

Global Bonds Rally After Tensions Flare Between U.S., Iran (1)  
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By James Hirai and Vivien Lou Chen

(Bloomberg) -- Global bonds surged on haven buying after the U.S. killed a top Iranian general, stoking geopolitical tensions and drawing vows of "severe retaliation" by Iran's Supreme Leader.

Yields on 10-year Treasuries fell to the lowest level since Dec. 12 and German and U.K. debt advanced after U.S. President Donald Trump authorized a drone strike that killed Qassem Soleimani, one of Iran's most powerful generals. U.S. yields rebounded some early in the New York morning, but sank anew after unexpectedly weak manufacturing data.

Expectations for a Federal Reserve rate cut increased.

Futures show investors fully pricing in a quarter-point reduction by the end of January 2021, up from around 80% odds Thursday.

"The data will probably prove to be an anomaly, but the initial market reaction is that it's bad enough to at least consider the possibility of a Fed rate cut," said Chris Low, chief economist at FHN Financial. "The combination of geopolitical tensions on top of unexpectedly weak data increases the likelihood of a 2020 Fed rate cut."

Yields on 10-year Treasuries dropped as much as 8 basis points to 1.79% and remain within 2 basis points of that level. Rates on their German counterparts were down 6 basis points at minus 0.28%. Yields tumbled in most major markets around the world.

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The disappointing U.S. data along with geopolitical tensions "increases a bias toward lower rates as we start the year," said BMO strategist Jon Hill. Offsetting that are expectations for the signing of a phase-one trade deal between the U.S. and China on Jan. 15, he added.

When all is said and done with the back-and-forth progress on trade and rising geopolitical tensions, “that reduces pressure on the 10-year yield to breach 2% in the near term,” Hill said.

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