

Title: The Question behind GameStop's return: is the Fed "instigating" a short squeeze? - Crosspost  
Author: wkowdyw  
Created 2021-05-29 18:56:06 UTC  
Permalink: /r/ratioatblessons/comments/nntx4c/the\_question\_behind\_gamestops\_return\_is\_the\_fed/  
Url: /r/DDintoGME/comments/nntvef/the\_question\_behind\_gamestops\_return\_is\_the\_fed/

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Translated from Italian Using Google translate (Italian Apes, feel free to correct)

Original article: [<https://www.money.it/Dubbio-ritorno-Gamestop-Fed-short>](<https://www.money.it/Dubbio-ritorno-Gamestop-Fed-short>)

**\*\*The Question behind GameStop's return: is the Fed "instigating" a short squeeze?\***

Mauro Bottarelli

26/05/2021

05/26/2021 - 09:25

\*Another record for the reverse repo: the system is bursting with liquidity and the endgame for Quantitative easing is approaching. At the same time, the media returns to recommending purchases of meme stocks and their valuations explode. Just like in February. And the short interest on Standard & Poor's also rises to the maximum of the year. Does anyone think of an "alternative" form of using excess cash, by forcibly hedging short positions?\*

<https://preview.redd.it/hp7oow0pt3271.png?width=680&format=png&auto=webp&s=68dbd4d1622e17aac9b2aaab91b660474b0e71a4>

If the reverse repo facility (RRP) has literally exploded with liquidity for days, a symptom that Quantitative easing is dangerously approaching the endgame phase, **\*\*how can you buffer the situation without having to accelerate dealing with the facts - and not just words - that taper\*\*** that such a deposit trend seems unequivocally to claim? Perhaps, **\*\*creating the conditions for another wave of short squeezes similar to that of last February,\*\*** capable on the one hand of engaging liquidity on the market for forced hedging of bearish positions and on the other of bringing the retail investor, **\*\*burned by sharp declines, closer together. Recoiled but still loaded with stimmy money from the federal program\*\*** which will expire at the end of September.

The question arises, connecting the dots of what happened on the market yesterday, almost as if the underground and apparently disconnected moves of the subjects in the game were dots of the mysterious Week. Starting from the reverse repo of the New York Fed and from this graph:

[Source: Bloomberg](<https://preview.redd.it/tvd5y4mut3271.png?width=500&format=png&auto=webp&s=f9936d51d0467247b2103c8d67e5972449992053>)

**\*\*433 billion in use, 38 more than the day before, 190 billion more in a week and third highest level ever.\*\***  
In short, the Fed continues to flood the liquidity market with its purchases of securities on the secondary market for 80 billion per month (plus 40 of Mortgage Backed Securities) but this is beginning to no longer know where to store that cash. **\*\*And then he brings it back to the Fed, obtaining as collateral the same Treasuries that the Central Bank drains into the Quantitative Easing.\*\***

A round match. Which, however, is now about to reach its maximum boiling point. The pressure cooker

called RRP is whistling ominously. Stronger and stronger. Longer and longer. \*\*Because soon, the collateral will end and with it the possibility of monetizing the debt.\*\* And although, in view of the board of 15-16 June, at least two members of the Fed a day take turns having their say on the taper, \*\*everyone knows that pulling the plug in a really drastic way seems impossible.\*\* A trick is needed. A controlled accident. Or, better yet, a beautiful media event. And here, while 48 counterparties deposited liquidity at the Fed, \*\*two names ended by the wayside were back on Wall Street: GameStop and AMC Entertainment,\*\* the spearheads of the so-called meme stocks, in the mood for redemption with - respectively - a +29 % and + 16%.

Became a global topic of discussion in February, \*\*when their short squeezes hikes monopolized the headlines and blew up Melvin Capital,\*\* a heavily exposed short and caught hedge fund with totally off guard, suddenly they seem come back in vogue. Like certain sneakers. \*\*Change of management? Merger or Acquisition Announcements? Partnership with Tesla for tourism on Mars?\*\* No, just the fact that they were the first and third most covered topic of the day on WallStreetBets, as the graph shows.

