

The Trean Report by Matt Carinato

Friday September 13, 2024

Well, at least it's Friday and we can't end this week fast enough. But something does not feel right out there. Ahead of the Chicago open, Treasuries are 1-4 bps lower in yield, well off the best levels of the night but continuing an impressive bull steepening that began late yesterday. US equity index futures trade marginally firmer ahead of data and the cash open.

Let's start all nice and calm and actually look at implied breakevens for today. You'll see why in a second:

*US Classic: 3.23 bps

*UXY Ultra 10: 3.22 bps

*TY: 3.57 bps

*FV: 4.02 bps

So herein lies the problem: the breakevens for this day are trying to lull us all to sleep. They are pedestrian, largely around normal for a "not important" Friday. We continue to talk ourselves into a recession and rate cuts by the Fed, so it just makes it not very fun to trade and breakevens drift lower. Remember the sell off yesterday after the "strong" PPI data??? Well it wasn't really that strong, but it's not moving toward 2%, but who cares? The market just waited until WSJ's Timiraos writes a piece that many believe(d) was a Fed plant, during the Blackout period no less, and away we went late yesterday...

We went from 3% chance of a 50 bps cut at the "25 bps is it" extreme yesterday to our current 45% chance of 50 bps. Oh, and Bill Dudley made his way out of mothballs to speak in Asia and opine that he sees a "strong case for 50 bps" next week. 2y notes took out yesterday's late session highs on the open, with steepeners officially back in vogue. What could possibly go wrong???

There was good buying from the outset in Asia, primarily concentrated in the front end and belly. What little buying that came through in 10s and 30s was more than offset by the selling produced by accounts adding/ hedging via steepeners. It was the most active Asian session of the week. There was another bout of short covering after Europe opened, this time more in 10s that helped flatten the curve until closer to NY arrival, when we again saw front end demand outright and on the curve, more focused in swaps as real money was active first thing this morning. As has been the case lately, fast money then stepped in to sell 10s out to 30s, both cash and futures.

Look, your breakevens are so small it won't take much to catch people off guard. Gamma is bid right now, and it's not JUST because we are steepening; people are trying to quietly manage their risk ahead of Wednesday and they aren't getting it done yet. One would be well served to manage that gamma short exposure for today. Today just has that feeling and it is Friday the 13th anyhow Jason. Just saying....

So you have nothing but inflation numbers today: import/export prices at 8:30 and then Michigan at 10 AM. Says here that whatever the numbers are, the risk is for a rally to 3.58/3.55% today in 10s. That will leave a mark, the pain coming if we take out 3.62%. If you drift back to 3.70% then there's a chance today is over, except for the gamma buying that will occur in the afternoon. Just be careful out there and good luck.

Have a great weekend,
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.