

**The Trean Report by Matt Carinato**

Tuesday April 9, 2024

Groundhog Day 2024 continues for rates traders as realized volatility seemingly gets smaller and smaller every day. Today threatens to be a repeat as we pin all our hopes on tomorrow's CPI report. As of 8:30 AM ET, Treasuries are 2.5 to 3.5 bps lower in yield led by the belly, while US equity index futures trade slightly firmer ahead of the cash open.

Treasuries are bouncing this morning, pretty much their best 3-4 hour performance since before 8:30 AM on Friday. The second bid of the night, since Europe got going, is EUR rates dragging Treasuries higher, two days ahead of the ECB meeting. The first bid overnight came when former Fed President Bullard spoke to the press while attending an HSBC conference in Asia. Our favorite 2022/2023 bear is now a full on flower child. He sees the softening data already justifying a cut now, with two more this year as his call. What data exactly sir??? The employment data??? But his comments certainly underpinned the market later in the Asian session, and set the table for the better support in Europe.

While USD swap activity appeared to be fairly quiet in the Asian session, it picked up during Europe, the theme being steepeners. There was outright receiving in USD 2y, 5y, and 10y tenors while a European bank paid in USD 30y swaps against EUR 30y; there was also real money interest in USD 10s30s steepeners in swaps, helping 30y to underperform across USD rates offerings.

That above swap curve activity contrasts a bit with the better interest in UST flatteners via futures after Tokyo lunch that saw 2 trades totaling 650K of DV01(\$325K at 10:54 PM ET and again at 2:15 AM ET) in US TU/TY flatteners. Other than that, hard to get excited about much in Treasury space overnight. Vols are marked lower on the bounce in rates for now, activity limited to some selling in USM 124 calls, roughly 10K during the European session. There was some interest to sell vol into 5y tails around the NY arrival, SOFR greens coming under minor pressure at the same time.

The market traded very well from a technical perspective on Friday, breaking to the support levels in TY, 10y cash, and US Classic, then held for the day before closing basically on those levels. Yesterday saw continuation, and today maybe (italics) a bounce. Now comes the warning: levered accounts simply piled into shorts in the latest COT data that ended with last Tuesday (4/2). On the flipside, Stone McCarthy data says the duration "short" is growing, but

this levered number in the COT needs to be watched. Maybe they unwound some into the NFP report on Wednesday's and Thursday's trade late in the day (short covering rallies, remember).

All right, only data of the day (NFIB small biz index) already passed as a nonevent, and there are no speakers currently on the docket. All we have to look forward to is the \$58BN in new 3y notes that Treasury will auction at 1 PM ET. Will offer this: if TY trades up to 109-23 here, sell it. It's a good risk/reward option at that point. You are wrong above 110-02+. That resistance level in US Classic isn't until 118-13, which is much closer to the 110-02+ level in TY, so a tad bit disconcerting, but the TY has generated the better purely technical signals on quieter days. FWIW: if stocks close higher today and tomorrow, that risk of a sustainable pullback will really go away quickly. Think you are supposed to be selling bounces in equities, but this is what makes a market I guess....

Have a good day!!! Sounds like a good day to work on my golf game,

mjc

***This data, information, and associated comments are provided for information and distribution only as permitted by law. It has been prepared for Institutional Investors only and not for retail. This material is neither an offer to sell or a solicitation of an offer to buy any security. Further, all statements and expressions are the opinion of the author(s) only and are not meant to be a solicitation or recommendation to buy, hold, or sell securities. The information herein is not intended to predict actual results, which may differ substantially from those reflected in the material. The information presented herein and on any related website(s) has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. Past performance is not indicative of future results.***

***Trading futures or related securities involves the risk of principal and could further result in losses greater than the original investment or the funds in an account. The investor is responsible for all financial risks associated with an investment. You should not engage in trading unless and until you fully understand the transaction(s) and the extent of the financial exposure to losses exceeding principal investment. You should always consult your registered investment advisor before making any investment in futures or other levered products. Futures and options trading involves substantial risk and is only appropriate for those who have the qualifications, understanding, and risk capital for such investments. Additionally, in making an investment decision, individuals should always rely on their own examination of the offering and the principals involved in the investment vehicle, including the terms of the investment agreement and the merits or risks involved in such investments.***

***Trean Group is a member of the NFA, registered as an Independent Introducing Broker (IIB). The third-party content contained herein is provided for informational purposes only and has not been independently verified by Trean Group for its accuracy or completeness. Additional information is available upon request.***