

20th December 2021

Weekly Economic Commentary

We wish you a very happy and safe festive season. Thank you for your readership this year. This is the last Weekly Economic Outlook for 2021. This report will return on 24 January 2022.

Omicron Driving Sentiment Into Holidays

As we prepare for the holidays, headlines of the spread of the Omicron variant, particularly in Europe, are catching attention. The strain is spreading quickly in several European countries. A range of restrictions have been re-introduced to control the spread, including France closing its borders to most UK travellers. Case numbers are also on the rise in the USA.

Back at home, case numbers have been increasing rapidly in NSW. The state has printed record numbers over recent days, with daily cases over 2,500. Victorian case numbers have continued to remain above 1,000 but have not so far hit new daily record highs. Case numbers in some other parts of Australia have also been increasing from a low base as state borders have begun to reopen.

Encouragingly, vaccination rates are high. Almost 94% of Australians aged 16 and over have had their first dose and over 90% of people aged 16 and over are double dosed. This high rate of vaccination is a key factor in reducing the number of hospitalisations and deaths as we learn to live with the virus.

We will continue to learn more about Omicron over the coming weeks. The severity of the strain and the effectiveness of existing vaccines and booster doses continues to be monitored. Developments around how the strain is impacting countries around the world are likely to drive risk sentiment as we move into the holiday period.

We expect the Australian economy to recover strongly from the Delta lockdowns over 2022. However, the virus continues to pose a downside risk to the economic outlook. Should governments need to reimpose restrictions to manage the virus, the economic recovery may be delayed.

On the data front, it is a quiet week heading into the holiday season. The focus will be the minutes from the Reserve Bank's (RBA) December meeting earlier this month, to be released on Tuesday.

The RBA left its policy settings unchanged, as widely expected. The central bank remains upbeat on the outlook for growth, noting that the economy is recovering from the Delta lockdowns. The RBA noted the emergence of the Omicron strain is a new source of uncertainty, but that 'it is not expected to derail the recovery'. In fact, the RBA brought forward its view around when the economy is expected to return to its pre-Delta growth path to the first half of 2022 (from mid 2022). This was on the back of high vaccination rates and substantial policy support.

The focus for markets, however, is whether the minutes will provide any more clues on the future of the bond buying program. The program will be reviewed at the next meeting in February.

In a speech last week, Governor Lowe said three options were on the table:

- (1) tapering purchases further and concluding the program in May,
- (2) tapering purchases further and reviewing the program again in May, or
- (3) ceasing purchases altogether in February.

He highlighted the importance of further readings on inflation and the strength of the labour market, as well as learning more about Omicron effects and the actions of other central banks.

Notably, the very strong jobs data for November raises the likelihood that the program will be dropped altogether in February.

