

The Trean Report by Matt Carinato

Friday September 6, 2024

Happiest Friday morning as the highly-anticipated NFP report for July, the one that may open the floodgates to massive Fed cuts ya' know, is right around the corner at the bottom of the hour. As of 8:15 AM, Treasuries are (of course) small lower in yield, a touch flatter for the moment in a relatively quiet session thus far, while US equity index futures trade marginally softer. All of this will of course change in a few minutes.

Let's start with implied breakevens for today:

US Classic; 7.10 bps

TY: 11.90 bps

FV: 14.87 bps

Umm, so that's about right. The flagship bond continues to be treated like the sector of the curve no one cares about, as its breakeven is slightly below the 12m average for NFP day, while the FV is well above its 12m average. But if you are going to have outsized moves driven by either tightening financial conditions like last year or easing financial conditions like this year (and BTW, you see a certain STIR desk at a major money center bank calling for three 50 bps cuts this year overnight??? just saying), then 5y, greens, back end of reds are gonna be the spots to play. Will add one last note here to think about after the dust settles this morning: the Monday Treasury options (9/9 expiry) get very little respect, trading almost flat to today early yesterday before building in a smidge of edge since then, but most of the "smidge" is the theta effect that has to happen when you are talking about one expiry being evaluated in hours.

Couple things as the Fed enters blackout period after today. Watch to see what Waller says at 11 AM ET, while Williams at 8:45 may be too early for anything relevant to this morning. It has been a great week for syndicate desks. The estimate was for a "heavy" week, but the estimate for the week was crushed by Tuesday's largest-ever number of issuers (\$43.275BN from 29 issuers) and third largest issuance ever. While Labor Day weeks are typically heavy on issuance, this week set a record for the 4-day frenzy, at \$71.925BN. Point of all this is there is likely more issuance to come if the doomsayers are right and we are headed for a softish report, and further rally. At this point, there is no reason to think that won't happen. But with Treasury supply in the long end and more issuance next week, so maybe there are opportunities to play from the short side.

All right that will do it for now. Whisper number is about 150K, official estimate is a touch higher at 165K. Oh for a 225 number, but I digress. Soooo, if you think that the boulder is careening downhill here with nothing in its path, then you better not be short vol in those greens or FV/5y

buckets. If you think that somehow logic finds its way back into the building before we truly talk our way into a recession, then selling TY/UXY (7-10y) vol is the play. I don't know. Can't fight the trend right now, but Stone McCarthy shows MMs finally starting to throw in the towel and extend beyond their durations....after all, a girl can always hope....

Good luck out there and have a great weekend (GO BEARS!!!),

mjc

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