

The Trean Report by Matt Carinato

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NFP on tap...so let's try to keep it short here, says the guy with the big mouth. Dollar is firmer, stocks licking their wounds after a pounding last night, and USD rates under minor pressure. As of 8:15 AM ET, Treasuries are 1-3 bps higher in yield while equities are small higher ahead of the data and the cash open.

*Let's begin with implied breakevens for today:

+US Classic breakeven is 6.43 bps

+TY breakeven is 8.06 bps

+FV breakeven is 9.09 bps

That is a far cry from the levels Wednesday morning (pre-ADP and Powell) where we basically plumbed yearly lows at 4.57, 4.8, and 5.2 respectively. Want to fade this so bad, but don't think you can this time, risk vs reward. Vol has had a sneaky bid all week, not so sneaky yesterday afternoon (!!!), but enough to make everyone a little more nervous. More on that in a second.

*As one might expect, it was a fairly quiet overnight ahead of this morning. Activity was limited to some short covering in futures (small FV and TU block buys, less than 150K of DV01), some minor position adjustments during Asia in swaps (small receiving in 2s and 3s), and a buyer of gamma into greens and FV tails early in London. All of this smacks of short covering, which is EXACTLY what we saw on the Iran/Israel/Gaza headlines yesterday afternoon. The only thing seemingly keeping this market from racing to higher yields is the steady short-covering bid that comes through every afternoon.

*FX remains the focus, decent flow there overnight again (yeah, I know, trading in the wrong product set at the moment!!!), Japanese officials desperate to defend their home turf. Overnight was Ueda "signaling" (stole that word, fits perfectly) that BoJ could hike rates if yen dictates a need. Yeah, whatever. Next batter up to the plate. Dollar came off slightly, Treasuries came off slightly, then everyone ignored him.

*Whisper number for the NFP headline has been creeping up all week (as it should!), somewhere around ~230K, and likely higher, vs "official" Street consensus of around 214K. Don't be confused: the risk here is asymmetrical regardless of what anyone tries to peddle you. While a rally will sting a few shorts, the real buyside that is sitting on the sidelines remains very

exposed to a legitimate move to higher rates and swap wideners. Think we just said to buy vol, but then again look how poorly that's worked during the turd of a first quarter that just passed.

All right, time for the number. Aside from the big event at 8:30 AM ET, there's a couple hawkish Fed speakers (with risk of more to come) in Barkin (9:15 AM ET), Logan (11 AM), and Bowman (12:30 PM) all following the more moderate Collins (8:30 AM ET). Don't be surprised to see a drive by on TV either.

So says here that IFFF you have overshot the whisper and get a number under 225K, you could get a pop to sell better levels in TY (110-13+/110-23+ zone, the latter being a very fat gift!) or US Classic (119-13/120-00 zone). Get a strong number and break 109-16+ in TY or 117-07 in US, you just close your eyes and go with it. Why so bearish? Because that is the pain for the without community (all the buy-side sitting on the sidelines or long (synthetic or outright) spreads to pick up nickels in front of the steam roller. And don't forget, if we invite more corporates to borrow next week, while you are trying to distribute the monthly long end Treasury supply, somebody will have to make room starting today. We'll see, but one of these days the dam will burst....Last thing, both stocks and rates are recently trying to trade in a classic trend pattern: reverse trend overnight then resume the trend before/as US arrives. That's been happening all this week and a couple times last week (i.e., indicative of a bear trend in equities and rates in this case). We'll see....

Good luck and have a great weekend,

mjc

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