

AST DEFEASANCE RATE MARKET UPDATE

Please see below for the RCA | AST Defeasance *Rate Market Update* for May 9, 2023. Please let us know if you would like additional market color or have any questions.

[RATE MARKET UPDATE: May 9, 2023 | Debt-Ceiling Drama; CPI Preview](#)

- [Debt-Ceiling drama continues in Washington](#)
- [All eyes on CPI inflation data released tomorrow at 8:30 am](#)
- [Rates remain in a tight range ahead of CPI \(5/10\), PPI \(5/11\)](#)
- [SOFR swap rates mostly unchanged this morning; little changed this week](#)

US Treasury and SOFR swap rates opened mostly unchanged this morning, as market participants await tomorrow's key CPI inflation data. Market participants expect Headline CPI to rise by 5% on a year-on-year basis, which could signal inflation is still uncomfortably high for the FOMC. CPI is closely watched by the FOMC, particularly the Core CPI component (CPI less Food & Energy). Core CPI is expected to increase by 0.3% MoM and 5.5% YoY. Wednesday's CPI data will be followed by PPI, which is released Thursday at 8:30 am.

The debt-ceiling drama in Washington continues – the President and House Speaker are meeting today to attempt to forge a compromise. Politicians are under increasing pressure from industry leaders and their constituents to resolve the debt-ceiling situation ASAP. While most market participants expect a resolution, anxiety is escalating as the deadline approaches and the stalemate lingers. Not reaching an agreement could increase bond market volatility significantly – and that would only be the start of the consequences. We will be monitoring this situation and the rate market impact.

[CHART 1: 2 Year, 3 Year & 5 Year SOFR Swap Rates – Prior 30 Days](#)

The Bloomberg graph below details the 2Y (white), 3Y (gold) and 5Y (orange) SOFR swap rate for the past 30 days. Short-end SOFR swap rates are down ~3-5% in that period, despite bouncing around in a relatively wide range over the prior 30 days. We may see some volatility after tomorrow's CPI number, particularly if the number radically departs from expectations. Recent Fed comments have indicated they will be reluctant to hike further without clear data evidence, so the market will be monitoring Fed comments regarding the CPI result.



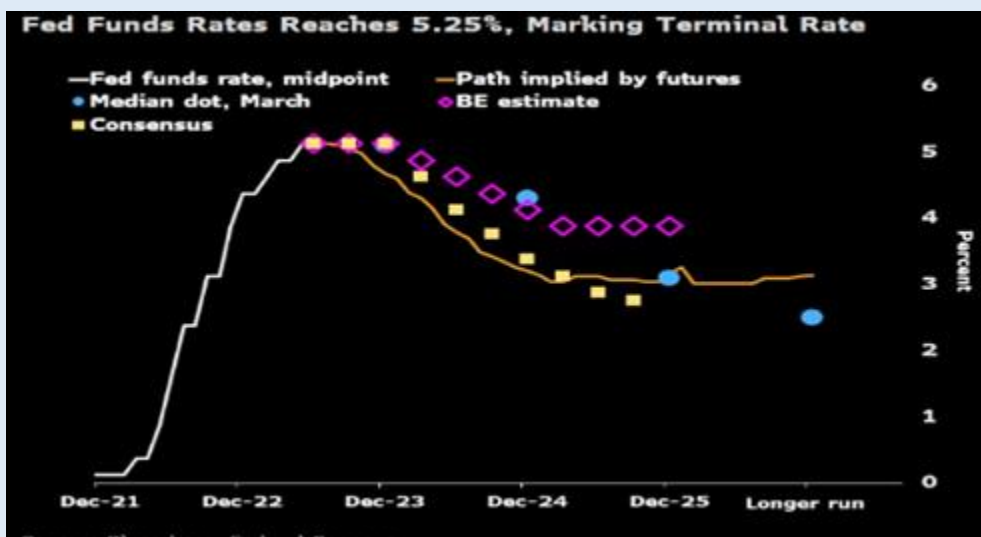
[CHART 2: Upcoming Fed Speech Calendar](#)

The Bloomberg table below details the Fed speech calendar through 5/16/23. There are a number of Fed officials on the tape in the next few days and their comments *always* have the potential to move the rate market. The forward path for rates the next 12-18 months is uncertain, and there are a wide range of possible outcomes. *As the FOMC has signaled that they have shifted to a "data-dependent" mode, traders will be listening to Fed officials closely in the near term.*

United States		Browse		08:32:34	
Central Banks		All Central Banks			
Date	Time	A	M	R	Event
21	05/09 08:30				Fed's Jefferson Speaks to Atlanta Black Chamber
22	05/09 12:05				Fed's Williams Speaks to Economic Club of New York
23	05/11 10:15				Fed's Waller Discusses Financial Stability and Climate...
24	05/12 14:20				Fed's Daly Gives Commencement Speech
25	05/12 19:45				Fed's Bullard and Jefferson Take Part in Panel Discussion
26	05/13 10:30				Fed's Cook Gives Commencement Speech
27	05/15 08:45				Fed's Bostic Has Opening Remarks at Financial Markets...
28	05/16 08:15				Fed's Mester Discusses the economic and Policy Outlook
29	05/16 12:15				Fed's Williams Discusses Economic Outlook and Monetary...
30	05/16 19:00				Fed's Bostic and Goolsbee Discuss the Economic Outlook

CHART 3: FOMC Expectations: A Wide Range of Possible Outcomes

The Bloomberg Economists' table below shows a wide range of possible outcomes for monetary policy and forward rates. Bloomberg's current forecast (triangle) is actually the most conservative forecast for the FOMC – they don't see a rate cut until the first half of 2024. The market (yellow line) still expects the Fed to cut rates as early as the *July* meeting and traders are currently pricing in *at least 2* rate cuts this year. The FOMC has signaled they have *no* plans for rate cuts this year. The FOMC is likely to pause and assess the broader landscape at the June meeting. There are myriad forces at work that the Fed may find challenging to manage. Tightening credit, concerns about a recession, energy sector volatility, geopolitical pressures, the debt-ceiling and banking sector turbulence will *all* weigh on the FOMC's next rate decision. That said, inflation is likely to remain center stage for the FOMC. The Fed will definitely consider the impact of any future rate hikes on the above mentioned market hot spots, but they have no doubt left the door open to another 25 basis point rate hike, if necessary. *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.