

## The Trean Report by Matt Carinato

Friday June 14, 2024

Short Friday update, because everyone is still pretty tired from yesterday. There are a lot of moving parts right now, and there is no single driver to what has transpired this week. Risk trades very defensive and that is only adding to the pain in global rates markets. As of 8:30 AM ET, Treasuries are flat to 2.5 bps lower in yield, curve flatter for now. Meanwhile, US equity index futures trade lower ahead of the cash open and Michigan.

Overnight the BoJ greatly disappointed the hawks: left rates unchanged, effectively ignored the subject of tightening financial conditions, and then postponed the next buyback structure announcement until the July meeting (7/31). Not a good day for the yen, and not a good day to be short JGBs (hello macro funds), but a very good day for JGB rates as JGB 10y future rallied some 45 tics. And not a good day at all for EM currencies after yesterday's bloodbath there. Gee, thanks Ueda...

Back in the States, Treasuries trade sideways through the Asian session before going bid on the dovish BoJ announcement. Hangover from yesterday and the lead-up to the BoJ kept folks on the sidelines. Small central bank selling of 5s and 10s (more on that in a moment) was offset by Asian receiving in USD 10y swaps (after that fiasco late yesterday!!!). Much better swap flow after the London open. Clear axes to receive in duration via swaps, with better bank paying in the belly and selling of 2s by fast money (hey, saw plenty of that yesterday too).

Vols are sticky bid after that massive bounce yesterday. Let's see who steps up to start selling some gamma before or after Michigan, but you better be selling out a position; don't need to be a bug on the windshield here by getting short right now. Too much risk, not enough reward. And now, OTC vols have gapped firmer since 8 AM ET. It's insane how bad the pain is now.

About yesterday, where's a girl to start???

\*Let's talk basis, or "gee what a great storm." Definitely one or some basis traders got carried out on this one. Remember how much we rallied yesterday? Yeah, well there was very good central bank selling of Treasuries, 2s, 5s, and 30s the entire day, entire being the operative word. And you saw how much we rallied anyway???

Basis was a buzz saw. It stinks having to defend your currency when all you have to sterilize it is USTs. The political situation in Europe may have something to do with this on the periphery.

\*Open interest actually increased by large amount in FV (56K, 0.91%), TY (42K, 0.96%), Ultra 10s (18K, 0.90%), and US Classic (17K, 1%). You get the idea. Might hate the market, might want to be short, but as we have whined about all week, don't do it!!!

\*Swap spreads also had a pretty amazing day. Bid throughout, and then the floor fell out in the afternoon. The consensus seems to be that it was ALL dealer receiving to hedge up short gamma. Just please don't tell me that it was "convexity buyers receiving in 2y" as a couple peopole have written. God help us all. And honestly, vol certainly had a trade for the books yesterday.

So, the one common denominator here is that if we dig deep enough, everything that is happening actually has to do with people putting on positions that are net short rates, one way or the other. And guess, what, it's time to squeeze them. That's why it's time to go see the Clue Salesman and maybe drink some tequila to find religion for this trade. Can't wait for the sell off, but the gig right now is to survive long enough to actually see it.... Says here the show is just starting, but be very careful because the floor of this jungle is littered with land mines!!! Funny, have maintained since December 13th (the great Powell dove moment) that next move by the Fed will be a hike in Q1 2025, but right now that is changing to 50/50 that the Fed EASES in September, and that will be a clear sign that the rest of the ninnies in the world having actually torpedoed the great US economy. But that's the bitter in me talking....

Import/export prices just printed, with Michigan at 10 AM ET. Mester (8:30 AM ET), Goolsbee (2 PM ET), Mester (4:00 PM ET), and Cook (7 PM ET) on the docket. US Open is on Peacock until it gets to USA Network at 1 PM ET.

Good luck today and have a great weekend and next week. Try not to cause too much trouble while I am gone...

mjc

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