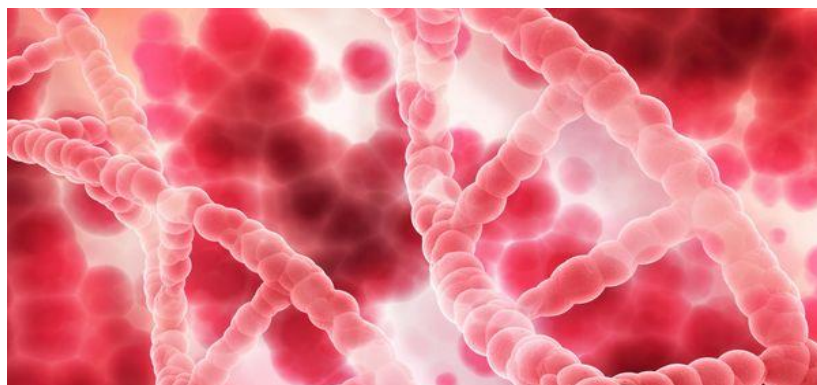




R&R Weekly Column
By Brunello Rosa



Omicron Variant Spooks Investors And Sends Jitters Around The World

In our [column last week](#), titled “Covid’s Fourth Wave Risks Derailing Europe’s Economic Recovery” we discussed how the fourth wave of the pandemic was hitting Europe especially hard. We argued that the increased number of Covid cases registered in Europe was “mostly related to the delta variant” but also specified that “other variants are likely to be in circulation as well.”

We have since had confirmation that a new variant, first identified in South Africa, has been recently added by the World Health Organisation (WHO) [to the list of variants of concern](#). This new variant, dubbed Omicron (code name for B.1.1.529) presents 32 mutations of the spike protein, which the virus uses to infect the healthy cells of the human body. Some of these mutations were already present in previous variants, but some are new. There is a suspicion that the mutations have developed within the body of an immuno-depressed individual (perhaps affected by HIV), in which the virus had the opportunity to mutate and replicate.

Whatever the origin of the virus, the new strain has been identified not only in South Africa, but also in Hong Kong, in a passenger coming from South Africa. Several cases have also been identified in flights from South Africa to the Netherlands and in other European countries. This means that the new strain is already circulating internationally; it is only a matter of time before it will be widespread throughout the world. It is likely, given its “genetic superiority”, that this strain will become prevalent, like the Delta variant did a few months ago.

Though a number of countries have now banned flights from South Africa, this risks being a futile measure, as the virus has already reached several parts of the globe. Other countries have intensified the campaign for the third dose of the vaccine (the so-called “booster”). But it will take time (at least two weeks, Pfizer said), to ascertain whether the new strain is able to circumvent the defences provided by the currently available vaccines. Pharmaceutical companies are saying that they are already working towards a new version of the vaccine, tailored to Omicron, but it will take at least three months before these vaccines may become available to the wider population.


Markets have already reacted to the news: fears of new restrictive measures, including new total or partial lockdowns that may derail the ongoing economic recovery, have resulted in market sentiment and equity prices plummeting. Last Friday some equity indices lost almost 5% in a day. Now the ball is in the court of policymakers attending to monetary and fiscal policy. How will these policymakers respond?

As we have discussed [previously in several columns](#), central banks have been sending hawkish signals for months now, and some have already started to tighten their policy stance, in both DMs and EMs. [The Fed started tapering its asset purchases in November](#), and the [ECB announced in October that the pandemic emergency is over](#). Governments have started to plan measures of fiscal consolidation. Will they now all decide to put the reverse gear on? It’s too early to say. Paradoxically though, if the new variant results in further liquidity injections being made by central banks, in order perhaps to monetise additional fiscal deficits made by governments, markets may recover their recent losses and progress further towards future highs.

In any case, it seems to us that before the spring or summer of 2022 it will be very hard to tell if this pandemic is about to end, or whether new variants may emerge again.

Our Recent Publications

 [France: Getting Ready For The Presidential Race](#), by
Brunello Rosa, 26 November 2021

 [GEOPOLITICAL CORNER: With Each Other: A Moribund South Africa Stagnates Under Endless ANC Rule](#), by John C. Hulsman,
17 November 2021



Looking Ahead

The Week Ahead: Inflation Expected To Accelerate In European Countries

In Germany, HICP inflation is expected to accelerate in November (c: 5.5%, p: 4.6).

In France, HICP inflation is expected to remain unchanged in November at 3.3% y-o-y. The final reading of Q3 GDP growth is expected to be 3.3% y-o-y.

