

Variant volatility

There's one thing markets hate, and that's uncertainty. Sadly, science does not deal in absolutes, just guidance based on the available evidence, of which, right now, there isn't much. The next few weeks could be choppy



Vaccine

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Science takes time

According to reports this morning, it will be another two weeks or so before BioNTech will have some more scientific evidence on the new omicron variant that will inform how governments around the world may react. Those scientific results will help us to judge whether we see the tentative recovery happening in air travel and tourism snuffed out before it got started, or whether we will be able to move forward, but with a few more restrictions and precautions than previously.

Even then, those results will need to be treated carefully. Science does not deal in absolutes, and that is what markets desperately want. In the meantime, there is some anecdote that omicron symptoms are "mild". But to be completely clear, this is not our description, and we would emphasize the word "anecdote". This is not the WHO's description as some have been saying this morning. Such anecdote has been providing markets with an excuse to dial back the worst-case scenario that was being priced in last Friday during very thin post-Thanksgiving markets.

We are already seeing US Treasury yields moving off their Friday lows. Equities are being a little more circumspect, but FX in the region may also have overdone it and may show some signs of recovery today. The THB was hosed last Friday, down about 3% on the day. With the THB one of

the most exposed currencies to tourism prospects, that was not surprising. But if omicron anxiety turns out to have been a storm in a teacup, then perhaps that selloff was overdone and we can anticipate some bounce there too. But until the scientists come back to us with some more insight, this is all guesswork.

But what about vaccines?

Another piece of news markets have latched onto, and probably too eagerly, is the suggestion that a tweaked mRNA vaccine might be available early New Year for omicron. Scientists have been working on broad coronavirus family vaccines for some time, but even a specific omicron vaccine would be helpful in the meantime.

Let's not get carried away though. Globally, it is very clear that after more than a year since they were developed, many countries still lack access to sufficient quantities of vaccines. Even if there is a new vaccine for omicron in existence by 1Q2022, it is massively unlikely that production could be expanded so rapidly that we could just carry on as before.

What the latest round of market movements confirm is that markets tend to overreact to bad news, but then to cling on unrealistically to any glimmer of hope that enables them to rally. Perhaps the only certainty in this environment is volatility.

More importantly, the current set of vaccines that we have all been queuing up for in the hopes of a more normal future, may turn out to be ineffective against this current variant. In which case, all of the policy based on vaccine passports and travel certificates rapidly approaches pointlessness. That is probably the biggest concern right now and hinges less on the severity of symptoms of omicron, but more on governments' attitude to living with the virus. Some governments are adopting an "endemic" approach. And it may be that this just becomes something we have to get used to, but which we don't have to live in fear of to the same extent as earlier variants.

China, however, still seems to be clinging to the zero-covid strategy. And as China won't be able to deliver a virus-tight border to omicron forever, suggests that we may see more lockdowns in China over the coming year. The real question will then be, was it worth it? We won't know that for a long time either.

Payrolls - who cares?

With all of this variant volatility, I have to wonder whether there is any point looking at this week's Friday non-farm payrolls release in the US? I think that even before omicron, payrolls had become an irrelevant distraction given that US inflation was already rampant ahead of the "substantial progress" that the Fed had been so careful to avoid defining. Still, maybe we should cast an eye over the wages component of the release. The last NFIB survey certainly gave some credence to the notion that a new wage-price dynamic was forming (something the latest FOMC minutes denied). So "stagflation" could become the new dinner party conversation topic displacing house prices. Pass the port please...

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