UPDATE: Moving Into Positive Territory After 10yr Auction

- 10yr Treasury Auction
    - 4.342 vs 4.354 expectations (1.2bps beat)
    - Bid to cover: 2.60 vs 2.48 average

Quick deep dive on Treasury auction info (more details in the primer if you want and even deeper dive):

There are two versions of Treasury note auctions (Notes=10yr+): refundings and reopenings.

A refunding means that a new Treasury coupon is being created whereas a reopening simply allows for additional sales of existing coupons. This happens on a 3 month cycle (m1-refunding, m2-reopening, m3-reopening) and then resets.

A lot of folks on the internet and TV offer auction opinions. One thing almost all of them miss is the fact that reopenings and refundings have distinctly different patterns of performance. Refundings overwhelmingly average lower bid-to-cover (ratio of dollars bid to the total auction amount) and poorer yield performance, i.e. they're more likely to "tail" (when the auction's high yield comes in above the 1pm expectation) than "stop through" (when the high yield comes in lower than expectations). In both cases, expectations refer to the 1pm "when-issued" 10yr yield--a contract that allows traders to trade the new coupons before the auction.

With all of the above in mind, we can now qualify this auction as much stronger than it seems at first glance. Reason being, the typical refunding auction comes in 0.7bps higher than expected while reopenings have come in 1.0bps lower. Additionally, refundings have average a 2.48x bid to cover whereas reopenings have averaged 2.60x.

For clarity, if we forget reopenings and refundings (the thing the average commentator is doing), they'd see a recent average of -0.7bps on the yield and 2.59x on the bid to cover. That would still imply today's auction (-1.2bps and 2.60x) was strong, but not as strong as it actually was.

Big bond traders are all over this though, which is why the market has reacted in a noticeable way. 10yr yields are down 4bps almost instantly (3bps total on the day) to 4.315.

MBS aren't the star of this show, but they've been pulled higher as well, with 5.5 coupons now up almost an eighth of a point.

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