

Momentum fades

After strong market gains earlier in the week, the last 24 hours seem less than convincing ahead of November US CPI figures



Equity gains slow

After the 3% gain from the NASDAQ on Tuesday and 2% gains from the S&P500, the latest session's respective 0.6% and 0.3% gains don't convey any sense that this is a trend to actively pursue. The relatively green hue of my Asian equity futures screen may not provide much more than the mood on opening. And where it goes from there is the subject of considerably more conjecture.

The only market which saw sizeable gains yesterday was the FX market, where EURUSD pushed up sharply to the mid 1.13s, a move that looks like a catch-up after a fairly non-descript move the previous day. The AUD also did well yesterday and is now back in the mid-0.71s. The rest of the Asian pack also registered gains, including the CNY, which has finally broken through into 6.34 space. The main absentee from Asian FX gains was the INR - perhaps a response to the lack of anything solid from the Reserve Bank of India (RBI) meeting the day before. Nothing was really expected from the RBI, but there was some virtually unchanged commentary, which might have tempered expectations for a change in policy in the early New Year. The reverse repo rate was also left unchanged- some had been talking up the prospects of a squeeze to the repo - reverse-repo corridor. But that didn't happen.

The bond market was also a bit lacklustre yesterday. 2Y US Treasury yields drifted slightly lower, but by less than a basis point, while 10Y US Treasury yields made further, but smaller gains of about 5bp to take them to around 1.52%. Having pulled all the way back from the 1.30s, now might not be the best time to consider further increases in yield, and a higher than expected US CPI figure tomorrow may compress longer-dated yields on fears of a more aggressive Fed, so you can't count on much help from rising inflation expectations if higher yields are what you are after.

Don't write off Omicron

A lot has been written about the Omicron variant and continues to be written. Yes, it does appear that there is reasonable protection for triple-vaxxed people. And the severity, while not confirmed, does not look noticeably worse than Delta. But the degree of infectiousness does look worrying. Germany, France and the UK are all registering 50,000 and more Covid-19 cases a day. Daily deaths are edging higher in these countries. This isn't all, or even mostly Omicron at this stage. But coming on top of this backdrop, a much more infectious variant is clearly not something to be shrugged off as a "storm in a tea-cup". Denmark has just re-imposed some new movement restrictions, a sort of "Lockdown-lite" as some have described it. The UK has moved back to work from home as the norm. Other countries will doubtless follow. At the very least, the F&B industry and leisure will suffer from this at the most critical time of the year for them. So I'd be hesitant before piling back into risk assets at this time of the business year.

On this side of the world, the coronavirus case numbers look a lot less worrying, with the exception of South Korea, which is up at its pandemic highs. But don't for a second imagine that Asia will be spared the effects of Omicron. And we should watch what happens elsewhere in the world very carefully as this will provide a good clue to how best to respond.

Kaisa and Chinese CPI

The regional news today centres on talks between property developer Kaisa and its bondholders following the non-payment of a maturing bond earlier this week. Talk is good. It signals the possibility of a clear priceable outcome - though one that will almost certainly require some form of haircut. We also get November Chinese CPI data today. We are not looking for much increase from the previous month's 1.5% print (ING f 1.8%, the consensus is for 2.5%YoY).

We have already had Japan's Ministry of Finance Business Sentiment indicator for 4Q21, and for large manufacturing firms, it was a bit stronger at 7.9 than last quarter (7.0), which provides some scope for optimism ahead of next week's Tankan survey. The all-industry survey was also stronger.

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