

Flash Update: US Rate Markets – Monday 7/8/2024

- **Rates stable as market braces for another big week for data and Fed-Speak**
- **The June Employment Report posted weaker-than-expected; Rates moved lower in response to the data**
- **The jobs data for the prior two months was revised lower, adding to speculation the labor market is cooling**
- **Chairman Powell gives his semi-annual “testimony” in Washington DC tomorrow and Wednesday**
- **June CPI data is released on Thursday, 7/11 at 8:30 AM**
- **Speculation is growing that the first 25 basis point rate cut will occur in September**

US Treasury yields and SOFR swap rates opened steady this morning, as the market digests Friday’s June Employment Report and braces for another batch of key data and Fed-Speak on tap for this week. The Employment Report showed an uptick in the unemployment rate and stable wages. More importantly, the jobs data for the prior two months was revised significantly lower, signaling that the labor market is indeed starting to cool. Rates dropped on Friday after the jobs data was released and continued to move lower all day. 2Y SOFR swap rates closed *down* ~10 basis points, and 1Y swaps were down ~6 bps. Currently, SOFR swap rates are up ~1-2 bps as the market braces for another big week.

There are two big events this week. The first is Chairman Powell’s semi-annual testimony to the House and Senate. Powell will give prepared remarks and be subject to an extensive Q&A. Powell will start with testimony to the Senate Banking Committee, tomorrow at 10:00 AM, followed by testimony to the House Financial Services Committee. Powell is anticipated to get some pushback from politicians on why the Fed has not commenced cutting rates. Market participants will be listening for clues on the timing and magnitude of rate cuts. Traders will be interested to know if the latest inflation and employment data has meaningfully shifted the Fed’s mindset on monetary policy and the timing of the first rate cut. Of note, the hearings are Powell’s last scheduled public address to Congress ahead of the presidential election, and he will likely have to defend the central bank’s higher-for-longer policy stance as well as its claim to be independent of politics. Fed officials in June pared back estimates of how many times they expect to lower borrowing costs this year, signaling they will hold rates at a two-decade high as they wait for more evidence inflation is headed down to their 2% target. Powell reiterated that message in comments last week, and declined to specify when rate cuts might begin. We will see if the tone and substance of his testimony continues to support that view, or if the recent data may have accelerated the timing of the Fed’s first rate cut. The market wants to know if the Fed is more concerned about an economic slowdown or about inflation not being at their 2.00% target.

The other “big” event this week is the release of the June CPI data on Thursday, July 11 at 8:30 AM. Recent inflation data has beat expectations and renewed hopes that the disinflation trend is back on track. Market participants are growing more and more confident that inflation will be able to reach the Fed’s stated 2.00% target level. Although CPI and Powell’s testimony are not anticipated to alter the market’s view that the Fed will cut rates, it could impact the timing of the first rate cut. Friday’s jobs report helped to slightly raise expectations around the likelihood of an interest-rate cut from the Federal Reserve by September. Fed-funds futures traders now see a 72.5% chance of a quarter-point cut by September, up from 68.4% last week. A better-than-expected CPI print and a dovish Powell could further bolster the odds for a September rate cut. The market would ideally like to see the Fed cut rates before the election, and then again in December.

CHART 1: US RATES SNAPSHOT: 11:00 AM Eastern

UST YIELDS

SWAP SPREADS

SOFR SWAP RATES

2Y	4.631 +0.027	-15.6065 -0.5365	4.4752 +0.0200
3Y	4.415 +0.020	-20.6210 +0.2101	4.2112 +0.0218
4Y	4.309 +0.017	-27.2000 +0.2375	4.0598 +0.0220
5Y	4.246 +0.022	-27.2375 +0.1375	3.9739 +0.0211
7Y	4.247 +0.019	-34.8957 +0.2293	3.8987 +0.0188
10Y	4.290 +0.011	-41.8750 +0.5000	3.8725 +0.0169
20Y	4.587 +0.009	-72.2612 +0.6538	3.8649 +0.0139
30Y	4.482 +0.005	-79.5000 +0.8750	3.6865 +0.0125

SOFR swap rates opened the week up ~1-2 bps as the market prepares for the data and Chairman Powell's testimony in Washington D.C.

