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The Trean Report by Matt Carinato

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There should be a lot of very crabby folks in our markets today since everyone got to deal with this insanity last night. As you must know by now, CNN broke the news (interesting) that Israel had launched an attack on Iran proper at approximately 9:40 PM ET. Reality is you started moving 40 minutes earlier as rumors swirled that an attack was imminent, how quaint. As of 9 AM ET, Treasuries are 1-3.5 bps lower in yield, while US equity index futures are almost all the way back to flat ahead of the cash open.

Treasury, swap, and futures volumes were huge on the breaking news last night. Treasury yields plummeted between 10 and 14 bps across the curve. Futures volumes exploded. There was a small pullback before Bloomberg reported (looks like erroneously) that Israel had struck radar installations within the borders of Iraq and Syria as well; those headlines took us to the extremes in US equities, fixed income, crude and the yellow metal.

Swaps saw very aggressive receiving in USD 5y, 20y and 30y swaps throughout the Asian session. The only paying that a couple folks reported was small in 10y space, some against receiving in 5s. Cash Treasuries saw very good volume in 2y notes (ALL buying) as one would expected in a Flight-to-Quality bid. During London, the best selling was in TU, TY, cash 5s and spread product (duly noted and important) but the market moved lower without needing much impetus from the flows (important to remember that as well) as the bids dried up.

US equity index products all broke between 1% and 1.5%, NASDAQ leading the break. Futures volumes were stellar on the move, but dried up as indices bounced. Since then they have recouped 90% of the sell off, the largest leg higher being since NY arrived. Crude was up 4.5% (86.28) but is now down 0.5% (82.15). Gold was up 1.5% (2433.30), now down small (off 3 at 2395.00).

You get the idea, right??? You did very well to fade the extremes of the FTQ trade. I get it: easier said than done. The reasons being given for the reversion to the mean include "this is done," "Iran won't retaliate," "nothing big," you get the idea.... Or some of us might argue that the children can't be trusted with the nice toys and that all you really did as it applies to the markets was get rid of some weak longs in index products (i.e., equities) and some weak shorts in rates. If the 5y volume story is correct (but not really corroborated by volumes in FV futures vs TY, 750K vs 1.3MM respectively), then the rally was definitely short covering. Just seems that we are getting to a tipping point here. The wildcard of course remains whether some unnamed actor can finally get their way and drag all of the Middle East into this conflict.

Okay, we'll stay away from that subject and point out that there is no data today (Bloomberg econ summary doesn't count), but we will hear from Goolsbee (10:30 AM ET) before the Fed goes into blackout period ahead of the May 1 FOMC meeting. Don't forget Treasury supply in 2s/5s/7s next week. Equity volatility may lessen appetite for corporate issuance next week. We'll see. USD assets all look ill here. Let's see what we learn....

It is getting quieter and quieter the further we progress in this day. Likely that we will see pressure continue on rates until around the Chicago pit close, but likely see rates firm into the 5 PM close as folks will likely look to hedge risk (meaning don't be short) ahead of the weekend. Don't know that levels matter much today, other than the 5% 2y cash level that has been solid support lately (4.975% right now), while cash 10s are developing resistance at 4.57% (4.60% right now). Or we just gyrate between the two levels all day, and I spend the afternoon actually watching the RBC Open while doing expense reports.

All right, enough whining for this week. Good luck out there and have a safe and restful weekend,

mjc