Why last week's Fed meeting mattered for OTC interest rate markets.

By Ian Sams, Global Head of Product, TraditionData

Last week's Federal Reserve meeting brought more than just another decision to leave interest rates unchanged.

The Federal Open Market Committee (FOMC) voted 9–3 to keep US interest rates at 3.5%–3.75%, but what really caught the market's attention was that three members voted in favour of raising rates. This was the first time since 2019 that three policymakers had broken away from the majority in the same direction, highlighting growing differences of opinion within the Fed.

Investors took this as a sign that interest rates could stay higher for longer than previously expected and the markets reacted quickly.

As the new Fed Chair Kevin Warsh spoke after the meeting, government bond yields rose sharply. The yield on the 30-year US Treasury reached its highest level since 2007, while the 10-year Treasury moved close to a one-year high. Stocks, bonds and the US dollar all fell at the same time – an unusual market reaction that reflected investors reassessing the outlook for interest rates.

Much of this activity wasn't taking place in the cash bond market – it was happening in the much larger OTC interest rate derivatives (IRD) market, where banks, asset managers and hedge funds use swaps and options to manage interest rate risk.

Before this meeting, many market participants expected the Fed to start cutting interest rates much sooner. Now those expectations have shifted. The swaps market is increasingly pricing in the possibility that rates may remain elevated until 2028.

At the same time, more traders are buying options that protect them against the risk of further rate increases. This tells us that investors are becoming less confident about the direction of interest rates and are preparing for larger market moves. Uncertainty has increased and markets are adjusting accordingly.

When market expectations change rapidly, market participants need data that accurately reflects where the OTC market is trading in real time.

Reliable market data helps firms:

- Value their portfolios accurately
- Manage trading risk
- Validate prices from multiple sources
- Understand where liquidity is available
- React to changing market conditions

Periods like last week demonstrate why independent OTC market data is so valuable.

Related market data solutions for TraditionData

SOFR OIS CURVES

As expectations for future interest rates continue to change, accurate SOFR curve data helps firms price swaps correctly, value portfolios consistently and benchmark dealer pricing.

Tradition's dominance of the USD market share in DV01 USD trades executed by inter-dealer brokers is 35% during the last 12-month rolling period. This means market participants can trust that the we provide market data offers the most consistent and accurate view of the USD rates market.

US REPO

SOFR, the benchmark interest rate used throughout the US swaps market, is based on overnight Treasury repo transactions.

Our Tradition Predictive Overnight Repo (TPOR) market data product combines data from Tradition's interdealer repo business with anonymised tri-party repo data from BNY Mellon to providean early indication of where SOFR is likely to fix the following day. This gives market participants valuable, predictive insights before the official SOFR rate is published.

SWAPTIONS VOLATILITY DATA

Demand for interest rate options has increased as investors look for protection against further rate moves. Volatility surface data helps users understand how market expectations are changing across different maturities, rather than relying solely on government bond yields.

HISTORICAL OTC DATA

Looking back at previous periods of market uncertainty helps firms understand how today's market compares with past events. ost consistent and accurate view of the USD rates market.

TraditionData's historical curves, volatility data and transaction history allow traders, risk managers and analysts to identify patterns and place current market moves into context.

The events of last week underline how quickly market expectations can change. With inflation still a concern, differing views among Federal Reserve policymakers and ongoing geopolitical uncertainty, interest rate markets are likely to remain active for some time.

As trading volumes increase and market conditions change, the need for independent, high-quality OTC market data becomes even more important.

TraditionData's IRD products are designed to provide that transparency, supporting our clients with the data they need to make informed decisions in fast-moving markets.

Article author:

Ian Sams

Global Head of Product,
TraditionData

This article is produced by

TraditionData.

This article is produced by TraditionData. At TraditionData we provide leading insights from our extensive suite of OTC market data captured directly from active inter-dealer markets. Actual trades, firm quotes, and orders from the desks of one of the world's largest inter-dealer brokers, Tradition.

TraditionData delivers precise, validated price data across all active inter-dealer markets globally, direct from Tradition's market-leading business operating in more than 30 countries.

Tradition provides real-time pricing across 200+ products and more than 200,000 instruments. TraditionData equips financial institutions with trusted insights for risk management, valuation, validation, surveillance, trading and analytics across complex and opaque markets.

Contact us to learn more at: www.traditiondata.com

August 26