

Stocks sell off on renewed US/EU trade tensions

- **SNAPSHOT:** Equities down, Treasuries down, Crude up, Dollar down, Gold up.
- **REAR VIEW:** Trump threatens France with 200% tariffs on wine/champagne; JGBs hit on Japanese fiscal concerns; UK jobs report sends mixed signals; Germany's ZEW shows better-than-expected improvement; Danish pension fund to exit the US; Kazakhstan oil field sees temporary suspension of production; Weekly ADP eases from prior reading; Russian press reports US Envoy Witkoff said talks with Russian Envoy Dmitriev were "very positive".
- **COMING UP: Data:** UK CPI (Dec), US Atlanta Fed GDP, Japanese Trade Balance (Dec). **Events:** IEA OMR; SCOTUS US President Trump vs Fed's Cook (Voter, Neutral). **Speakers:** ECB President Lagarde, Villeroy, Nagel; NVIDIA CEO Huang; US President Trump. **Supply:** UK, Germany, US. **Earnings:** Kinder Morgan, Johnson & Johnson, Ally Financial, Charles Schwab.
- **WEEK AHEAD:** Highlights include US PCE, BoJ, China Activity Data, Flash PMIs, and Inflation from the UK, Japan and Canada. [Click here for the full report.](#)
- **CENTRAL BANK WEEKLY:** Previewing BoJ, PBoC LPR, ECB Minutes, Norges Bank, and CBRT. [Click here for the full report.](#)
- **WEEKLY US EARNINGS ESTIMATES:** Deluge of earnings with highlights from NFLX, JNJ, SCHW, PG, INTC. [Click here for the full report.](#)

MARKET WRAP

US indices saw losses as participants returned from the US market holiday, with sentiment continuing to be hit by the ever-growing EU-US tensions, and how Trump wants Greenland. Today, Trump threatened to impose 200% tariffs on French wines and Champagne following France's intention to decline the invitation to join his 'Board of Peace'. Further, a White House official said the President will not travel to Paris for the emergency G7 summit in Paris. Davos is currently ongoing with highlights on Wednesday, including several Trump appearances and NVIDIA CEO Huang. All sectors, aside from Staples, were in the red with mega-cap sectors Tech, Discretionary, and Communications the laggards, and all Mag-7 names in the red. Micron (MU) (+0.8%) was one of the sole points of green and seemingly buoyed by a couple of PT upgrades. There was no Fed speak due to blackout and a lack of tier 1 US data, although the weekly ADP printed 8k (prev. 11.75k). In FX, the Dollar is pressured to the benefit of G10 peers, with the haven Swissy the outperformer, and the Yen the relative laggard given the ongoing domestic political woes. Treasuries saw losses across the curve and saw knee-jerk weakness as Danish pension fund Akademikerpension is set to exit the US, although they later claimed the decision to divest US Treasuries is rooted in poor US government finances, not directly related to the ongoing rift between the US and Europe. Before that, global fixed income was already in the red, and taking lead from notable pressure in JGBs on fiscal concerns driving JPY action. The crude complex was firmer and saw tailwinds from the temporary suspension of output at Kazakhstan's oil fields, as Chevron's Tengizchevroil cancelled loading of five CPC blend oil cargoes scheduled for January to February, with oil production reportedly remaining shut for an additional 7-10 days amid the supply issues. Away from the EU/US, the Russian press reported that US Envoy Witkoff remarked talks with Russian Envoy Dmitriev were "very positive" at Davos, and Dmitriev echoed this, noting dialogue was constructive with US envoys, and more and more people understand the fairness of the Russian position. Precious metals saw gains with spot gold printing another ATH and surpassing USD 4.7k/oz.

FIXED INCOME

T-NOTE FUTURES (H6) SETTLED 10+ TICKS LOWER AT 111-13+

T-Notes steepen as US-EU conflict worsens and JGB downside hits global debt. At settlement, 2-year +1.3bps at 3.599%, 3-year +2.2bps at 3.678%, 5-year +4.8bps at 3.859%, 7-year +5.8bps at 4.073%, 10-year +7.6bps at 4.295%, 20-year +8.5bps at 4.878%, 30-year +8.5bps at 4.920%.

THE DAY: US yields across the mid- and long-end were pressured in APAC and EU trade, with the global fixed downside led in JGBs. Driving JGB downside was the increasing belief of unsustainable fiscal policy, which may be enlarged given the fiscal commentary from political parties, as well as the upcoming snap election in the lower house. T-Note downside on the long end continued after concerns of decreased EU investment in US-assets grew after the Danish pension fund Akademikerpension was reported to exit the US. That said, the fund-led downside was short-lived, likely due to its relatively small holdings of US Treasuries, as well as the fund later noting the decision was due to poor US government finances, not the ongoing trade dispute between the US and the EU. T-Notes hit lows of 111-09 on the initial report before swiftly paring to then trade sideways into settlement. Many trade updates came amid a day without tier 1 US data and Fed speak. Ultimately, the conflict has increased since the start of the week, with Trump now threatening 200% tariffs on French champagne/wine over its refusal to join the Gaza peace board. Fitch Ratings on US credit, said the outlook is broadly benign entering 2026, supported by AI-led capex, easing monetary policy and strong fiscal support

SUPPLY

Bills

- US sold USD 86bln of 3-month bills at high-rate 3.590%, B/C 2.84x; sold USD 77bln of 6-month bills at high-rate 3.520%, B/C 2.95x

