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## UPDATE: Overnight Gains Cooling Off; Eurodrama Trade Needs Constant Fuel

Bonds are still stronger on the day and still well below the key technical zone of 3.05-3.06% (currently down 3.5bps at 3.028%), but yields are well off their overnight lows of 3.0%. That move is **at risk of continuing** as Eurozone drama is at risk of cooling off for today. Just a few moments ago, the following headline crossed the wires:

ITALIAN PRESIDENT DOES NOT APPRECIATE ECONOMISTS WHO  
ARE ANTI-EURO AND ANTI-EU - SOURCE

This is apparently in reference to the new government's nomination for Finance Minister, Paolo Savona, an economist who's been anything but shy about saying the **EU is a bad deal for Italy**. What does the Italian President's "appreciation" have to do with anything right now? I feel like step by step bullet points would be the easiest way to convey the market movement implications:

- Simply put, the president is on the verge of approving the new government's staff picks (today or tomorrow)
- This newswire (the all-caps stuff above) makes it sound like Savona might not make the cut.
- Savona is an ardent critic of Italy's Eurozone membership
- To whatever extent the most ardent critics of the Eurozone don't make the cut for Italy's new government, fears over an Italian Eurozone exit could subside.
- Fears over an Italian Eurozone exit have driven much of the recent resilience in core bond markets (like Germany and the US). In fact, Italian drama probably deserves most of the credit for US 10yr yields falling over the past 4 days.
- So if those fears subside, bonds have less of a reason to be rallying and may even find a reason to weaken

If there's **one thing we've learned** from past bouts of Eurodrama, however, it's that these sorts of headlines aren't capable of singlehandedly defusing broader risks and realities. If Italy's coalition government is against its Eurozone membership, merely blocking one of its more vocal nominees won't do much to convince financial markets that previously foreseen risks should

## 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

be forgotten.

**In other words**, we're seeing a bit of an adjustment to today's rally at the moment, but not nearly enough to undo the past 4 days of resilience. For that, we'd need to see Italy's new coalition government hamstrung to such an extent that markets no longer have to worry about an Italian Eurozone exit.



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