

Wednesday, 05<sup>th</sup> December 2018

## Morning Round Up

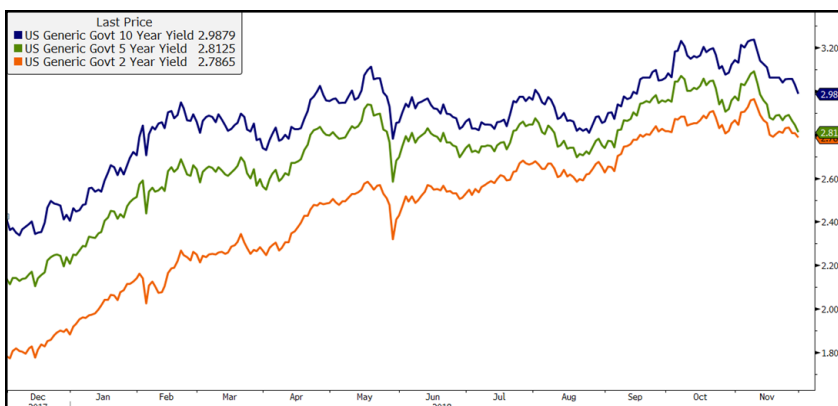
### Flattening yield curve drives market fears

The US yield curve has long been used as a barometer for economic sentiment with the 2s10s spread inverting prior to the past seven recessions in the US. The spread is currently trading at 11bps, the lowest level since June 2007. The move has been driven by investors questioning the growth outlook for the US economy causing increased demand for the safe 10 year bond driving yields lower. Marginally lower demand for the 2 year maturity has seen yields fall at slower pace resulting in the spread halving over the last three trading sessions. Market participants look to the Fed for guidance as we have seen recent commentary from officials indicating a more dovish stance. Despite this the markets is pricing a rate hike this month at a 74% probability, which will likely increase pressure on the short end and steepness of the curve. Some investors are questioning the curves credibility as an indicator, given the demand generated by European and Japanese yields held at such low rates. Current price action is reflective off the uncertainty associated with markets at the moment. Issues like trade, Brexit and Italy generate significant uncertainty for investors. Despite strong (but weakening) economic data and corporate earnings, businesses are unwilling to commit capital in search of growth leaving the market in a protracted "wait and see" mode. A mounting threat of a recession in the US is obviously a significant downside risk to global equities with Financials being the most exposed to a flattening of the yield curve.

### US/China trade truce

US equity markets fell by 3.2% yesterday, giving up 50% of the gains recorded over the last fortnight. News that another Apple supplier has cut guidance weighed on Tech. Trump welcoming the US/China Truce with a tweet which included "I am a Tariff Man" led investors to question what was actually discussed at this dinner. What is clear from Trumps "tweets" is that he expects China to play ball by way of lowering their trade deficit with America by increasing their purchases of US goods and clamping down on Intellectual Property theft. The 90 day grace on 25% tariffs implies he wants to see swift action. US futures are trading up 55bps this morning as comments from China report that Chinese officials have begun preparing to restart imports of US soybean and LNG at the earliest. Chinese imports of soybean declined by 95% YoY in October. Confirmation of how the Chinese government intend to reimburse Chinese buyers of these imports would likely be taken positively by investors. China has also announced an array of punishments that could restrict companies' access to borrowing and state-funding support over intellectual-property theft, a key sticking point in its trade conflict with the U.S. Given the slowdown in China, maybe the "truce" talks yielded more than meets the eye as Trump called Xi's bluff. The South China Morning Post reports that Beijing is now officially worried about unemployment as tariffs start to bite.

### US 2, 5 & 10 Year Yields



Source: Bloomberg, CF Research December 2018

### Key Upcoming Events

11/12/2018 UK Parliament vote on Brexit  
 13/12/2018 ECB Meeting  
 13/12/2018 EU Summit

### Market View

US markets saw heavy selling yesterday as the initial post Argentina trade optimism wore off quickly. The NASDAQ finished down 3.8%, the fourth largest one day percentage change year to date. Weakened sentiment has feed through to Asia and Europe. European markets opened down 1% this morning. Yields have been tightening as investors move out of riskier assets. The US and German 10 year yields are trading at 2.91% and 25bps respectively. With US markets closed today for President Bush Snr's funeral, markets will be watching the Brexit debate closely ahead of next Tuesday's vote. As well as gearing up for Jobs day on Friday in the US.

### Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25027	-799.36	-3.10%	1.25%
S&P	2700	-90.31	-3.24%	0.99%
Nasdaq	7158	-283.09	-3.80%	3.69%

Nikkei	21919	-116.72	-0.53%	-3.71%
Hang Seng	26820	-440.76	-1.62%	-10.36%

Brent Oil	61.42	-0.66	-1.06%	-8.15%
WTI Oil	52.83	-0.42	-0.79%	-12.56%
Gold	1236	-2.86	-0.23%	-5.15%

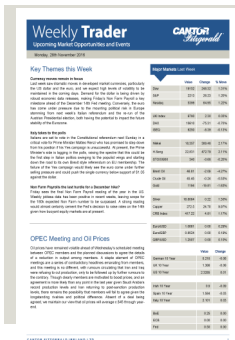
€/£	1.1339	0.00	-0.04%	-5.55%
€/£	0.8910	0.00	-0.09%	0.33%
£/\$	1.2725	0.00	0.05%	-5.83%

	Yield	Change
German 10 Year	0.257	-0.01
UK 10 Year	1.322	0.04
US 10 Year	2.9136	0.00

Irish 10 Year	0.89	0.00
Spain 10 Year	1.476	-0.01
Italy 10 Year	3.11	-0.0450

Source: Bloomberg, CF Research December 2018

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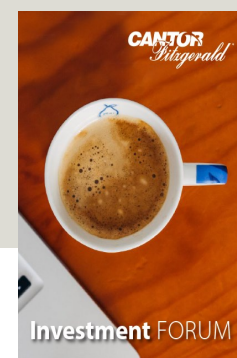
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