

**The Trean Report by Matt Carinato**

Wednesday April 3, 2024

Minutes ahead of the ADP report, USD assets trade under pressure for the third consecutive session to start the 2nd quarter. As of 8:00 AM ET, Treasuries are small higher in yield while US equity index futures are trading mixed ahead of the data and the cash open.

Ahead of the ADP release, here are a couple random observations and updates:

\*After a very strong bid to implied volatility on Monday and the knock on effect bid on the exchange early yesterday, the basing and small short covering bid in Treasuries later in the session saw vol get hammered into the close. There's a shock for you, that the entire community now flipping short vol would sell some more while checking to make sure their bandages were still dry. The "bet" in the market at the moment post a rather pedestrian JOLTS number (I can't believe I wrote that line) is that vol is a sell at least through Friday's NFP number. If it's okay, we'll use your money.

\*Further proof of this view is the level of breakevens for today, ahead of the data, that bears out the market sentiment with US Classic breakeven at an incredibly cheap 4.5 bps, the TY at even more chill 4.8 bps, and the FV at 5.2 bps. I think that's the breakevens we usually see during the middle of year end trading.....you get the point.

\*While US buyside may be way too quiet for all of us to take so far this year, there is definitely more activity overseas. Today was another example: there was decent two-way flow in USD 30y swaps both in Asia and London, slightly better to real money axed to pay; there were a couple June IMM-date matched 7y receivers; there was associated better receiving in the belly of the USD curve Asia; and, there was better bank paying in 5y swaps (Asia) and 10y swaps (European). Will be interesting to see if buyside is being forced to engage in the US over the rest of this week (says he while praying). But for now, it's all about the FX trade in this product overseas.

\*The fast money accounts that were loaded up on all the 4.25% strike at the exchange (94.75 puts) for June 24 and Sept 24 finally felt like they got some love yesterday, and then a bunch of them immediately rolled down. Go figure, but that may be the one that really pays off.

\*Speaking of pressure, notice how 6 of the last 8 sessions have seen US fixed income long end specifically open higher in Asia only to sell off by the time US got going? Yeah, that's a bearish

sign for you technicians out there. It's a classic trend following move. Today is no exception. Let's see how we close, but this bears remembering (like the pun?). Then there's the yellow metal and let's mix in the crazy FX market that keeps stealing our rates business....

All right, ADP in a couple minutes at 8:15 AM ET. Service PMIs at 9:45 and 10 AM ET. Chairman Powell speaks at 12:10 PM ET on the economic outlook at Stanford. Around his speech, we'll hear from the increasingly-hawkish Bostic at 8:30 AM ET, Bowman at 9:45 AM, Goolsbee at 12 PM ET, then Powell, then Barr at 1:10 PM ET, and Kugler finishing up at 4:30 PM.

Good luck and have a great hump day,

mjc

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