701 Harger Road
Suite 200
Oak Brook, IL 60523
Website: www.treangroup.com
Phone: 312-604-6200

The Trean Report by Matt Carinato

Friday 3/8/2024

Markets are biding time ahead of today's release of the February Employment situation. As of 7:45 AM ET, Treasuries are meandering between 1 and 2 bps lower in yield on minimal participation while US equity index futures trade marginally lower ahead of the data and cash open. Unless you are an FX trader, it's pretty quiet out there (yes, still refuse to acknowledge bitcoin).

*The only data of the day on this second Friday of the month is the employment report, and just about nothing else... Sure we may get some drive-by Fed speakers on this last day before the blackout period begins. Let's start out here with breakevens as of 7 AM ET:
-US Classic Breakeven for today: 6.78 bps
-TY Breakeven for today: 8.78 bps
-FV Breakeven for today: 10.285
Mind you, these levels are actually considerably higher than where the 2-day was running early yesterday, and vol is even better bid early this morning than yesterday afternoon. Point is, while market appreciates the data point of this normally seminal number, there seems to be a bit more at play this year and market has discounted the impact of today's release. Or it could be that no one except hedge funds are trading???

*As for today, bunds have led rest of global markets higher as numerous ECB speakers over the last 23 hours have indicated a belief that they will cut rates in June after doing nothing yesterday. Treasuries have acknowledged the bid, but volumes remain tepid at best with focus on the employment report. Even though the "move from ZIRP" trade continues in Japan and JGB's trade to higher yields, there was generally better receiving out of Asian real money accounts in 10y space, along with Japanese bank receiving in USD front end, most of the flow after Tokyo lunch. Paying interest materialized in Europe as banks were better axed to pay. Again, nothing to write home about. Vol remains better bid into the data but let's see if anyone steps in to sell it over the next 45 minutes. I can get back on the soap box about how there is one account type driving 90% of the flow so far this year, but you've all heard it enough. USD markets have gone flat line since mid-morning in Europe, staying that way right through the NY open.

*Powell's comments yesterday on rate cuts that "can and will begin" this year (oh boy oh boy) and his comments on moving Fed holdings to shorter duration maturities certainly helped with the Fed's (sometimes) unspoken goal of steepening the curve to save banks, at least for a day or two. Supply front-loaded for nest week in duration didn't hurt either (see the better breakevens above).

*You can skip the rant that follows should you choose, but it's gotta be written. Money market assets hit a fresh record high for the second consecutive week, with news services continuing to tie it to Fed expectations. That's all fine and good, but it's not in the stock market so guess we have to keep powering ahead in stocks no matter how little sense such a move seems to make. Oh and they are moving out of prime funds again into government funds. This is not going to end well (for stocks) but it could be awhile before that cash moves from MM funds to be the last buyer in stocks.

All right, doesn't even seem to be a whisper number today. There is almost zero nervousness that we can detect. It's almost so calm that you want to fade it....but.... All the analysts are writing about how "it depends where the hiring growth is" which is just painful. Bank surveys we have seem show a penchant by accounts to sell any strength. I don't know, but guessing that between long-end supply (10s on Tuesday, 30s on Wednesday) and the continuing massive drumbeat of corporate supply (see the number of share buybacks this week again???), any bounce is a better opportunity to get short in duration. Then again, if all the surveys say "want to sell", aren't we supposed to rally through???? Oh well, I'll stick with sell against 4% in 10s and 4.15% in 30s....

Good luck today and have a great weekend,
mjc