- US sold USD 85bln of 6-week bills at a high rate of 3.63%, B/C 2.42x; sold USD 50bln 52-week bills at a high rate of 3.39%, B/C 3.42x
- US to sell USD 69bln of 17-wk bills on January 21st; to sell USD 105bln of 4-wk bills and USD 95bln of 8-wk bills on January 22nd; all to settle on January 27th

STIRS/OPERATIONS

- Market Implied Fed Rate Cut Pricing: January 0bps (prev. 0bps), March 4.5bps (prev. 3.3bps), April 9.3bps (prev. 8.2bps), December 45.7bps (prev. 47.4bps)
- NY Fed RRP op demand at USD 3.506bln (prev. 1.222bln) across 16 counterparties (prev. 6)
- EFRF at 3.64% (prev. 3.64%), volumes at USD 84bln (prev. 91bln) on January 16th
- SOFR at 3.65% (prev. 3.66%), volumes at USD 3.163tln (prev. 3.201tln) on January 16th

CRUDE

WTI (H6) SETTLED USD 0.90 HIGHER AT 60.34/BBL; BRENT (H6) SETTLED USD 0.98 HIGHER AT 64.92/BBL

The crude complex was firmer and saw tailwinds from the temporary suspension of output at Kazakhstan's oil fields. Kazakh oil producer Tengizchevroil said on Monday it had temporarily halted production at the Tengiz and Korolev oilfields after an issue. Further to that, and aiding oil upside today, was an update that Chevron's Tengizchevroil cancelled loading of five CPC blend oil cargoes scheduled for January to February, with oil production reportedly remaining shut for an additional 7-10 days amid the supply issues. As such, WTI and Brent saw swift upside and inched higher throughout the duration of the session and hovered around peaks until settlement. Of course, and despite having little sway on the crude complex today, geopolitics and the continued US-Europe fallout continue to be front and centre of newsflow, albeit with little new development on Greenland on Tuesday. Meanwhile, a White House official said Trump will not travel to Paris for the emergency G7 summit in Paris. On the US/Russia footing, Russian press reported that US Envoy Witkoff remarked talks with Russian Envoy Dmitriev were "very positive" at Davos. The weekly private inventory figures are due after-hours, whereby current expectations are (bbls): Crude +1.8mln, Distillate - 0.2mln, Gasoline +2.5mln. For the record, WTI traded between USD 58.53-60.51/bbl and Brent USD 63.38-65.15/bbl.

EQUITIES

CLOSES: SPX -2.06% at 6,797, NDX -2.12% at 24,988, DJI -1.76% at 48,489, RUT -1.21% at 2,645.

SECTORS: Technology -2.94%, Consumer Discretionary -2.82%, Financials -2.23%, Communication Services -2.05%, Industrials -1.99%, Real Estate -1.95%, Utilities -1.03%, Materials -0.78%, Health -0.20%, Energy -0.16%, Consumer Staples +0.12%.

EUROPEAN CLOSES: Euro Stoxx 50 -0.52% at 5,895, Dax 40 -1.08% at 24,690, FTSE 100 -0.67% at 10,127, CAC 40 -0.61% at 8,063, FTSE MIB -1.07% at 44,713, IBEX 35 -1.34% at 17,429, PSI -1.14% at 8,464, SMI -0.68% at 13,174, AEX -0.16% at 991

STOCK SPECIFICS:

- China expanded an investigation into **PDD Holdings (PDD)** after clashes between its employees & regulators.
- **3M (MMM):** FY EPS guidance light.
- **D.R. Horton (DHI):** EPS & revenue topped, but Q2 revenue guidance fell short.
- **Fastenal (FAST):** Sales missed.
- **Netflix (NFLX)** amended offer to acquire Warner Bros. Discovery (WBD) to an all-cash transaction.
- **Enphase Energy (ENPH)** was upgraded at Goldman Sachs.
- **Fifth Third (FITB):** Profit surpassed expectations.
- US judge allows injunction against prediction market Kalshi from offering sports-event contracts in Massachusetts
- **Qiagen (QGEN)** is said to weigh strategic options amid fresh interest.

FX

Dollar weakness persisted as tensions grew between US President Trump and EU leaders. This time, Trump threatened France with 200% tariffs on its wine/champagne after French President Macron refused to join Trump's Gaza peace board. The move highlights the unpredictable nature of US trade policy, and as such, participants have continued to look for alternatives via USD selling or USD hedges. At the top of the pile, CHF and EUR were favoured while JPY still experienced relative underperformance amid its own political uncertainty. Davos is the main topic this week, with the conversation shifting from Ukraine to Greenland. Trump is expected to speak tomorrow a couple of times, where any escalation or TACO intimations will be watched ahead of the February 1st deadline for the Greenland-motivated tariffs to go ahead on several European nations. DXY slightly bounced off 98.246 lows to around 98.59 at the time of writing.

As mentioned, **CHF** and **EUR** were preferred liquidity alternatives to USD, with little domestic updates to report. A better-than-expected ZEW reading in Germany had little bearing on EUR/USD, but did see some pressure in Bunds. In the UK, GBP was only slightly firmer amid broad USD weakness, likely with the November jobs report limiting strength. The Unemployment Rate unexpectedly remained at 5.1% (exp. 5.0%), but was accompanied by better-than-expected job growth (act: 82k vs exp. 27k) and slightly hotter-than-expected wages (act: 4.7% vs exp. 4.6%). The data is likely to keep the narrative alive of further BoE easing in 2026; Cable now resides ~1.3432.

JPY again underperformed G10 currencies despite trade uncertainty diminishing USD attractiveness. Concerns grew over fiscal sustainability as participants prepared for the upcoming snap election and commentary surrounding fiscal plans. The move was most present in JGBs, which were slammed. USD/JPY hovers around 158.20

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