

The Trean Report by Matt Carinato

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It is a true summer Monday, with the entire week taking place after tomorrow. Not much to talk about overnight, but obviously life should get more interesting as the week winds on (okay, a girl can hope, can't she??). Treasuries have traded slightly defensive since last night, overhang from a decent NFP report largely the culprit, but activity has remained awful. As of 10:30 AM ET, Treasuries are flat to 3 bps higher in yield, partially reversing some of Friday's flattening trade. US equities have opened mixed, middle of a quiet overnight and early US range right now. Here are a few things that people are talking about in the market...

Friday's NFP number has seemingly elicited two responses in our little trading world: the economists who have dug about 4-6 layers deep to show the weakness within the hiring and the household data versus the strategists choosing to respect the "higher for longer" middle of the recent range that helped put some early pressure on vol before it did its usual Friday afternoon bounce.

Speaking of, vols opened trading so small firmer this morning on virtually no flow at the exchange or OTC. Given the calendar this week, there is reason for an underlying bid, especially in gamma structures ahead of CPI and the FOMC Wednesday, with long end Treasury supply Tuesday and Thursday (today is the 3y). It feels like exchange is helping keep duration tails better bid (so upper right) in gamma space with the upper left slightly hamstrung by the lack of anything new (or so we think...) from the Fed for that quadrant.

There were 4 corporate deals on the docket as of early this AM, with a couple new deals making their way into the pipeline since the open: Buckeye Partners and Virtu Financial are each coming to market with \$500M in callables. Tomorrow's calendar is already picking up, the last chance before we enter the CPI/FOMC gauntlet. Reality is that we should see IG issuance slow as we head into the holidays and end of Q2. But with equity valuations at these levels and should they remain this frothy, look for the machine to start cranking again around 8 July, unless someone is going to act on how overvalued equities are (swore I would stay pleasant today, so I'll refrain from anything further about equity levels and risk free rates or credit).

Speaking of bitter, let's talk about the underlying markets, and positioning, and well...

*Friday's sell off (sell off, get it, higher rates!!!) saw open interest contract 10K contracts in US Classic (-0.6%), 4700 contracts in Ultra 10y notes (-0.25%), 51K contracts in TY (-1.16%)....you get the idea. There was no confirmation of the "bear move" via open interest changes. NONE!!! If anything it reminds you that the market is net short!

*Stone McCarthy showed that money managers reduced their asset-weighted duration number from 100.5% to 100.3%. Of course, after 3 weeks of grinding all the way to 100.5% of their bogey, they decided not to get longer. Of course they did....

*Commitments of Traders report released on Friday kept right up with levered position in US Classic flipping from a net long of 44K to a net short of 15K. That's nothing huge for an absolute short, but it totally ameliorated any thought of a bad long being built!! WN Ultra saw its short increase further to a new record short of 304K for levered community. You get the idea on duration. So yeah, I am definitely taking some sanity time after this week. You guys find someone to sell the market; I am quitting. Spent time this weekend looking at a chart or two, looking for a reason to be bearish. Rates will apparently never go up again....Here is something else. GNMA considers doing 0 down no income verification loans?? Did I just get transported back to 2006? Credit standards for corporate deals are a thing of the past. It's like the moves by BoC and ECB are going to force the Fed to cut. It would be a horrible mistake...

All right, last thing. You all see GC trade last week right?? We all have to watch funding so I know you see it. GC has traded very firm now for way too long, and even though it backed off Friday, the associated firmness in SOFR should keep it reversing Friday's course to trade back toward 5.5%. Auctions this week, then we start to put quarter end into play. But nobody seems to worry about anything these days....

All right, today's calendar is basically empty (unless you count NY Fed 1-y Inflation number at 11 AM ET to be worth anything). Data calendar is empty tomorrow (NFIB survey), then CPI Weds and picks up after that. However, we do get our first slog of this week's Treasury issuance: \$58BN new 3y ahead of tomorrow's 10y reopening and Thursday's 30y reopening.

Here is the fractured CB meeting calendar, as this cycle the meetings are disjointed and spread over three weeks:

Last Thursday, 6/6: ECB and BoC

Weds: FOMC

Thurs: BoJ

Thurs 6/20: SNB, BoE.

Have a good Monday,

mjc

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