Wednesday, 19th August 2015. 16:29:30

USD Swaps: Minute-drive rally widens spreads

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Minute-drive rally widens spreads
The mixed but also dovishly interpreted minutes caused a jolt in Treasuries this afternoon. Belly led in the subsequent rally with the 5y note yield dropping 8bps to 1.498% while the 7y note lost 8.2bps to 1.86%. Reds through Blues repriced with an up to 9bps rally. Equities rallied but then dropped back in lower with the DJIA ending the session -0.9%.

In the minutes, almost all members of the FOMC “indicated that they would need to see more evidence that economic growth was sufficiently strong” before hiking rates. Still, the minutes found that “most judged that conditions for policy firming had not yet been achieve, but they noted that conditions were approaching that point.”

Swap spread widened out with the underlying rally, with a trader noting that issuance swapping was earlier in the day and then after the minutes, spreads “pushed out.” And though there continues to be some supply, the source considered that the calendar will be light “and should slowdown for the remainder of the month.”

With the minutes in the rearview, sources say that the importance of the next payroll report has increased, with a more binary outlook on the judgement of the Fed hike in September off the back of the strength of the number. Until then, “we are a bit in a flux,” regarded one trader.

Currently, 2s 24bps (+1bps), 3s 19.75bps (+0.75bps), 5s 12.25bps (+0.5bps), 7s 6.25bps (+1bps), 10s 7.75bps (+0.5bps), 30s -18.5bps (+0.25bps).

Buy side concerns on margin and costs persist — Alston & Bird

With the regulations on uncleared derivative margin costs still in a state of flux, Willa Bruckner, Partner at Alston & Bird Financial Services and Product Group, says “increased costs associated with margin for uncleared swaps are a concern for all market participants.” In particular, she senses that some buy side participants are concerned “that the sell side will pass on its direct costs and its opportunity costs of posting margin for uncleared swaps,” thus effectively “doubling the buy side’s costs.”

With these anxieties potentially turning into reality, Bruckner suggests that “as the overall cost for uncleared swaps increases, the advantage of uncleared swaps may be overshadowed by the need to use funds for other purposes.”

As a result, Bruckner anticipates that “the trading volume of the products and structures we know will shrink over time as the market finds alternative approaches” as “the costs of engaging in swaps has increased and will continue to increase.”

New issues

- **IADB** plans a $TBA 3y benchmark. Leads BAML, CS, GS and TD. To price tomorrow. Mid swaps -3bps.
- **Alberta** priced a $1.25bn 5y benchmark via BAML, BMO, NFB and TD at MS+17bps or USTs +29bps. Aaa/AAA.
- **Asian Development Bank** priced a $2bn 5y benchmark through BAML, GS, JPM and RBC at MS+4bps or USTs +16.1bps. Aaa/AAA/AAA.