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The Trean Report by Matt Carinato

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Welcome to the official first full day of the great easing cycle of 2024/25/26, if you believe the dots and the plots. Get those sunglasses out, it's going to be so bright. After a strong claims number just now that can't make the Fed happy, Treasuries stand .5 to 7 bps higher in yield, steepening at every point on the curve. US equity index futures meanwhile continue a trend of grateful thanksgiving for a Fed that just can't help but turn the spigot of free money to full tilt, trading 1.5 to 2% higher ahead of the cash open.

The day after "THE day" has seen an uptick in volume and activity as one would expect given the decision from the Fed yesterday. The pundits are busy trying to decide which adjective to use in describing a 50 bps ease to start a new cycle, not exactly certain how you can call anything hawkish in the actions of this august board, but somehow it is open for debate after the bond market has certainly turned tail and run for now after an initial spike lower in yields.

Early Asian flow last night saw good selling in US 30s, best flow being real money paying in USD 3y and 5y swaps, along with smattering additions of 2/10s steepeners by the levered community. There was a good bout of short covering primarily in the belly of the curve via 5s, FV, and TY contracts after Tokyo lunch that helped stabilize the market into the European open.

Early bid in London remained until closer to BoE announcement that came exactly as expected at 7 AM ET, no change to current level at 5%, no change to QT, and one dissenter in favor of 25 bps cut. Since slightly before NY arrived, market has dealt with better flow in swaps, aggressive paying in belly again while there was knock on selling in long end of UST curve as gilts came under pressure post-announcement.

Claims, Philly Fed, current accounts all printed at 8:30 AM ET, followed by LEI and existing home sales at 10 AM ET. No Fed speakers until tomorrow morning. $17BN in 10y TIPS Reopening at 1 PM ET. Okay, so now the Fed needs a little shift here in it's wish list: soft employment and soft(er) inflation data. This is where the rubber meets the very hot asphalt, starting with claims today. Did you catch how Powell couldn't decide how to answer the question about how many NFP reports he will see before the Nov meeting???? He knows by heart, but wasn't sure how he wanted to play it. Surely today's claims number is not what they would hope for, and Philly Fed moved to growth, small as that move may have been.

There is only risk for the new Fed paradigm, which makes the selling of gamma this AM interesting. Vol got hit, as one would expect yesterday on the Fed but scrambled back in a painful way later in the day. It has been one way selling since NY arrived. Let's see what happens. Oh, and didn't we say yesterday, "anything but a bear steepener"? 18 hours does not a trend make, but you can see where the pain resides.

Enough for now. Have a good morning and best wishes figuring out the new playbook (why do I keep hearing "sell Mortimer, sell..." in my head?). Still think risk is for some kind of sneaky, one last spike to lower yields to shake out a few more weak shorts. Then let's see how resolute this Fed is....

Have a great Thursday,

mjc