

AST DEFEASANCE RATE MARKET UPDATE

Thursday, March 23, 2023

[RATE MARKET UPDATE: MARCH 30, 2023 | Rates Stable; Muted Market Reaction To Data](#)

- Data released this morning prints largely as expected; GDP PCE component slightly higher than forecast
- Rate market reaction to GDP data muted; SOFR Swap rates a touch higher this morning
- Rates stable ahead of *highly* anticipated Core PCE data to be released tomorrow

Treasury and SOFR Swap rates are a touch higher this morning after GDP and jobless claims printed largely as expected. The PCE component was slightly higher than forecast at 4.4% (QoQ), leading to slightly higher rates across the curve (approx. 2-5 bps). Jobless claims were +198k vs. a +196k expectation. Claims remained below 200k again – further evidence the labor market remains tight. (See *Chart 1 for the actual data released this morning*). This morning’s data did not cause any material volatility today – for the most part traders shrugged off the data and are squarely focused on tomorrow’s important PCE data (released at 8:30 a.m.).

The FOMC closely monitors core PCE – it is one of their primary inflation gauges. Core PCE forecasts call for a +0.4% increase MoM and a +4.7% increase YoY. Higher than expected inflation could push rates higher as the market will likely rethink the potential for rate *cuts*. A lower than anticipated core PCE reading tomorrow could embolden the market to push rates lower on expectations the FOMC will come around to the market’s rate view. It is an important number that the market will be watching closely. The rate market also appears to be calming down from the banking storm and is in “continued observation” mode. No ultimate conclusions have been drawn yet but the fear and uncertainty has been dialed down substantially. The market will also see data on Personal Income tomorrow at 8:30 a.m. and the Michigan University data series is released at 10:00 a.m. Any of the three numbers could contribute to increased rate volatility but make no mistake – the market will be honed in on the PCE data.

Traders continue to price in a ~50% probability that the FOMC will lift rates by 25 basis points at the May meeting. As we discussed, tomorrow’s PCE data may have something to say about that! After the May meeting, the market is currently pricing in a slight pause by the FOMC, then expects accelerated easing. This is in sharp contrast to what the FOMC has communicated. Swaps traders now expect the benchmark rate to sit around 4.3% by the end of the year, approximately 70 basis points lower than the current level. The FOMC continues to communicate they will raise rates *if necessary* but then plan to hold rates higher for longer. *We expect elevated levels of rate volatility to remain as the market continues to grapple with forward rate expectations and the health of the economy.*

[CHART 1: Economic Data Detail – Actual Numbers](#)

The Bloomberg chart below details today’s economic data releases. The chart shows the expectation (Survey) and the actual data print (Actual). Prior month revisions are also detailed.

Date	Time	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
21)	03/30 08:30	↔	📊		Initial Jobless Claims	Mar 25	196k	198k	191k	--
22)	03/30 08:30	↔	📊		Continuing Claims	Mar 18	1700k	1689k	1694k	1685k
23)	03/30 08:30	↔	📊		GDP Annualized QoQ	4Q T	2.7%	2.6%	2.7%	--
24)	03/30 08:30	↔	📊		Personal Consumption	4Q T	1.4%	1.0%	1.4%	--
25)	03/30 08:30	↔	📊		GDP Price Index	4Q T	3.9%	3.9%	3.9%	--
26)	03/30 08:30	↔	📊		Core PCE QoQ	4Q T	4.3%	4.4%	4.3%	--

[CHART 2: FED SPEECH CALENDAR](#)

The rate market will also be focused on comments and speeches by Fed officials in the coming weeks. There are a number of Fed officials “on-the-tape” over the next week or so and Fed-speak *always* has the capacity to generate unexpected market volatility, especially when market uncertainty runs high. Fed officials may provide insights into their thought process on forward monetary policy and the market will be listening!

	Date	Time	A	M	R	Event
21)	03/30	12:45				Fed's Barkin Speaks at Virginia Council of CEOs Event
22)	03/30	12:45				Fed's Collins Speaks at NABE in Washington
23)	03/30	13:00				Fed's Kashkari Speaks in Town-Hall Event
24)	03/31	15:05				Fed's Williams Speaks at Housatonic Community College
25)	03/31	17:45				Fed's Cook Discusses US Economy and Monetary Policy
26)	03/31	22:00				Fed's Waller Discusses the Phillips Curve
27)	04/04	18:15				Fed's Mester Speaks in New York
28)	04/06	10:00				Fed's Bullard Discusses the Economic Outlook

Thank you and best regards,

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 Advisers 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.

To unsubscribe from our mailing list, please reply to this email.