

The Trean Report by Matt Carinato

Thursday May 16, 2024

After a rather impressive rally yesterday, Treasuries resumed trading in Asia right where they left off in NY, better bid throughout the early evening before coming under some mild pressure after the London open. Heavy sovereign supply in the front end for Spain and France helped keep a lid on rates into the arrival of the NY team. All USD assets trade short, and it's not easy to be a bear in the current heat. As of 8:00 AM ET, Treasuries are flat to 2 bps lower in yield, bull flattener the theme for now. US equity index futures are trading marginally firmer after of another raft of data and the cash open.

Honestly, volume fell off rather quickly after Treasuries popped on the Tokyo open, only to see volume take a holiday since then. Early buying of US 10s, WN ultras, along with Asian real money receiving in USD 30y swaps was offset by Asian bank paying in USD 5y swaps and marginally better Japanese real money paying in 10y swaps. There were some steepener unwinds in swaps (5s30s, 10s30s) that are supposedly profit-taking, but other than that it has been a fairly quiet session in Europe. There continues to be better buying of TU/FV/UXY (so 2s5s10s) fly, lifting the wings, a trade that was blocked last night on the order of \$650K in DV01, but has been trading in drips all week on the screen during the Asian session.

Rate vols are mixed this morning after a complete "out to the woodshed" moment yesterday, with 1m expiries into 2y through 5y tails putting in their worst days since last July, in some cases over 15 normals lower. It was one of those days. There is a small bounce in the upper left early, with SOFR slightly better bid in the reds and greens but let's see what happens as we get moving here in the US. Want to own vol, but not not right now (see the rant below) if we have to rally further.

Today we have another packed calendar, with focus being on claims, Philly Fed, import/export prices and IP/CU. We also get housing starts/permits and NY Fed Business Activity index. Several Fed speakers include Barr and Barkin (10 AM ET), Harker (10:30), Mester (noon), while wrapping up with Bostic (3:50 PM ET).

(SURGEON GENERAL'S WARNING: THE FOLLOWING IS THE RANT OF A VERY BITTER MAN!!)

Well isn't this fun? See the headline this morning: "Rates Volatility Has Overshot Other Assets for Two Years"? Thanks for pointing that out Captain Obvious, but did you also have to subtly remind us that realized vol is quickly approaching the limiting factor of zero? Oh well.

So continuing my bitter rant, we all know that the duration short is keeping this market from selling off, only exacerbated by an entire continent that "wants" to cut rates, announces it will cut rates, but then tells us to hold off until summer so they can have the markets do their bidding for them. But I digress, back here in the old US of A, many folks thought yesterday might be the great short covering pop. Well, let me share that open interest in Treasury futures went up for WN Ultra (1.7%), US Classic (2.4%), TY (0.58%), FV (1.2%), and TU. So instead of covering shorts, you increased the short base under water. Lovely. Good volume, increasing open interest. The Clue Salesman taught me a LONG LONG time ago that those are signs confirming a trend move. Oh boy, I gotta leave now, the guys with the white coat are here to pick me up.

You have a great Thursday, I have to go work on what Tequila I should drink tomorrow night to forget about this week....

mjc

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