Flash boursier N° 634
29 November 2021

BONHÔTE

O-micron could become O-mega

Overview

The worsening pandemic in Europe has dampened investor sentiment and is likely to drive volatility upwards in the weeks ahead. And that was before the announcement of the new Omicron variant, which rocked the markets just as shoppers were streaming to the shops for Black Friday.

Several European countries had previously tightened their Covid-related restrictions. Then on Friday, after the announced arrival of the vaccine-resistant southern African variant on our shores, Germany, Italy and the UK were quick to react, banning all foreign travellers from South Africa from entering the country. Threatened by a wave of new restrictions, the travel sector saw red and stocks connected with the reopening of the economy plummeted, while the Covid beneficiaries saw their share prices increase. The VIX volatility index, known as the market's fear gauge, shot up to 29%.

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Inflation continues to trouble investors. Some brass on the Fed policy committee have mooted the idea of pulling the plug on asset purchases and hiking rates sooner if inflation remains persistently high, according to minutes of their latest meeting, released on Wednesday.

A series of US macroeconomic indicators were also released on Wednesday ahead of the long Thanksgiving weekend, putting further upward pressure on inflation. Weekly jobless claims were situated at their lowest level in over 50 years, and strong momentum in household spending – which rose by 1.3% in October month on month – provided further encouragement to those expecting a faster tightening of monetary policy than is currently expected.

A series of macroeconomic indicators stoked inflation expectations

The Biden administration last week moved to counter the rising price of oil and put pressure on OPEC by tapping into strategic oil reserves. OPEC, which is due to meet this week, last time did not consider it necessary to increase output based on its view that supply was already more than sufficient.

In Switzerland, GDP rose in the third quarter (+1.7%), surpassing expectations, powered by a rebound in the services sector following the lifting of health-related restrictions before the summer. Economists forecast GDP growth of between 2.7% and 4% for 2021.

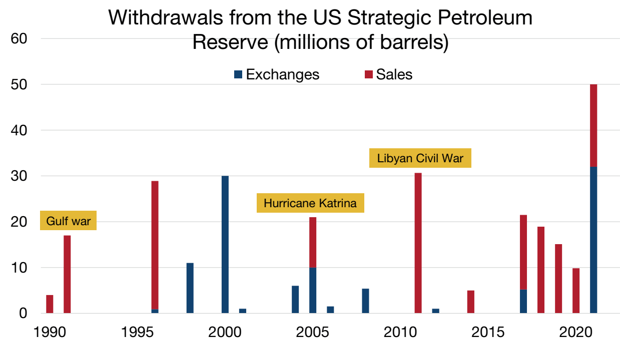
Investors, who now expect a volatile end to the year, will be watching closely to see how the pandemic evolves. For the time being, equity market gains look intact and central banks are still on course to normalise their monetary policies. They will remain supportive in tandem with the resurgence of Covid cases but will also keep a close eye on inflation, which does not seem quite so easily tameable. Elevated household savings and the lack of viable alternatives are considerations which are likely to continue propping up equities.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.92	1.05	12'199.21	4'089.58	15'257.04	6'739.73	7'044.03	4'594.62	15'491.66	28'751.62	1'223.13
Trend	→	→	↓	↓	↓	↓	↓	↓	↓	↓	↓
YTD	4.37%	-3.31%	13.97%	15.11%	11.21%	21.41%	9.03%	22.33%	20.20%	4.76%	-5.28%

(values from the Friday preceding publication)

Crude measures



The economic recovery has driven up energy consumption sharply, leading to a surge in oil and gas prices, which are in turn pushing up inflation. By contrast, fears of a lockdown exacerbated by low liquidity in the markets due to Thanksgiving led to a plunge in the prices of Brent and WTI last Friday.

On the previous Tuesday, the Biden administration, believing that energy supply was insufficient to meet demand, announced an emergency measure to release 50 million barrels from the US Strategic Petroleum Reserve – the largest volume in history. This decision was coordinated with other countries including China, Japan, India and the UK, who also tapped their stockpiles.

Some of the 50 million barrels of this US reserve are being traded, i.e. loaned to companies that will have to return the crude oil in 2022, 2023 and 2024. The rest is being sold. The release from reserves equates to 8% of the 621 million barrels stored in the US, according to Department of Energy data. It also represents more than 4 months of the 400,000 barrels/day production increase granted by OPEC+, which makes the timing questionable. OPEC has postponed its meeting, initially scheduled for 2 December, until the end of the week. Before the arrival of Omicron, it estimated that the global surplus of oil supply relative to demand was even then 1.1 million barrels/day.

The impact of possible business restrictions will therefore be re-assessed by OPEC, which could pause production increases. However, some member countries may look to increase supply to compensate for falling prices.

Authors and contact

Julien Stähli
Chief Investment Officer (CIO)
MBF Boston University

Françoise Mensi
Ph.D in Economics

Pierre-François Donzé
M. Sc. in Economics

Karine Patron
MScF Université de Neuchâtel

Mickaël Gonçalves
MSc in Accounting, Control and Finance

Banque Bonhôte & Cie SA - 2, quai Ostervald, 2001 Neuchâtel / Switzerland - T. +41 32 722 10 00 / contact@bonhote.ch

facebook.com/banquebonhote
linkedin.com/company/bonhote
twitter.com/alexnvincent
instagram.com/banquebonhote
youtube.com/banquebonhote1815