

Omicron rattles markets

Omicron, the latest COVID variant, has now been detected in the UK, South Africa, Israel, the Netherlands, Hong Kong, Belgium and Australia. Passengers who arrived in Australia from southern Africa have tested positive for the new variant over the weekend. The UK, US, Israel, and EU have all suspended travel to and from South Africa and neighbouring countries. (Source [NZ Herald](#)). There are concerns that that coronavirus mutation could be vaccine resistant.

European sharemarkets plummeted amid widespread selling of risk assets on Friday. The new coronavirus variant identified in South Africa HAS raised risks for the global economic recovery. The pan-European STOXX 600 index dropped 3.7% in its worst session since June 2020. Travel and leisure stocks shed 8.8% with the UK suspending flights from six countries in southern Africa on virus concerns. The German Dax index lost 4.2% and the UK FTSE index dipped 3.6%.

US sharemarkets tumbled on Friday on fears about the latest coronavirus variant. US President Joe Biden imposed fresh travel restrictions on nations in southern Africa. Travel-related stocks were hit hardest, with shares of Royal Caribbean Cruises (-13.2%), United Airlines (-9.6%) and Boeing (-5.4%) all down. But investors piled into vaccine makers with Moderna (+20.6%) and Pfizer (+6.1%) shares leading gains. The Dow Jones index ended lower by 2.5% - its worst day since October 28, 2020. And the S&P 500 index lost 2.3% - its biggest drop since February 25. The Nasdaq index was down 2.2%. Over the week the Dow fell 2%; the S&P 500 lost 2.2%; and the Nasdaq slid 3.5%.

US Treasury yields fell sharply on Friday as investors sought safe-haven assets and pared some of their bets on interest rate hikes next year on concerns about the new COVID-19 variant. US 10-year yields fell by 16 points - the most since February - to 1.48%, and US 2-year yields lost 14 points - the biggest drop since March 2020 - to 0.51%.

The New Zealand sharemarket was down 1.3% on Friday, and 10-year yields were down 6bps.

FX comment: Major currencies were mixed against the US dollar in European and US trade, with the NZD little changed. The local currency starts the week trading near 0.6830 against the USD, and just below 0.9600 against the AUD.

Day Ahead: There are no data releases due in NZ today. Focus will be on the latest government announcements regarding the transition to the traffic light system, and the latest COVID developments. In Australia, business indicators data are issued. In the US, pending home sales and manufacturing data are scheduled.

Week ahead local: ANZ releases the full November month business outlook survey results on Tuesday. ANZ released the preliminary results earlier this month, which showed a small decline in own activity expectations. This suggests that businesses are becoming more mindful of growth prospects as NZ transitions to living with COVID-19 over the coming year. Nonetheless, the overall level of business confidence remains solid, and inflation indicators remain extremely elevated. Data on the Q3 terms of trade are released on Thursday. We expect a 2.5% lift in the terms of trade, taking the reading to a new record high. Strong gains in agricultural commodity prices are expected to lift export prices. **Week ahead offshore:** The coming week is a full one in Australia, with the remaining Q3 21 GDP partial indicators early in the week, Q3 GDP scheduled for Wednesday plus several monthly data releases for October and November. We expect the Q3 GDP figures to show a large contraction in the economy of around 3.5% with NSW, Victoria and the ACT in lockdown during the quarter. European CPI inflation rose to an annual pace of 4.1% in October (matching the July 2008 high) and core CPI inflation accelerated to 2.0% (matching the March 2008 high). Inflation is projected to rise further in November (released Tuesday) reflecting temporary factors such as the reversal of the German VAT rate cut, surging energy prices, and an increase in input costs related to supply disruptions. The US ISM manufacturing index is expected to remain firmly in expansionary territory in November (Thursday). The week's data highlight is US Non-farm Payrolls on Friday. We expect the US labour market recovered further in November. We forecast a solid 500,000 increase in employment which should help the unemployment rate dip further to 4.5%. **Author:** chris.tennent-brown@asb.co.nz

Currencies			Commodities			Equities					
NZD/USD	0.6827	0.1%	NZD/SEK	6.235	0.4%	NZX WMP	4225.0	0.0%	Dow	34899	-2.5%
NZD/AUD	0.9586	0.2%	NZD/DKK	4.489	0.2%	Gold \$/o	1802.6	0.8%	S&P 500	4595	-2.3%
NZD/EUR	0.6027	0.0%	NZD/THB	23.0	0.0%	WTI Oil \$/b	78.4	-0.1%	NASDAQ	15492	-2.2%
NZD/JPY	77.45	0.2%	AUD/USD	0.7122	-0.1%	Money Market (%)			FTSE	7044	-3.6%
NZD/GBP	0.5120	0.2%	EUR/USD	1.131	0.0%	90 Day BB	0.80	0.00	CAC-40	6740	-4.8%
NZD/CAD	0.8728	-0.8%	USD/JPY	113.4	0.2%	OCR	0.75	0.00	DAX	15257	-4.2%
NZD/CHF	0.6299	0.2%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	24081	-2.7%
NZD/HKD	5.317	0.0%	NZ	2.52	-0.06	1yr	1.54	-0.03	Nikkei	28752	-2.5%
NZD/SGD	0.9358	0.2%	US	1.47	-0.16	2yr	2.16	-0.06	ASX200	7279	-1.7%
NZD/CNH	4.365	0.2%	Aust	1.75	-0.13	5yr	2.64	-0.03	NZX50	12629	-1.3%

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