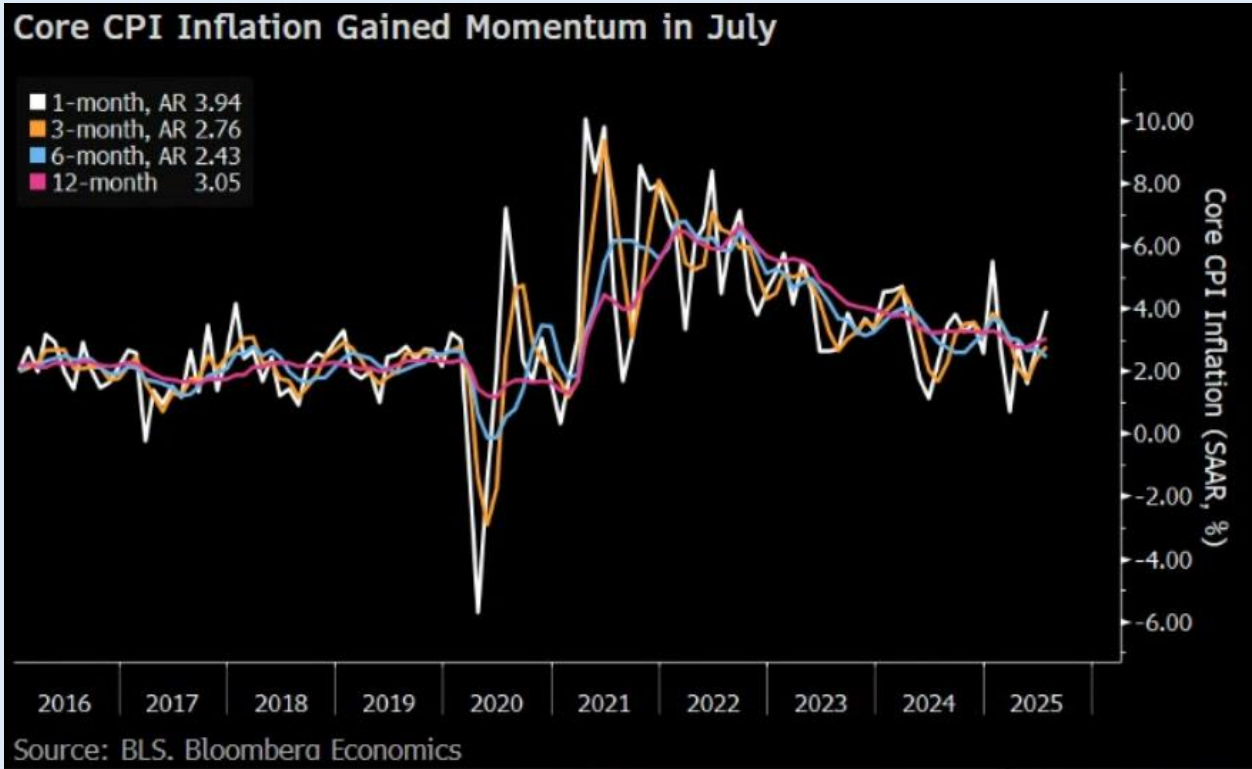
Source: Bloomberg, LLP | 5Y (green), 7Y (purple) & 10Y (light blue) SOFR SWAP RATES, PRIOR (10) DAYS

**CHART 3 & 3A: JULY CPI PRINTS LARGELY AS EXPECTED, BUT CORE CPI HEATS UP**

Core CPI rose at the quickest monthly pace since January, but surprisingly, tariffs were not the main driver of the increase. The key factor was an uptick in inflation for services, notably airfares, as well as automobiles. According to Bloomberg economists, the results suggest July core PCE inflation (due out Aug. 29) may print hotter-than-expected. Bottom line, I think that the growing expectations for Fed rate cuts are far from a done deal. Market pricing may be getting ahead of itself. We still have a long way to go and a lot of data to see before the next Fed meeting.

