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The Trean Report by Matt Carinato

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This Monday has the makings of a long day, or maybe that should read "long week".... Cash was closed for holiday in Japan and then the UK, so we only had futures until 7 AM ET. Then somebody forgot to tell folks that the cash market is open now. As of 9 AM ET, Treasuries are roughly .5-1.5 bps lower in yield than Friday's closing levels while US equity index futures trade slightly firmer ahead of the cash open.

While you are small to better bid right now in Treasuries, conviction remains clearly near zero through the Chicago pit open, and not sure that changes anytime soon this week. Treasuries have been dragged higher (futures only at that point) by the bid to bunds, reminding us all not to sell a quiet market both for bunds and Treasuries. The little flow overnight saw better buying of SOFR options, block and outright: buying some SFRM4 56/61+ call spreads, 57/61+ call spread, 0QZ (short Dec) 65/70 call spreads, 0QK 55+/57 call spreads. You get the idea.

Today's calendar is a stretch to call the SLOOS (Senior Loan Officer Opinion Survey) the highlight of the day, because it's the ONLY release of the day, 2 PM ET. Barkin speaks at 1:50 PM ET, with Williams at 2 PM ET. Couple bill auctions today. Rest of the week doesn't get much better, as we are waiting on Thursday (Claims) and Friday (Michigan) for the only legit releases this week. Fortunately we kick off the quarterly refunding with tomorrow's $58BN in new 3y notes, followed by $42BN new 10y notes on Wednesday and $25BN new 30y notes on Thursday.

So after the dust from Friday has hopefully started to settle, it was so obvious in hindsight how the day was going to play out. And it did just that. And the pressure is off the Fed to hike anytime soon (swear, that is a headline out there). At one point after the number, WIRP showed the chance of a 25 bps cut in July at 23%; right now intelligence has helped reprice that to stand at 10% via FF futures, 13% off OIS. Says here that's 9% and 12% too high (have to leave something for the birds).

But the reality is that right now we are squeezing the shorts in duration space, so fundamental logic be damned. Stone McCarthy continues to show money managers lightening up on duration, at 100.2% on a weighted duration basis this past Wednesday (1 May) well off the extremes from a month earlier of 100.8%. Similarly, COT shows that short base increased through 30 April in WN Ultra and US Classic. Open interest argues that a few shorts may have covered Friday (data said they didn't Thursday and Friday trade confirmed the data), but nothing huge. So guess some of us have to stay crabby and bitter until we get these shorts covered and can go find that bear steepener that is going to finally generate some volume and revenue for all the trading desks out there.

And to be clear, it's the same in equities right now. Looks like a decent week for corporate buybacks, so have to think you either stay long or keep your powder dry until at least Thursday afternoon. Don't see what changes that either with money markets still flush with cash waiting to be moved to equities. I don't know, maybe it's time to go work on the golf game instead.

Have a great Monday,

mjc

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