BT Economics

BTeconomics@btfinancialgroup.com

Market updates		20/12/2021									
Index returns (%)						*Outlook (%)					
Asset Classes		1 week	MTD	QTD	YTD	Cash Rate	Level (%)	3 month	6 month	12 month	1 year
Australian Equities		-0.7	0.6	0.2	15.2	United States Dollar (USD)	0.08	0.08	0.33	0.83	
Australian Listed Property		2.3	3.8	8.6	25.3	Australian Dollar (AUD)	0.10	0.10	0.10	0.35	
International Equities (Hedged)		-1.4	1.2	5.0	20.6	Euro (EUR)	-0.50	-0.50	-0.50	-0.60	
International Equities (Unhedged)		-1.3	0.4	5.8	27.9	Change (bps)					
International Listed Property (Hedged)		0.2	2.6	6.8	24.7	Global bonds - 10yr	Yield (%)	1 week	MTD	QTD	Range (1yr)
Australian Fixed Interest		0.2	0.3	-1.3	-2.7	Australia	1.58	-2	-11	9	
International Fixed Interest (Hedged)		0.2	0.1	0.6	-1.0	US	1.40	-8	-4	-8	
Index returns (%)						UK	0.76	2	-5	-26	
North America	Level	1 week	MTD	QTD	YTD	Germany	-0.38	-3	-3	-18	
DOW JONES INDUS	35365	-1.7	2.6	4.5	15.5	Japan	0.04	0	-1	-2	
S&P 500	4621	-1.9	1.2	7.3	23.0	Italy	0.89	-7	-7	4	
NASDAQ	15170	-2.9	-2.4	5.0	17.7	Spain	0.33	-2	-6	-13	
RUSSELL 2000	2174	-1.7	-1.1	-1.4	10.1	Portugal	0.25	-5	-7	-10	
Europe						Switzerland	-0.32	2	-6	-13	
DOW Jones STOXX 600	474	-0.3	2.4	4.2	18.8	Greece	1.19	-17	-6	34	
U.K. (FTSE 100)	7270	-0.3	3.0	2.6	12.5	Brazil	10.83	34	-46	-28	
Germany	15532	-0.6	2.9	1.8	13.2	China	2.85	-2	-1	-2	
Asia Pac						Change (bps)					
Credit Markets		1 week	MTD	QTD	YTD	Spread (bps)	1 week	MTD	QTD	Range (1yr)	
S&P/ASX 200	7304	-0.7	0.7	-0.4	10.9	US A	86	2	6	11	
NIKKEI 225	28546	0.4	2.6	-3.1	4.0	US BBB	125	2	0	18	
HANG SENG	23193	-3.3	-1.2	-5.6	-14.8	US HY	307	8	-25	51	
CSI 300	4955	-2.0	2.5	1.8	-4.9	CDX North America HY	309	1	-18	7	
Korea	3018	0.2	6.3	-1.7	5.0	CDX North America IG	53	-1	-5	-1	
India	57012	-3.0	-0.1	-3.6	19.4	iTraxx Europe HY	254	-4	-35	0	
LATAM						iTraxx Europe IG	51	-1	-7	1	
Brazil	107201	-0.5	5.2	-3.4	-9.9	Change (%)					
Mexico	52379	2.3	5.4	1.9	18.9	Commodities	Price (US\$)	1 week	MTD	QTD	Range (1yr)
Argentina	83234	-2.6	4.9	7.6	62.5	Gold	1804.9	1.1	1.6	2.6	
S&P/ASX 200 - Sectors						Copper	429.5	0.2	0.4	5.5	
Financials	6486	0.6	3.5	-4.1	19.3	WTI Crude	70.9	-1.1	7.1	-4.5	
Materials	16352	2.3	4.0	9.8	4.4	Brent Crude	73.5	-2.2	6.2	-4.2	
Energy	7912	0.1	2.4	-8.7	-1.8	Iron Ore	111.6	6.3	8.9	-3.0	
IT	2076	-4.5	-8.1	-8.8	-5.6	Level					
Healthcare	42675	-6.5	-7.8	-5.6	2.0	Currencies	Price	5D MA	20D MA	120D MA	Range (1yr)
Cons disc	3459	-3.2	-1.0	-2.0	18.9	AUDUSD	0.7130	0.7142	0.7136	0.7319	
Industrials	6508	-0.6	1.4	-1.0	8.9	EURUSD	1.1238	1.1271	1.1284	1.1624	
Cons staples	13369	-3.5	-3.7	-1.8	5.8	GBPUSD	1.3240	1.3260	1.3276	1.3642	
Telecoms	1593	-2.0	-1.5	2.5	25.5	USDJPY	113.68	113.74	113.73	111.72	
Utilities	6542	1.4	4.5	7.5	2.2	USDCNY	6.3754	6.3691	6.3752	6.4365	
Volatility						Level					
Equity Volatility (VIX)	Level	5D MA	20D MA	120D MA	Range (1yr)	Level					
Equity Volatility (VIX)	21.6	20.7	22.8	18.8		Level					
Treasury Volatility (MOVE)	72.5	74.2	80.3	65.8		Level					
Currency Volatility (VXY)	6.5	6.6	7.0	6.3		Level					

Source: Bloomberg/BT Investment Solutions.

Indices used: Australian Equities – S&P/ASX 300 Accumulation Index; Australian Listed Property – S&P/ASX 300 AREIT Accumulation Index; International Equities (Hedged) – MSCI World Ex Australia Hedged AUD Net Total; International Equities (Unhedged) – MSCI World ex Australia Net Return in AUD; International Listed Property (Hedged) – FTSE EPRA/NAREIT Developed Hedged in AUD Net TRI; Australian Fixed Interest – Bloomberg AusBond Composite 0+ Yr Index; International Fixed Interest – Bloomberg Barclays Global-Aggregate Total Return Index Value Hedged AUD; Equity Volatility – CBOE Volatility Index; Treasury Volatility – Merrill Lynch Option Volatility Estimate MOVE Index; Currency Volatility – J.P. Morgan G7 Volatility Index. *Interest rate outlook is based on consensus market pricing.

For more information

bt.com.au | 132 135 | GPO Box 2861 Adelaide SA 5001



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