Markets take a post-Omicron chill pill

Market sentiment has generally been positive overnight, with investors taking a more measured view of the risks posed by the new Omicron COVID. That's meant a reversal of some of the risk averse trends we saw over the weekend: equities have gained ground, bond yields are back on the rise and market volatility has tracked down from its near twelve month high as proxied by the VIX Index.

Global sharemarkets have made broad-based gains, with major equity indices a sea of green. That includes a 0.94% gain for the Dow, a 1.65% lift in the S&P500, and a 2.05% jump in the tech-heavy Nasdaq. It's a similar story in Europe too. That hasn't been enough to take sharemarkets back to their mid-November highs, but they've recovered much of their steep losses over the weekend.

Treasury yields are higher overnight. Market anxieties over the weekend saw investors pour their cash into safe assets, driving government bond yields lower. That trend has also reversed itself overnight as sentiment has improved, and yields are back on the rise, albeit fairly modestly so. Treasury yields are up 2-5 bps across the curve, with some mild steepening in the curve. Note they are still below their November peaks though.

Safe-haven currencies have been mixed too, with JPY in particular underperforming. The Swedish Krona has topped the performance rankings in the G10, while the Euro is at the bottom. NZD has notched up mild losses against both AUD and USD, currently trading at around 0.954 against the former and 0.681 against the latter.

Local Recap: The day's big local news was the Prime Minister's announcement on the different hues the country's regions will be turning under the new traffic light system. The upshot: Auckland will be joined in red territory by Northland and a band of regions stretching from Gisborne to Whanganui across *Te Puku O Te Whenua*. In markets, sharemarkets across the Asia-Pacific eased in line with the soggier mood evident in equities elsewhere over the weekend (NZX50: -0.77%). Still, NZ bond yields only fell modestly (down circa one to one-and-a-half bps across the curve), and OIS pricing doesn't look much different from where it ended last week.

Yesterday the RBNZ made its first public comments on the new variant, in the corporeal form of outgoing Chief Economist Yuong Ha, who was speaking to the Wall Street Journal. **Per Ha, the RBNZ would still have hiked last week if Omicron's emergence had been known, and even if the new variant proves impactful, it may warrant a brief 'pause' in tightening rather than a change in bias.** Ha stated that the variant may 'shuffle' demand rather than produce a sustained demand shock and noted that the economy faces different challenges than it did at the pandemic's outset.

As we noted in our Economic Weekly yesterday, the new variant does introduce plenty of uncertainty into the mix. There's still a lot we don't know, though what we know so far is concerning enough that many countries have slapped new travel bans in place. From the RBNZ's perspective, while an outbreak of the new, potentially vaccine-resistant variant looms as a potential future demand shock, it's those hot, increasingly persistent inflationary pressures that are still the more immediate threat to its mandate. And of course, if Omicron's biggest impact ends up being a resurgence in travel bans around the world, that's not going to do much to relieve the labour market disruption that's got policymakers worried about a wage-price spiral.

Data Wrap: Mixed news from Aussie business indicators, with company profits up 4% (mkt: 2.3%), but inventories subtracting circa 1.9% from GDP (mkt: 0.0%). Dallas Fed manufacturing activity underperformed (11.8 vs mkt: 15.0). US pending home sales stronger (+7.5% mom vs mkt:+1.0%).

Day Ahead: The final November ANZBO survey is out today – it should reflect the preliminary result a couple of weeks back, which showed business confidence remaining fairly robust and inflation expectations as lofty as ever. Over in Aussie there is an absolutely massive data dump incoming, with October building approvals (CBA: -5% mom), private sector credit (+0.6% mom) and Q3 balance of payments data (CBA: AU$28.5bn CA surplus) all out. No. 2 RBA big cheese Debelle is speaking a couple of times through the day, but monetary policy isn't on the agenda. Overnight, we expect Eurozone CPI to hit +4.1% p.a., but that partly reflects a one-off reversal in a German VAT cut. **Author:** nathaniel.keall@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6805	-0.5%	NZD/SEK	6.183	-1.1%	NZX WMP	4225.0	0.0%	Dow	35217	0.9%
NZD/AUD	0.9542	-0.4%	NZD/DKK	4.491	-0.2%	Gold $/o	1784.6	-0.4%	S&P 500	4670	1.6%
NZD/EUR	0.6039	-0.2%	NZD/THB	23.0	-0.4%	WTI Oil $/b	71.0	-9.4%	NASDAQ	15817	2.1%
NZD/JPY	77.41	-0.2%	AUD/USD	0.7131	-0.1%	**Money Market (%)**			FTSE	7110	0.9%
NZD/GBP	0.5118	-0.2%	EUR/USD	1.127	-0.3%	90 Day BB	0.80	0.00	CAC-40	6776	0.5%
NZD/CAD	0.8684	-1.3%	USD/JPY	113.8	-0.1%	OCR	0.75	0.00	DAX	15281	0.2%
NZD/CHF	0.6291	-0.3%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	23852	-0.9%
NZD/HKD	5.308	-0.5%	NZ	2.51	-0.01	1yr	1.57	0.04	Nikkei	28284	-1.6%
NZD/SGD	0.9325	-0.6%	US	1.52	0.05	2yr	2.15	0.00	ASX200	7240	-0.5%
NZD/CNH	4.348	-0.2%	Aust	1.75	0.00	5yr	2.63	-0.01	NZX50	12532	0.0%

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