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The Trean Report by Matt Carinato

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Global markets are getting back to last week's message, with Treasuries bear steepening, risk better bid, and a world awash in stimulus. Today's provider of all things stimulating was our friends in China at the PBoC who are sprinkling the field with cheap funding. As of 8:30 AM ET, Treasuries are 2-6 bps higher in yield, bear steepening another 2.5 bps in 2s10s and 3 bps in 2s30s. US equity index futures are off their best PBoC-induced levels, but still marginally firmer ahead of the cash open and consumer confidence data.

It has been quite the busy day for the PBoC, aka the chief puppeteer of All Investments Chinese. So they threw the kitchen sink at their moribund economy overnight, with PBoC Governor Pan unveiling plans for a 50 bps cut in the RRR, a 20 bps cut to 7-day repo rate (1.5% now, and yes it is set), a 30 bps cut to the MLF (funding) rate, a 5 bps cut to LPR/deposit rates (0.20% now), and a backstop for all local government loans financing home purchases (was 60% of notional before) all the measures seeking underwrite risk and equities.

That certainly did help underpin risk after Tokyo lunch, with global equities rallying on the back of the lifeline (and make no mistake, it is just that!) as Chinese indices from Hang Seng to Shenzhen all gained over 4% on the session. Treasuries came under minor pressure on the announcement; however, a bearish RBA meeting and then Governor Bullock's press conference that made clear the central bank was squarely on hold (as opposed to predisposed to an easing bias) had kept Treasuries pretty flat to their 3 PM close ahead of the PBoC actions. Weak data in Germany underpinned front end of German curve but really didn't offer support in USD space.

Flows in Asia included better buying of US 2s by real money account early in session but overall some off-shore hedge fund plying 5s30s flatteners on the hawkish RBA comments. A steady drumbeat of selling intermediates and 20y by levered accounts followed the RBA announcement as risk went marginally better bid with the performance of Chinese shares. The selling continued largely unabated after the London handover, even though GBP and EUR rates had opened better bid. There was actually no support from the weak data in Germany, save for a bid to steepeners, but they are largely bear steepeners, just like in the US (this will not end well, might we remind you). There was a small bounce into the NY open, which portfolio types gladly used to pay in USD 5y and 10y swaps while levered accounts were glad to offload a few more 10s and 20s in Treasuries and US Classic as well. Vol definitely has a sneaky little bid to it this morning, better buying of TY wings, primarily puts, since mid-morning in London.

All right, Philly Fed in a couple minutes, followed by Home Price data (9 AM ET), with Consumer Confidence and Richmond Fed at 10 AM. $69BN in new 2y notes at 1 PM ET to kick off the last coupon supply of this quarter.

US Classic future is very close to a key level here, and it doesn't look good for the longs, at least for the moment. The 123-15/19 zone in USZ is an important hold for the contract, as we trade 124-00 handle currently. In a similar way, watch 114-07+ level in TYZ as we trade 114-10+ currently. A break of that 114-07+ level could bring in stops that take the long bond to its more important support level. Don't fade the bear steepener: it's the pain trade and is only starting to take prisoners. Equities look good to go here, as they should be given how much is being spent to underpin risk globally. Most of the tools in the box seem to support the idea of a move between 5910 and 6150 for the SPX (currently 5718.57 close yesterday). That would be impressive (and to be clear, would fade that move once you get past the next 2.5 weeks for seasonals).

Enough for today, have a great Tuesday,

mjc