



## Stephen Moye

Sales Manager/Senior Loan Officer NMLS:  
268619/CA-DBO268619, New American Funding Corporation. NMLS: 6606, Equal Housing Lender  
Licensed by the Department of Business Oversight

Under the California Residential Mortgage Lending Act  
CA-DBO268619 Corp. NMLS: 67180 Equal Housing Lender  
1615 Murray Canyon Road #1050 San Diego, CA 92108

Office: 619-309-1678  
Mobile: 619-895-8128  
Fax: (619) 793-1026  
[stephen.moye@nafinc.com](mailto:stephen.moye@nafinc.com)  
[View My Website](#)

## UPDATE: Snowball Rally in Bonds Thanks to Short-Covering and Month-End

The 5yr Treasury auction was strong, but not strong enough to account for what we're seeing in terms of trading momentum. More to the point, simply glance at a 2-day chart of Treasuries or MBS to see that today's move has been a linear and decisive move in one direction.



There are two factors in play, in addition to the strong auction (which, again, isn't the market mover you're looking for).

The first consideration is that Thursday is a half-day, which leaves tomorrow as the only proper "month-end" trading day (click that link to learn more about why that matters). That means there can be a certain amount of bonds that will simply be bought (or sold, in the case of shorter maturities) over the first 3 days of this week as traders get in position for month-end.

## MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.37	+0.02
MBS GNMA 5.0	99.93	+0.02
10 YR Treasury	3.9068	+0.0029
30 YR Treasury	4.1960	+0.0028

Pricing as of: 9/1 7:34PM EST

## Average Mortgage Rates

	Rate	Change	Points
<b>Mortgage News Daily</b>			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
<b>Freddie Mac</b>			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
<b>Mortgage Bankers Assoc.</b>			
30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

Rates as of: 8/30

The 2nd consideration is the fuel on the fire. It has to do with the immense "short" base in bond markets. In other words, just as we've talked about the fact that bonds would have a hard time making a meaningful, sustained break below 2.80% in 10yr yields, traders have increasingly made bets on yields moving higher. In other words, they're "short" bonds. An overabundance of short positions is susceptible to any forced improvement in bonds, whether it's driven by a decent auction, month-end buying, mild stock losses, etc.

A trader with a short position covers their bet by buying bonds, which, in turn raises prices and lowers yields, thus potentially acting as a trigger for the next short in line. As those dominoes fall and as that snowball rolls, the rally picks up momentum. That's the gist of today's strong move, although it's worth remembering that it only prolongs the same old consolidation pattern we've been watching, even though it's pushing the lower boundaries. Yields would need to close tomorrow in the same territory or better to confirm a new move is underway. Even then, we run the risk of April's "new month" momentum taking things in the other direction.



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