

## Still early days on Omicron, but initial signs remain hopeful

**Markets traded with a positive tone overnight.** It's still early days on gauging the impact of the Omicron variant, but overnight signs were hopeful. Pfizer noted initial studies suggested a 3<sup>rd</sup> dose of their vaccine would help neutralise the Omicron variant. This followed preliminary reports from South Africa showing waning effectiveness of current vaccines, but signs that boosters could still neutralise the most severe impacts of the variant. Sentiment was also supported by hopes actions by Chinese authorities will limit the fallout from property sector frictions. Other niggles, including escalating tensions between the US and Russia over Ukraine, were largely cast aside.

**There was mostly slim picking from data or other events.** US JOLTS labour market openings surged to 11.033m, close to record highs, and underscoring labour shortages in the US economy. There was not much central bank chatter. Former FOMC member Dudley caused a few market headlines by flagging the risk of more aggressive FOMC tightening. The ECB's Kazaks was guarded on whether the Omicron variant would require more policy stimulus given highly accommodative current settings while ECB colleague Schnabel signalled no rate increases before ending QE.

**The Bank of Canada kept settings unchanged,** holding its policy rate at 0.25% and continuing with its reinvestment of maturing government bonds. Its assessment noted the introduction of Omicron had added to uncertainty in a backdrop of strong momentum in economic activity and employment and elevated (though largely transitory) CPI inflation. Rate hikes were flagged for somewhere in the middle of 2022.

**It was a mixed session in global equity markets.** US stocks rose on their open, with gains to the S&P500 and Nasdaq petering out later in the session to currently lie about square. Market volatility (VIX at 20.6) fell to a December low, with lighter than usual trading volumes. The prospect of a further tightening in COVID-19 weighed on European equities, with UK PM Johnson reportedly set to impose new curbs. Equities were generally up in Asian markets.

**Government bond yields were generally up with yield curves steepening.** US 10-year Treasury yields (1.51%) ticked higher following a note auction. European 10-year yields were higher, with larger increases in Italian, Portuguese and Spanish yields. **Commodity prices were generally higher,** with forecasts of a cool US winter boosting natural gas prices. Oil prices were little changed with surging US stockpiles tempering expectations of firmer demand.

**Local Recap:** A reasonably quiet session in NZ markets yesterday, with kiwi swap yields following their Australian counterparts lower, and a curve flattening bias. Australasian government bonds were a fraction higher. At parliament's Finance and Expenditure select committee, NZ Finance Minister Robertson defended the Government's fiscal approach to COVID-19, foreshadowed a strong rebound in 2022 and signalled the return to surplus as soon as was responsible while also pushing back against austerity policies. The NZX 50 moved higher from, a strong open (+ 1.5%).

**FX:** A weak USD session, while the AUD, NOK and SEK were the strongest performers overnight. The NZD nudged above 68 US cents and is current trading towards the top of its 0.6765 to 0.6820 USD range but has dipped below 95 Australian cents. NZD direction will hinge on risk sentiment, with the downweighing of Omicron fears a clear positive.

**Day Ahead:** Today's local highlight includes a host of Q3 survey data, for the manufacturing, wholesale trade and some business services sectors that constitute a sizeable chunk of GDP. Our add-up to date points to a circa 6% Q3 fall in GDP. The NZDM is due to tender \$500m of NZ Government bonds (2026, 2031, 2041), which should attract decent demand for longer-dates tenors (yields below mid-market levels less so for the 2026, with yields slightly above mids). RBA Governor Lowe speaks today, but it's at a 'Payments Summit' today, so its market relevance is likely to be limited. monetary policy won't be on the agenda. Higher food and electricity prices are expected to lift annual CPI inflation in China to 2.5%, with producer price inflation expected to ease to an elevated 1.1% yoy. US jobless claims (mkt: initial 220k, continuing 1910k) headlines a quiet evening session. **Author:** [mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6812	0.5%	NZD/SEK	6.156	-0.5%	NZX WMP	4225.0	0.0%	Dow	35669	-0.1%
NZD/AUD	0.9492	-0.4%	NZD/DKK	4.465	-0.3%	Gold \$/o	1784.2	0.0%	S&P 500	4691	0.1%
NZD/EUR	0.6005	-0.3%	NZD/THB	22.8	-0.1%	WTI Oil \$/b	72.8	1.0%	NASDAQ	15772	0.6%
NZD/JPY	77.45	0.5%	AUD/USD	0.7176	0.9%	<b>Money Market (%)</b>			FTSE	7337	0.0%
NZD/GBP	0.5150	0.5%	EUR/USD	1.135	0.8%	90 Day BB	0.88	0.00	CAC-40	7015	-0.7%
NZD/CAD	0.8620	-2.0%	USD/JPY	113.7	0.1%	OCR	0.75	0.00	DAX	15687	-0.8%
NZD/CHF	0.6272	0.0%	<b>10 Yr Bond Yields (%)</b>			<b>ASB Swap Rates (%)</b>			H.Seng	23997	0.1%
NZD/HKD	5.312	0.5%	NZ	2.43	0.01	1yr	1.69	0.00	Nikkei	28861	1.4%
NZD/SGD	0.9277	0.1%	US	1.51	0.04	2yr	2.26	-0.04	ASX200	7405	1.3%
NZD/CNH	4.323	-0.3%	Aust	1.63	-0.03	5yr	2.55	-0.03	NZX50	12868	0.0%



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