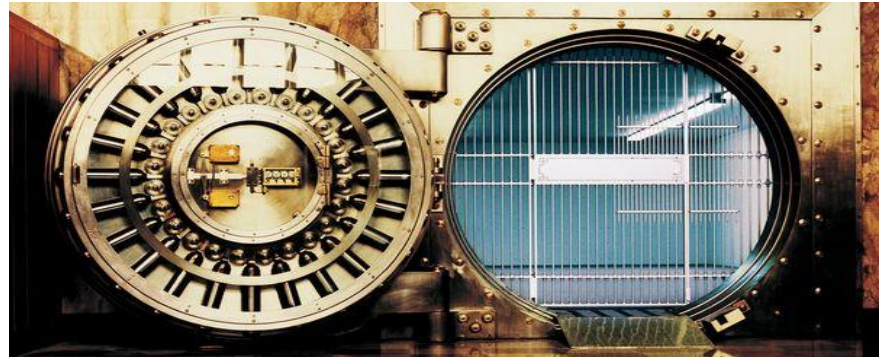




R&R Weekly Column
By Brunello Rosa



Central Banks Are In The Spotlight This Week As Omicron Spreads Around The World

The Omicron Covid variant continues to make the headlines as it spreads around the globe. [New cases are being registered in every continent](#), and they seem to confirm that this new variant is more contagious than the Delta variant. It is yet unclear whether Omicron causes more severe symptoms than previous variants, but preliminary evidence seems to suggest that it does not.

The biggest question though is whether or not the vaccines that have been administered to large swathes of the world population will remain effective against Omicron. In this regard, the evidence is mixed. The CEO of Moderna, one of the providers of the mRNA vaccines, suggested that its vaccine was effective, only to say a day later [that this suggestion may have been false](#), and that a [new version of the vaccines need to be developed](#) in order to counter the Omicron variant. On the other hand, Pfizer-Biontech has been more constructive, saying that [three doses of their vaccine are enough to provide protection against the Omicron variant](#). Pfizer-Biontech also confirmed that a new version of their vaccine, specifically tailored to Omicron, will become available in March 2022. One may notice the slight inconsistency here. If three doses of the old vaccine are effective, why do we need a new one?


At any rate, it seems we are back to square one: the race between new variants and mankind's ability to develop new vaccines is still ongoing. As vaccine development takes time, governments are resorting to the usual methods, reintroducing various forms of restrictions in Europe especially (in Germany, the Netherlands, Austria, Belgium and, to a lesser extent, Italy and France), including social distancing, quarantining after international travel, obligatory wearing of face masks, working from home policies, partial or total lockdowns for entire populations or for unvaccinated people only. Even in the UK, where for months PM Johnson has resisted the pressure to introduce the so-called plan B, the government had to capitulate and [re-introduce a series of restrictions](#) that had been lifted after the "freedom day" of July 19th, 2021.

The economic impact of the introduction of these restrictions is yet to be ascertained, but one can imagine a slowdown in the pace of the recovery resulting from them, and a further increase in prices deriving from yet another negative supply shock. This mild stagflationary situation is the nightmare scenario for central banks, which hate being confronted with the ugly pairing of rising inflation and slowing economic activity. Additionally, central banks are impotent against supply-side shocks, both positive and negative.

After about a month of relative tranquillity, a number of G10 central banks will meet this week. On Wednesday, the [Fed will likely announce](#) an increase in the pace of tapering its asset purchases. On Thursday, there will be policy meetings for the ECB, the Bank of England, Norges Bank, the Swiss National Bank. The [ECB will likely announce](#) the policy package that will become operational in the post-pandemic emergency, beginning in March 2022. The [Bank of England will likely announce](#) that there is still time until February before it will need to raise rates. Norges Bank will likely carry on with its planned 25bps increase in its sight deposit rate, and the Swiss National Bank will likely remain on hold, preferring to intervene in the FX market to stem any excessive appreciation of the Swiss Franc. The Bank of Japan will close the week with a meeting held on Friday, but it is unlikely to announce any major change to its policy stance after the innovations it introduced during the last few months.

Given this background, markets will remain wobbly, with equities see-sawing in response to the news about vaccines. Paradoxically, they may find themselves in a win-win situation. If Omicron proves less deadly than many currently anticipate, equity markets may rally on the prospect of the end of the pandemic finally approaching. If Omicron proves more dangerous than currently expected, central banks may pause their exit from the extraordinary accommodation they have provided in the last couple of years, and instead provide more liquidity to the market and so boost market sentiment. The fly in the ointment in this case remains inflation, which can severely impact the valuation of all asset classes.

