

## AST DEFEASANCE RATE MARKET UPDATE

Good Morning! Please see below for the RCA | AST Defeasance *Rate Market Update* for May 11, 2023. Please let us know if you would like additional market color or have any questions.

### [RATE MARKET UPDATE: May 11, 2023 | CPI, PPI Recap](#)

- [Debt-Ceiling drama intensifies in Washington](#)
- [CPI, PPI both printed cooler than forecast](#)
- [Inflation data provides Fed breathing room to pause and regroup at June meeting](#)
- [Weekly Jobless Claims highest since Oct 2021](#)
- [Rates decreased after the PPI data this morning](#)
- [Fed-sensitive 2Y SOFR swap rates are down ~20 bps this week in reaction to inflation data](#)

The much anticipated inflation data this week was cooler than forecast and weekly Jobless Claims increased to the highest level in 19 months. CPI and PPI showed inflation continue to ease (See Chart 1) and the Jobless Claims data signals a cooling job market – these factors combined give the FOMC some breathing room and increases the odds they will officially pause at the June meeting. As a result of the inflation and jobless claims data SOFR swap rates are down ~15-20 bps on the short end this week (See Chart 2). Medium and long term swap rates are down ~10-15 bps so far this week. The market will continue to monitor the debt-ceiling situation closely, as well as the banking sector and energy markets. As far as headline data, the market will now look ahead to next week's Retail Sales numbers (5/16 at 8:30 am). As we mentioned in an earlier update, there are many Fed officials scheduled to speak this week and next. Fed-speak always has the potential to shift market sentiment.

Market uncertainty remains high – as noted there are many crosswinds blowing in the market and economy at the moment. The inflation data certainly helps provide some comfort the FOMC will not raise rates in June. However, inflation remains far from the Fed's stated 2.00% target and this is only one set of data the Fed will see before the next meeting. The market has had a recent history of overreacting to data or Fed-speak, as we know.

### [CHART 1: CPI & PPI Summary Details](#)

The Bloomberg tables below show the major component details for CPI and PPI. CPI printed almost exactly as expected and PPI was below the median estimates. Both numbers were viewed favorably by the rates market. Lower inflation (or at least static inflation) coupled with the higher than anticipated weekly jobless data led to lower rates as traders reassessed forward rate expectations and the FOMC. However, in order to appease the FOMC, the decrease in inflation must be durable and sustainable – this is only one month of data and the Fed will need to see more than that to be convinced they are nearing their inflation objective.

#### CPI Summary:

Metric	Actual	Median Estimate
CPI MoM	+0.4%	+0.4%
Core CPI MoM	+0.4%	+0.4%
CPI YoY	+4.9%	+5%
Core CPI YoY	+5.5%	+5.5%

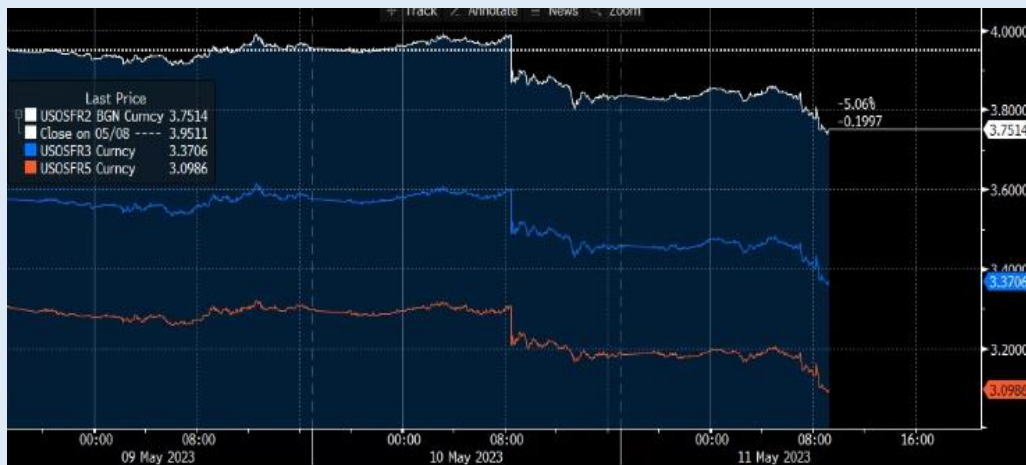
#### PPI Summary:

Metric	Actual	Median Estimate
PPI MoM	+0.2%	+0.3%
PPI YoY	+2.3%	+2.5%
Core PPI YoY	+3.2%	+3.3%

### [CHART 2: SOFR Swap Rates Prior 3 Trading Sessions | 2Y, 3Y, 5Y](#)

The Bloomberg chart below details the 2Y, 3Y and 5Y SOFR swap rate movement over the prior three trading sessions. As mentioned, the market has once again repriced forward FOMC expectations – you can clearly see rates move lower after yesterday's CPI data printed and that trend lower continued after this morning's PPI was released. The Fed sensitive 2-year Swap is down ~20 bps since Monday morning. This is essentially the market removing the possibility of a rate hike at the June meeting. The market is calling for an immediate pause to rate hikes quickly followed by rate cuts beginning as early as this summer. That is in direct contrast to what the Fed has communicated recently and consistently. That said, the FOMC will certainly be pleased with this data but will want to see it sustained next month. Also keep in mind that although the inflation data this week is encouraging, there are other inflation indicators that the Fed also monitors closely. For the time being, consensus is that the FOMC

has reached the neutral rate and will officially communicate a pause at the June meeting. Beyond that, the FOMC and the rate market have a reckoning on the horizon! *Stay tuned!*



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