

# MBS & TREASURY MARKETS

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## The Day Ahead: Are Bonds High on Crack (Spreads)?

The term "crack spread" is quickly becoming mainstream--especially over the past few weeks. It's more of a concept than a specific metric, but it most frequently refers to the margin between input and output costs for fuel (gas, diesel, etc). Petro-nerds seem to like the 3-2-1 crack spread, which covers both gas and diesel (3 barrels of oil margin vs 2 barrels of gas and 1 barrel of diesel). While it's true that we could simply look at RBOB or ULSD futures to gauge price changes at the pump, crack spreads speak to the current state of supply/demand imbalance. They suggest conditions remain tight for fuel prices. A widening crack spread suggests the move in gas prices is being reinforced by refined-product fundamentals rather than merely reflecting a change in crude oil. Notably, crack spreads have correlated with bonds better than individual fuel metrics when we examine large, long-term shifts in fuel prices.



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But in the medium term, fuel futures (like gas/diesel... not crude oil) are still probably even more relevant. Either way, looming fuel cost implications are weighing on bonds.

