

A Flat Yield Curve & China Trade

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The headline points to the two main drivers of the market these days. Tomorrow we will get a payroll report that may distract traders for a while, but the Fed meeting on December 19th will definitely set the stage for what the markets look like in 2019.

Good morning!

- **The flat, and in some areas inverted, yield curve continue to get the headlines**
 - Some folks say it is different this time, I say it has always been a bad sign when the curve inverts...it's not like the stock markets know everything, we need to pay attention to the credit markets as well
 - **The Fed's next FOMC meeting will also set the tone on what they say, where the dot plots come in, when do we think they'll pause, etc.**
 - Next year could get interesting with regard to rates and the yield curve
- **Not making things easier is the tension with China and trade**
 - **To add to the drama, the CFO of Huawei was arrested yesterday in Canada at the US's request** (she is also the founder's daughter)
 - Huawei is a telecom giant in China, second largest just behind Samsung, and the world's third-largest cell phone maker
 - **Huawei has been accused of violating a host of regulations and export control violations for years, specifically sanctions against tech sales to Iran**
 - The US wants her extradited here from Canada
 - If you recall, in the spring the US barred American firms from exporting to the Chinese company ZTE for the same violations, until Xi got Trump to lift the ban
 - This won't help China-US trade negotiations, and the markets think the same thing as Dow futures are off almost 400 pts in pre-market trading
- **Stocks are no being helped either by oil**
 - **Oil slipped back toward \$50/barrel as the Saudi energy minister proposed a smaller-than-anticipated output reduction**
 - As for the yield curve, the 2yr/10yr curve flattened to 9.6 bp again overnight and is now back to 13
 - We have a big day in economic data

- **Starting this morning with initial jobless claims**...this indicator has been flat to lower for years, literally, but has seen a slight pickup recently...it's a leading indicator and on to watch for in the coming weeks/months
- **At 10am we get durable goods orders and factory orders**
- **And, of course, tomorrow, we get the full employment report**
 - Wages again will be the key metric we will review
- Fed speakers
 - The Atlanta Fed's Bostic speaks on his economic outlook at 12:15pm and the New York Fed's John Williams participates in a moderated discussion at 6:30pm
 - Fed Chairman Jerome Powell gives brief welcoming remarks at a housing conference at 6:45pm, so nothing expected here
- News
 - [Article on the Huawei CFO arrest and impact on trade truce](#)
 - [How long can Facebook last...fund managers are dumping the stock tired of lower profit margins and negative constant headlines](#)
 - [The Fed holds the keys to faster payments](#)
- Treasuries
 - 2-yr: 2.76%
 - 5-yr: 2.75%
 - 10-yr: 2.89%
 - 30-yr: 3.15%
- LIBOR
 - 1-month: 2.38%
 - 3-month: 2.74%

Have a terrific Thursday!

Fred

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