

Thursday, 7th December 2017

Morning Round Up

US Yield Curve Continues to Flatten

The difference between 2 and 10 year US yields fell to 52 basis points yesterday. It has compressed by 33 basis points over the past 30 days. This is the quickest rate of compression since 2008 and faster than the European sovereign debt crisis in 2011. A pronounced flattening of the yield curve has historically been a harbinger of recessions. However, this time it *might* be driven by other factors. Progress of US tax reform may have increased expectations of US growth (and inflation) in the short term without having a similar impact on the longer end of the curve. Increased expectations of Fed hiking have also helped push up the short end. Lastly, foreign buyers of Treasuries have been very active lately as US Treasury yields are still attractive considering the yield on other government debt, most notably in Europe where yields are at multi-year lows.

China Weakness Continues

[We have been monitoring](#) Chinese equity markets over the past few weeks as they have been experiencing prolonged weakness. Hong Kong listed shares fell to their lowest levels in 2 months yesterday with a lot of the bigger names such as Tencent bearing the brunt. Chinese equities had enjoyed a stellar run up until the recent Party Congress. Following on from that, the government has stepped up its crackdown on financial leverage and speculation. Investors have used this period to take profits on double digit returns and ultimately this shake-out should be healthy for the market. This recent weakness has not really spread to other Asian or major markets, which implies that it is not much of a worry for markets presently. However, it does bear monitoring as we move into year end.

Brexit Deal Hits Stumbling Blocks

What a difference a week can make. From the initial optimism early on the week, it would now appear that striking a Brexit deal by the EU Council meeting on the 14th December is looking increasingly difficult. Theresa May's discussions with the DUP yesterday did not produce any progress of note. The Irish government has stated it stands by a draft text agreed on Monday, a text which the DUP adamantly opposed. It remains to be seen if a deal has been scuppered but the focus is now on whether Mrs May can bring the DUP on board. Separately, Mrs May is again facing increasing opposition from within her own party, with noted Euro-sceptic MPs taking pot-shots at her negotiation skills. Media reports this morning have stated that Jean Claude-Juncker fears her government may collapse next week if talks remain deadlocked.

EURGBP - 4 Day Chart



Source: Bloomberg, CF Research November 2017

Key Upcoming Events

- 08/12/2017 US Debt Ceiling Deadline
- 12/12/2017 Federal Reserve Board Meeting
- 14/12/2017 ECB Council Meeting
- 21/12/2017 US Quarterly GDP

Market View

Asian markets were generally positive overnight with the one exception being China, where investors continue to worry about the crackdown on leverage and speculation. US Tech rallied yesterday after a few days of weak trading on the back of rotation in stocks that are seen to benefit from US tax reform. Sterling continued to weaken as lack of progress in Brexit talks dominated headlines yesterday. The Bank of Canada rate meeting yesterday produced no hike as it reiterated caution. Market focus will be on the upcoming US debt ceiling tomorrow, any Brexit related stories and US NFP on Friday.

Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	24141	-39.73	-0.16%	22.15%
S&P	2629	-0.30	-0.01%	17.44%
Nasdaq	6776	14.16	0.21%	25.88%

Nikkei	22,498	320.99	1.45%	17.70%
Hang Seng	28,303	78.39	0.28%	28.65%

Brent Oil	61.43	0.21	0.34%	8.11%
WTI Oil	56.14	0.18	0.32%	4.50%
Gold	1258	-5.83	-0.46%	9.59%

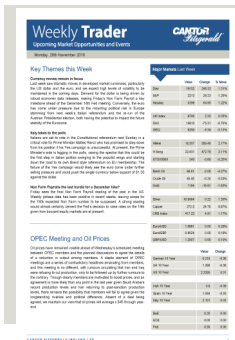
€/\$	1.1795	-0.0001	-0.01%	12.15%
€/£	0.8815	0.0007	0.08%	3.28%
£/\$	1.338	-0.0013	-0.10%	8.43%

	Yield	Change
German 10 Year	0.30%	0.006%
UK 10 Year	1.23%	0.000%
US 10 Year	2.33%	-0.004%

Irish 10 Year	0.49%	-0.002%
Spain 10 Year	1.43%	-0.005%
Italy 10 Year	1.72%	-0.012%

Source: Bloomberg, CF Research November 2017

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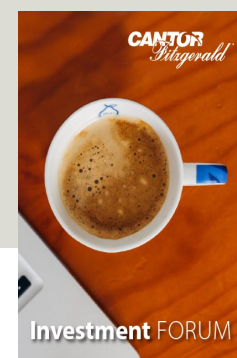
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Issuer Descriptions: (Source: Bloomberg)

Historical Recommendation:

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