Normally, I eschew option trades as a rule. The primary reason is that I simply don't like to think like an options trader, it typically bores the living crap out of me. Another reason I do not like options is that I am usually a buyer, speculating on direction and timing.
However, the reason for considering an options trade strategy in the long term treasuries has been two-fold. First, there is a real potential for explosive job growth on the April 2nd NFP report. Such an event can bring out the bond vigilantes in full force and vols will increase. If so, treasury prices should take a big hit as it happened on the April 2 2004 NFP report six years ago. If the April 2 2010 NFP report does not show explosive job growth or fails to bring out the best of the bond vigilantes, I will be exposed and caught naked long May puts on April 2nd that expire 21 calendar days later April 23. There is little much room for error in judgment on this trade. It should be noted that the whole concept for this trade originated from the economists forecasts for the April 2 NFP report to show 275,000 or more jobs being created in March 2010. Those forecasts became known on the week of March 8, two weeks ago. Since those initial forecasts by Jan Hatzius and others, the consensus forecast has been whittled down to +150,000, still a substantial amount, that leaves room for the upside risks cited by Hatzius and others. With upside risks to the forecast, a price shock on the downside is even possible. The strategizing for this trade began March 9, I only began putting on the trades March 19 and March 22-23.

I like to give myself plenty of room for error. This May put option trade is a bit more aggressive than a normal trade for me as the short time does not give me much flexibility for errors in judgment. As always with speculative biased trades, getting location and timing right is essential. But so to is getting the analysis right! If there is any hope of getting the location and timing right, the analysis had better be spot on. To compensate for potential errors in judgment, I always trade in small sizes. Potential errors in judgment that I can make relate to

1. 1) my directional biases and beliefs
2. 2) my timing and
3. 3) my location.

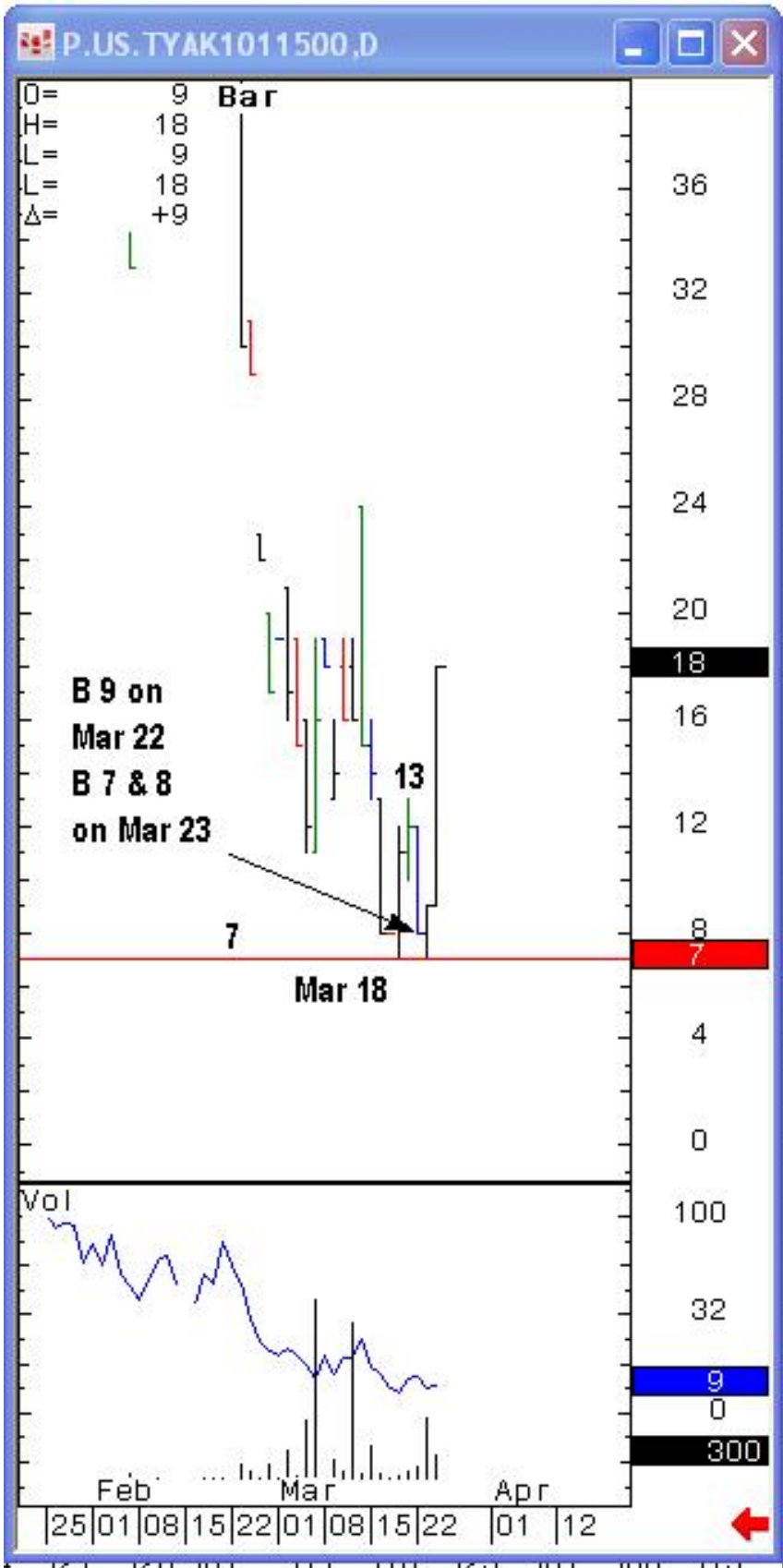
Get any one of these three factors wrong, and the potential for loss is substantial. This is particularly true when it comes to options (much more so than futures and another reason I hate to be an options buyer). If the downside risks related to potential job growth were not so substantial and implied vols so low, I would not be looking at this trade at all.

