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## UPDATE: Bonds at Best Levels as Traders Contemplate "Short Squeeze."

What is a short squeeze? [Here's the primer.](#)

We're not necessarily in the grip of such a squeeze just yet, but the **possibility** is potentially driving some of this morning's early gains.

### Why is that?

Overnight headlines for bond geeks include quite a few mentions of a **tweet** by **Jeff Gundlach** (manages multi-billion dollar bond fund) in which he warned of a potential short squeeze in Treasuries.

This sort of cause and effect conclusion is **completely overblown**. Every institutional investor that even dabbles in Treasuries is well aware of last week's weekly release of the CFTC's Commitment of Traders report. They're also aware that short positions in 10yr Treasuries soared to a record high (698k contracts as of last Tuesday versus 586k and 590k contracts on the previous 2 Tuesdays).

Gundlach's tweet was simply a comment to the effect of "dang... y'all are really short on 10's! Hopefully nothing comes along to push yields too much lower or there could be a big old short squeeze!"

This is a **conclusion that anyone would draw** when looking at a huge base of short positions in a market where armchair traders and industry pros alike all agree on the general trajectory toward higher rates. At most other times of the year, it would barely be news, but markets are exceedingly bored right now.

But the **important question** is whether or not Gundlach is right.

**Of course he's right!** But that doesn't mean his warning is a prediction that it WILL happen--simply that it COULD. This will always be the case when there's a huge short base.

All that to say that bonds are mysteriously stronger this morning (no compelling fundamental justification for the gains), and Gundlach's tweet is the **best available scapegoat**.

## 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
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### Mortgage News Daily

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

### Freddie Mac

30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00

### Mortgage Bankers Assoc.

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

In **technical** terms, the yield curve is breaking to new 11-year lows , currently at .237). 10yr yields are down 2.7bps at 2.837. Fannie 4.0 MBS are 3/32nds (0.09) higher at 101-30 (101.94).



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