In Italy, HICP inflation is expected to accelerate in November (c: 3.3%, p: 3.2).

The Quarter Ahead: Fourth Pandemic Wave; Emerging Markets In Turmoil; War Escalation Between Russia And Ukraine

Omicron variant sends shockwaves through the system. The discovery of the variant of concern dubbed "Omicron" has sent shockwaves through the system, with several countries re-imposing internal restrictions and travel bans.

In the US, President Biden has confirmed the second term for Jerome Powell at the Fed. The US President has confirmed Jay Powell as Chair of the FOMC for a second term to promote stability and independence of the central bank. Biden also announced that Lael Brainard will become Vice-Chair.

China issues a new data protection regime, which restricts transfers of sensitive information abroad. China has blocked access to shipping location data, hindering the Automatic Identification System, meant to track activities in ports. It can be expected that the Chinese move will cause debate among nations, having Beijing described geo-localisation data as a national security problem.

Emerging market still struggle with the effects of the Covid-19 crisis. The 20 per cent drop in the Turkish lira in recent days exemplifies the economic issues countries are facing due to the strength of the dollar, the uneven vaccination campaigns, and the impact of a populist approach by several EM governments.

EU loosens defense on intellectual property of drug companies, to allow developing countries to produce Covid-19 vaccines. The trade commissioner, Valdis Dombrovskis, who had opposed a plan to reduce IP protection, is now of the opinion that limited exemptions could be supported. Trade ministers will meet next week with vaccines featuring high on the agenda of the WTO meeting in Geneva.

Russia is preparing for war against Ukraine. Tension is escalating at the border between Russia and Ukraine. The latter made an appeal to the US to provide military assistance. The White House is said to be contemplating the option of deploying military advisers and potentially new weaponry to Kiev.

Last Week's Review

Real Economy: The Rise of US Core PCE and PMI Volatility in Europe

In the US, core PCE Index rose to 0.4% m-o-m (p: 0.2%) and 4.1% y-o-y (p: 3.6%) hitting the largest price increase since April; while manufacturing and services PMIs came up better than expected from their October level (58.4 and 58.7 respectively).

In France, the manufacturing PMI unexpectedly rose to 54.6 (p: 53.6), signaling the strongest pace of expansion in factory activity in two months, fostered by a slight increase in new orders.

In Germany, the manufacturing PMI edged down to 57.6 (p: 57.8) reaching the slowest growth in factory activity in 10 months, while the services PMI rose 53.4 (p: 52.4) as output growth accelerated and the rate of job creation remained strong.

In the UK, Composite PMI decreased, along with services down to 58.6 (p: 59.1), above market expectations, manufacturing instead increased to 58.2 (p: 57.8), not meeting expectations of a decline to 57.4.

Financial Markets: Global Equities and Oil Prices Fell; US and German Bond Yields Dropped; Gold Prices Rose

Market drivers: Last week's market movers: i) announcement of the next Federal Reserve Chair; ii) US announcement to release oil from the Strategic Petroleum Reserve; iii) rise in coronavirus infections in some regions and discovery of the Omicron variant.

Global equities decreased w-o-w (MSCI ACWI, -2.24%, to 734). In the US, the S&P 500 ended lower (-2.27% w-o-w to 4,595). In the EZ, shares decreased (Eurostoxx 50, -4.74% w-o-w, to 4,090). In EMs, equities fell (MSCI EMs, -2.52%, to 1,223), while the Chinese stocks lost ground (Shanghai Comp., -0.56%, to 3,564). **Volatility** gained (VIX S&P 500, +10.04 pts to 28.62, 52w range.: 14.1-37.51).

Fixed Income: US 10-year bond yield dropped (-8bps, to 1.47%), as well as Germany's 10-year bond yield, while remaining in negative territory (-1bp, to -0.33%). The EMTX 7-10 RT increased by +1.86bp, to 283.88.

FX: w-o-w, the US Dollar Index fell (DXY, -0.82%, to 96.078; EUR/USD fell -1.01%, to 1.132). In EMs, currencies weakened against the USD (MSCI EM Currency Index, -0.31% w-o-w, to 1,720).

Commodities: Oil prices fell (Brent, -11.32% w-o-w, to 72.91 USD/b), as the major countries debate on tapping oil reserves and as the new Omicron variant hit market sentiment. Gold Futures slightly rose (+0.40% w-o-w, to 1,791.4 USD/Oz), mainly driven by concerns on global economic recovery due to a new Covid-10 variant.



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year

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