[Source: Swaggy](<https://preview.redd.it/8oleeyb5u3271.png?width=500&format;=png&auto;=webp&s;=be016a94119fee431ec27b4e1aaf88f5a3edce63>)

And, consequently, to have then monopolized Twitter and Stocktwits by default. And even in this case, no news relating to the accounts or the business plan guaranteed content to the conversation: \*\*someone threw the stone and everyone followed suit.\*\*

Starting from a very classic theme: AMC's short interest had just returned to all-time highs. \*\*Air of short squeeze, in short.\*\* As irresistible as the scent of croissants in the morning. All said and done, the tweets have turned into facts. That is, purchases. \*\*At 2.35pm yesterday afternoon (New York time) they had changed hands some 123 million AMC stocks,\*\* becoming the second most traded among those valued above \$ 1. Retail trading on GameStop is also less aggressive but still very active, with 8 million shares traded, more than double what happened in the last 10 sessions. The reason? The short interest of the video game chain is still unappetizing for a frontal attack strategy, as the graph shows.

[Source: Bloomberg](<https://preview.redd.it/khpw27meu3271.png?width=500&format;=png&auto;=webp&s;=6337be04a0c4cef17e4acfae7ebcb4c72e44f9af>)

On the other hand, this other image:

[Source: Bloomberg](<https://preview.redd.it/jygtzatgu3271.png?width=500&format;=png&auto;=webp&s;=977e07475376f40ab719c9e78699e9d35b5a7b1d>)

summarizes the day: \*\*the basket of stocks most followed and traded by users of WallStreetBets - with a clear aim of short squeeze - marked the greatest increase since the beginning of April.\*\* Without a reason, in fact. But you know, \*\*anyone can write anonymously and covered by nicknames on those chats.\*\* Perhaps, stirring the spirits of those who want to punish the real banksters of Wall Street, hitting them with their own weapons. Perhaps, by typing those appeals to the revolutionary use of the security account from a computer of a neat desk of some bank or hedge fund that buys trading flows from Robinhood to set up its algorithms\\*\*\\*. And who, also being a Primary dealer, is now joining\\*\*\\* forces with the Fed to avoid a repo apocalypse\*\*

But here's this chart:

[Source: Bloomberg](<https://preview.redd.it/ldxnfc1nu3271.png?width=680&format;=png&auto;=webp&s;=d7f21b45999de9086c741bdb30990f65db38aa25>)

shows how in a further and suspicious contemporary, the short interest on the ETF that traces the Standard & Poor's 500 - SPY, a giant worth 357 billion - has risen to the maximum level since the beginning of the year. \*\*About 4.8% of the fund's shares are now on loan pending a collapse in valuations, just as the index fluctuates at an all-time high.\*\* A month and a half ago that percentage was 2% and 1.7% at the beginning of the year. Of course, during 2020 that level had risen several times above 7% but today's timing appears decidedly different. At the time, in fact, the market was suffering from the evolution of the pandemic but benefited from the support of central banks that appeared to force four and indefinite,

**\*\*today instead we talk more and more frequently and openly about tapering that stimulus.\*\***

In short, potentially, two bearish pressures are joining forces in their bet against the market, both at the level of meme stocks and the Wall Street benchmark index. So, if it is a short squeeze, **\*\*triggered by any gust of optimism (true and presumed) from the Fed or the Treasury or Congress,\*\*** some other hedge fund seems destined to join Melvin Capital. **\*\*Triggering a period of great tension, with thunderous but controlled declines and an increase in VIX: ideal for burning some liquidity.\*\*** Thus avoiding it ends up in the reverse repo facility, which will deflate like the short interest of these days. And in this way it will stop putting further pressure on the decisions - real and concrete - of the Fed. But maybe, it's just fanta-finance.

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Here is a top comment from the original post, credit u/criand.

<https://preview.redd.it/i45t36gq14271.png?width=585&format;=png&auto;=webp&s;=ddf265908d1f32c376d29b44241d6bfb5b54e80f>

Edit: Here's another interesting post/comment, credit u/Pop-Tart\_Rabies\_Monk [[https://www.reddit.com/r/Superstonk/comments/nnn7ly/blackrock\\_the\\_fed\\_and\\_citadels\\_dark\\_legacy/](https://www.reddit.com/r/Superstonk/comments/nnn7ly/blackrock_the_fed_and_citadels_dark_legacy/)]([https://www.reddit.com/r/Superstonk/comments/nnn7ly/blackrock\\_the\\_fed\\_and\\_citadels\\_dark\\_legacy/](https://www.reddit.com/r/Superstonk/comments/nnn7ly/blackrock_the_fed_and_citadels_dark_legacy/))

<https://preview.redd.it/x1apo0u324271.png?width=610&format;=png&auto;=webp&s;=d40b061755b3a92286f83aaf8caf1791b7766637>