Second, treasuries have been in a "box" or sideways trading range since June 2009. The 10 yr treasury has traded in a 7.13 point range and the 30 year has traded in 10.14 point range since June 2009. When markets find themselves in a box, implied vols collapse. That is what has happened in the treasuries over the past year. When implied vols collapse, options can be a better tool than futures, but futures remain my preferred vehicle of choice 99.9% of the time.

Implied vols for at the money May 117 ten year note puts on March 22 with 32 days to expiration is at 5.5%. At the money May 118 thirty year bond puts with 32 days to expiry implied vols are 8.6%. The knock about being in a trading range or box is we have no idea when the mkt will breakout of its congestion, or its direction. Were it not for the well advertised or telegraphed expectation of a huge spike in the April 2 NFP report, I would not have even been considering this trade strategy.

As noted above, options are a more suitable tool than futures for this low volatility, trading range environment. I chose a bearish directional bias based on my observational knowledge and on upcoming economic forecasts pertaining to the April NFP report (and less important others).

TYAAM0,120 | USAAM0,120
O= 117065 Bar
H= 117095
L= 116145
L= 116185
Δ= -225
Ten Year
(LS)
118000
117160
117000
116160
116000
115160
115000
114160
114000
Jobless and NFP
Wed Mar 3
EHS
F 26
NHS
F24
5y
CC Bid
FOMC Tues
Thurs Mar 4
Jobless
EHS
F 26
Lower Low
Thurs-Fri
F 19
5y
M 12
CC Tues
Thurs
F 18
Higher Low
Mar
22
01
08
15


P.US.TYAK1011500,D
O= 9
H= 18
L= 9
L= 18
Δ= +9
Bar
B 9 on
Mar 22
B 7 & 8
on Mar 23
13
7
Mar 18
Vol
Feb
Mar
Apr
25 01 08 15 22 01 08 15 22 01 12

P.US.USAK1011400,D
O= 13
H= 30
L= 13
L= 30
Δ= +18
Bar
options should
bottom after
Mar 18 price peak
S 27 on
M 24
b 11 on
Mar 19
18
Fri Mar 18
Vol
m17
Mar
Apr
08 15 22 01 08 15 22 01 12 19

USAAM04 - 30 Yr US Treasury Bonds - Combined, Jun 04, Daily
Cndl
CPI &
FOMC +1
Wed Mar 17 04
Double Top
Wed Mar 24
11612
-1.19
Mar 5 NFP
BOND VIG
-5 points in o
surge in job
feb 23
100k est
Apr 2
353 k
NFP
-7.28
10816
jan 28
dropped "considerable period"
from their language
10701
Apr 14 CPI
Jan 5
Dec
2004
Feb
Mar
Apr