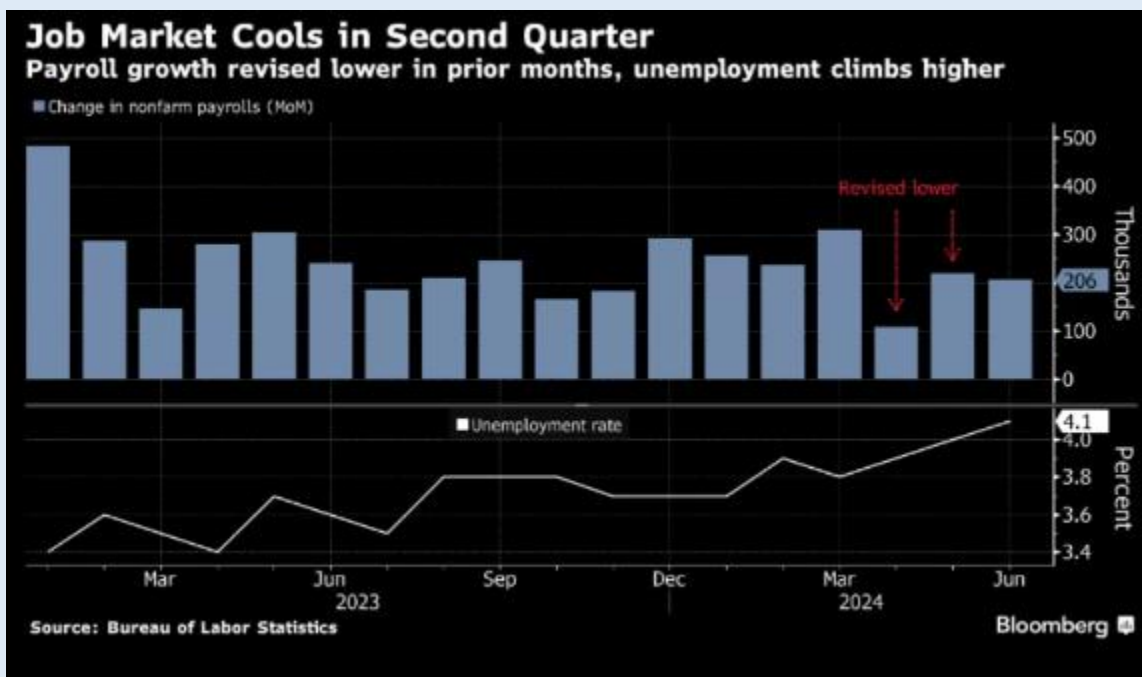
Source: Bloomberg, LLP | 11:00 AM NY Rates Snapshot

Note: First column is the current market level, second column is the change on the day; 'Red' = Lower; 'Green' = Higher; 'White' denotes active trading

CHART 2: Softer Employment Data Leads To Lower Rates

U.S. employers added 206,000 jobs in June, with the unemployment rate ticking up to 4.1 percent, signaling that the labor market is starting to slow down. Total nonfarm payroll employment increased by 206,000 in June, lower than the average monthly gain of 220,000 over the prior 12 months. The change in total nonfarm payroll employment for April was revised down by 57,000 to a gain of 108,000, and the change for May was revised down by 54,000 to a gain of 218,000. With these revisions, employment in April and May combined is 111,000 lower than previously reported. The revisions to the prior two month's data were the catalyst for the rate decrease we witnessed on Friday. Market participants viewed the data as a sign that the labor market has actually been cooling-off for several months. That, in turn, bolstered hopes that the Fed will cut rates twice this year, beginning in September. The uptick in the unemployment rate to 4.1%, coupled with favorable wage data, also helped to push rates lower and increase rate cut optimism.

Chart 2: June Employment Report Recap



Source: Bloomberg, LLP | June Employment Report Recap

CHART 3: SOFR Swap Rates Dropped After Jobs Data Was Released; Rates Stable This Morning