Headline CPI increased 0.20% in July (vs. 0.29% in June), as expected. Core CPI increased 0.32% (vs. 0.23% prior), close to the 0.30% forecast. On a year-over-year basis, headline CPI remained at 2.7% and core CPI increased to 3.1% (vs. 2.9% prior). Core CPI showed one-, three- and six-month annualized gains of 3.9% (vs. 2.8% prior), 2.8% (vs. 2.4% prior), and 2.4% (vs. 2.7% prior), respectively. The upward pressure on core inflation definitely concerns me.

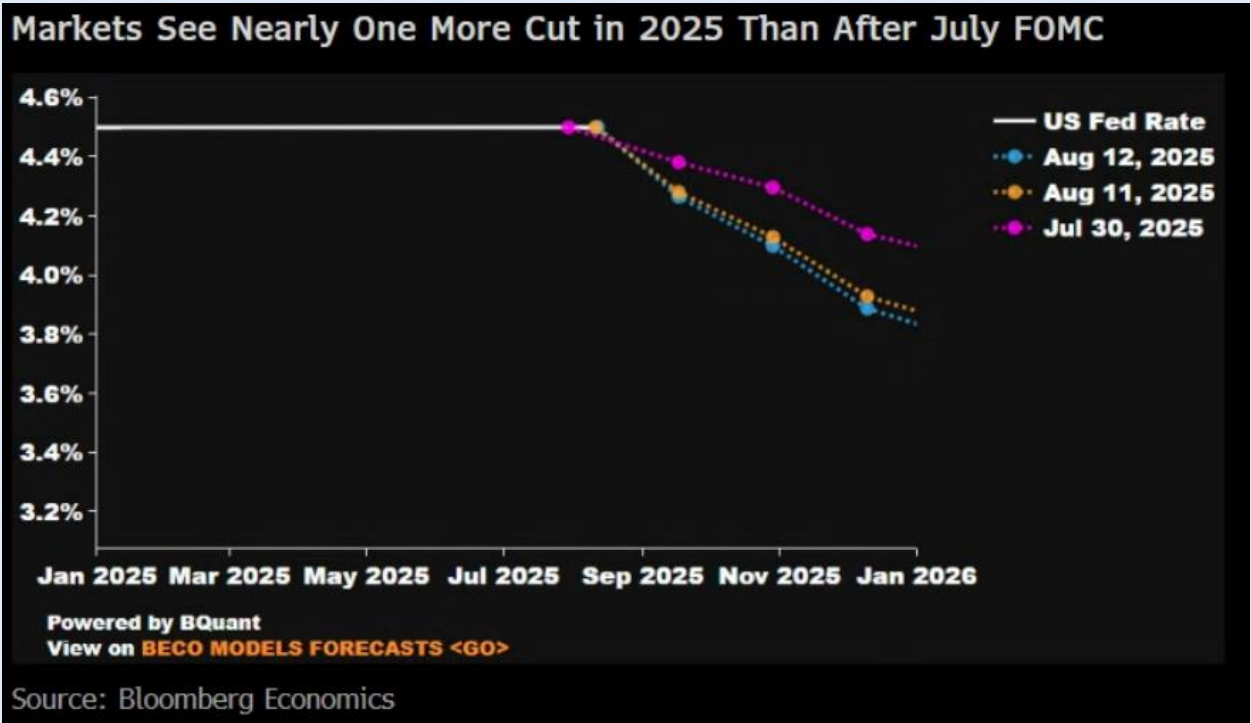
**CHART 3: Headline July CPI Static...However, Core CPI Gains Momentum**



Source: Bloomberg, LLP | HISTORICAL CORE CPI SINCE 2016

**CHART 3A: Market Now Expects Two 25 BP Rate Cuts In 2025, Odds Growing For A Third (or Possibly, A 50 BP Cut?)**





Source: Bloomberg, LLP | FED RATE CUT EXPECTATIONS FOR 2025

**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.

\*\*\*