Viewpoint | Citi Research

10 Jul 2026 18:20:24 ET | 34 pages

US Rates Weekly

Red card for rate hikes

Flagship

Jason Williams[AC]

Mike Chang[AC]

Raghav Datla[AC]

Alejandra Vazquez Plata[AC]

With thanks to
Simran Bedi

CITI'S TAKE

We remain received in the July FOMC meeting with a front-end flattener hedge as next week's CPI should be supportive, combined with our view on seasonal NFP weakness. This backdrop implies 5s30s steepening risks, combined with our view that pension fund demand may remain weak until a move towards 5.2% to 5.3% in 30s. We also discuss what a lack of forward guidance will do to rates pricing. We like fading FOMC premium, in near-term forwards, in exchange for getting long vol into data prints. Finally, we remain in carry trades such as long belly spreads and continue to like receiving 10s against the wings, which has been well correlated to short-vol positions.

Short-end — Despite this week's soft SOFR prints, we think that growing T-bill settlements in the second half of July could push SOFR fixes higher from here, and we continue to like being short the Aug-26 SOFR/FF basis. A risk to our view could be additional tariff refunds, which would push the TGA balance lower and reserves higher, but we think the bulk of the refunds have been paid out for now. We also discuss our thoughts on Chair Warsh's recent remarks and the balance sheet task force.

Inflation — We highlight the downside risks for June CPI and remain in our short December fixings trade to position for it. As hawkish Fed risks decline and risk sentiment improves, US 5y5y inflation swap rate will likely move higher from its current levels.

Vol — We believe the removal of Fed's forward guidance is likely to have marginal aggregate impact in the current environment but should lead to a shift in risk premia away from the FOMC meetings and to the key data releases (CPI and NFP) instead. We recommend being tactically long gamma ahead of CPI and buying TYU6 weekly straddles expiring next Wednesday.

Trades — Our latest recommendations and open trades can be found at the end of the publication.

Please join us for a 15-minute call on Monday July, 13th, at 10am NY time/3pm London time when we will summarize key views from our global rate strategists for the week ahead: Global Rates & FX Weekly Call

Note: Clients subject to MIFID II unbundling should have a full-service research agreement in place to participate. If unsure about your agreement, please check with your in-house, sell-side research coordinator, or with the event organizer.

Note: Futures trading involves substantial risk of loss.

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations

