

**The Trean Report by Matt Carinato**

Wednesday September 18, 2024

Welcome to what may well be a very historical day; for now, we can call it Wednesday, September 18th if you wish, or we can call it the beginning of the Powell experiment. Just hope he gets the mixture right. As we kick off the US session, Treasuries are roughly 2-3 bps higher in yield, small bear steepening as positions adjust ahead of the FOMC. US equity index futures trade small firmer ahead of the cash open.

As one would expect, it was a quiet session overnight. After yesterday's strong retail sales jacked with the plan slightly, you saw a market that repriced the aggressiveness of the Fed slightly, and a soft 20y reopening didn't help matters much for the bull steepener crew. Then overnight saw a bit of fast money getting back into 2s10s steepeners during the early London session after there was some Asian bank paying in USD 10y swaps after Tokyo lunch. There really wasn't anything significant other than the theme of positioning for 2 PM ET (and 2:30!!) today.

Yesterday was a bit of dud for corporate issuance, with 3 deals for a measly \$3.45BN in supply, making this week \$11.6BN after a promising start Monday. There will be very little supply today, we'll see if everyone is waiting for their 50 bps to jump in tomorrow (greed is such a beautiful thing until it isn't!). Watch after the fireworks to see if we get some rate-lock selling.

All right, onto the big event. So implied breakevens for Treasuries are as follows:

US Classic is 5.874 bps,

TN Ultra 10 is 5.893 bps,

TY is 7.286 bps, and

FV is 8.78 bps.

So bonds and 10s (TN/UXY ultra duration at 9.41 years) are very pedestrian but that 5y remains the markets pivot. These seem as "right" as we've seen lately. Hard to make a case for being far away from the marks here....of course, you know that means we will have a 2 SD move today because that's just the way life works. And maybe that's right. Own the gamma you were told to not short but could have gotten paid (a little) for because now it matters?

To keep things interesting, we'll get some housing data at 8:30 AM ET with starts and permits. The fireworks start with the FOMC statement and release of the 'dots' at 2 PM ET, followed by Chair Powell's presser at 2:30 PM ET.

So as of right now, OIS prices 63% chance of 50 bps today, while FF futures price closer to 69%, both having just upticked since NY arrived. Seems pretty clear the Fed will take the 50 the market has given it. The current levered short in the rates market has not been cleaned up yet, so the risk is that we still need some type of capitulation (like Fed cuts 50 and algos pop us?) before we can focus on the bigger risk to the structural exposure to higher rates at term. Similarly, Stone McCarthy at 100.9% of bogey is getting the wrong way but still has bit to go before the brakes fail approaching the cliff.

Just wondering something, what would happen/how much pain would we have if the market actually BEAR steepened here? Or maybe I am just drinking too much Bitter-Aid.....

Have a good day and good luck on this most interesting and possibly historically significant day,  
mjc

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