Our Recent Publications

 [Flash Preview – Bank Of England To Remain On Hold As The UK Moves To Plan B on Omicron Variant](#), by Brunello Rosa,
10 December 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: PMI To Rise In US And To Fall In Other Major Countries

In G10, several central banks will meet. During the week, there will be policy meetings by the Fed, ECB, BoJ, BoE, Norges Bank and Swiss National Bank. The Fed will clarify whether inflation is “temporary” or not, the ECB will likely launch its post-pandemic policy package; the BoE will likely wait before rising rates; Norges Bank will likely increase its policy rate by 25bps to 0.5% as planned and the SNB will likely remain on hold.

In the US, the preliminary readings of the PMIs are expected to rise as i) manufacturing PMI increases (c: 58.5, p: 58.3); and ii) services PMI increases (c: 58.7; p: 58).

In the EZ, PMIs expected to fall as i) manufacturing PMI decreases (c: 57.7, p: 58.4); and ii) services PMI decreases (c: 54.2; p: 55.9). Within EZ figures, **in France,** PMIs expected to contract as i) manufacturing PMI decreases (c: 55.5, p: 55.9); and ii) services PMI decreases (c: 56.0; p: 57.4). **In Germany,** PMIs expected to contract as i) manufacturing PMI decreases (c: 57 p: 57.4); and ii) services PMI decreases (c: 51; p: 52.7).

The Quarter Ahead: Chinese Blacklist Of Tech Companies; EU Sanctions On Russia; French Presidential Race

China tightens rules on tech companies, accused of reducing domestic competition instead of helping the country to confront the US. The blacklist is expected to target the main channels used by start-ups to lure international capital overseas. Friction is expected to increase between China and US, which has taken countermeasures to restrict Chinese investment in Silicon Valley’s start-ups.

The EU demonstrated preparedness to sanction Russia, in case of an invasion of Ukraine. Sanctions are likely to be imposed on trade in order to persuade Russia to de-escalate tensions at the border with Ukraine. EU Leaders are still seeking to agree on a common and unified response.

The US pressuring Germany to sanction Russia, in the event of a Russian invasion in Ukraine. The US would still demand Germany to refrain from making the Nord Stream 2 gas pipeline operational. A possible package of financial sanctions would block the conversion of rubles into dollars. US officials are expected to visit the new German government for further diplomatic talks.

President Macron’s best-hope of re-election for his second term plans destabilized by the rise of Valérie Pécresse. An Elabe opinion poll showed that the current French President is facing serious challenges for his presidential race after Pécresse has been elected as the representative of the Republicans party. The electoral campaign is expected to be intense, with Pécresse able to win back some moderate conservative people that previously voted Macron.

Last Week’s Review

Real Economy: GDP Growth In The EZ; Higher Inflation Rates In China, Germany And The US

In the EZ, in Q3 the economy expanded by 3.9% y-o-y, above preliminary estimates of 3.7%, after recording a 14.4% y-o-y growth in Q2.

In China, the inflation rate increased to 2.5% y-o-y (p: 1.5%), thanks to a rise in the cost of non-food prices.

In Germany, final data for November HICP inflation rose to 6.0% on a year-to-year basis (p: 4.6%).

In the US, CPI inflation rate increased well above expectations to 6.8% in November, with core inflation reaching 4.9% y-o-y, as supply chain shortages continue.

Financial Markets: Wobbly Global Equities Induce a Fall in US 10y Yield, While Oil And Gold Prices Rose

Market drivers: Last week’s main market movers were: i) fears related to the Omicron variant; ii) US Federal Reserve Chair Jerome Powell congressional testimony; iii) OPEC+ announcement on its crude oil policy.

Global equities increased w-o-w (MSCI ACWI, +0.36%, to 746). In the US, the S&P 500 ended higher (+0.95% w-o-w to 4,712). In the EZ, shares fell (Eurostoxx 50, -0.22% w-o-w, to 4,199). In EMs, equities fell (MSCI EMs, -0.73%, to 1,239), while the Chinese stocks dropped (Shanghai Comp., -0.18%, to 3,666). **Volatility** lost (VIX S&P 500, -2.89 pts to 18.69, 52w range.: 14.1-37.51).

Fixed Income: US 10-year bond yield fell (-5bps, to 1.48%), while Germany’s 10-year bond yield rose, while remaining in negative territory (+4bp, to -0.35%). The EMTX 7-10 RT increased by +0.31pts, to 284.

FX: w-o-w, the US Dollar Index fell (DXY, -0.20%, to 96.005; EUR/USD gained by +0.18%, to 1.1313). In EMs, currencies weakened against the USD (MSCI EM Currency Index, -0.24% w-o-w, to 1,727).

Commodities: Oil prices rose (Brent, +1.25% w-o-w, to 75.35 USD/b). Gold Futures slightly rose (+0.37% w-o-w, to 1,783.4 USD/Oz).



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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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