

Equities and oil prices slump on Omicron fears

Stocks fell and oil prices slid more than 3% on Monday as surging Omicron COVID-19 cases triggered tighter curbs in Europe and U.S. growth prospects dimmed after a \$1.75 trillion domestic investment bill suffered a potentially fatal blow.

The spread of the Omicron variant saw the Netherlands go into lockdown on Sunday and put pressure on others to follow, though the United States seemed set to remain open.

S&P and Nasdaq futures fell pointing to a lower Wall Street open, after U.S. Senator Joe Manchin, a moderate Democrat who is key to President Joe Biden's hopes of passing the investment bill, said on Sunday he would not support the package.

"Omicron ... remains one of the biggest issues for markets right now and has significantly clouded the outlook moving into year-end," Deutsche Bank (DE:DBKGn) analysts said in a note, adding that Manchin's stance "marks a significant blow for President Biden's economic agenda".

Goldman Sachs (NYSE:GS) cut its U.S. real GDP forecast for the first quarter of 2022 to 2% from 3% previously, and marginally reduced forecasts for the second and third quarters.

European and UK stocks hit two-week lows, MSCI's index of Asia-Pacific shares outside Japan fell to its lowest in a year and the world stocks index hit its lowest in nearly two weeks, Emerging market stocks also hit their lowest in a year.

Beijing lightened the mood a little by cutting one-year loan rates for the first time in 20 months, though some had hoped for an easing in five-year rates as well.

The timing of the cut ahead of the Jan 1 interest rate resetting date for corporate loans was positive for corporate borrowers, JPMorgan (NYSE:JPM) analysts said.

Oil prices swung lower amid concerns the spread of the Omicron variant would crimp demand for fuel and signs of improving supply. [O/R]

While coronavirus restrictions cloud the outlook for economic growth, they also risk keeping inflation elevated, prompting central banks to consider raising rates.

It was notable that Federal Reserve officials were openly talking of hiking rates as soon as March and of starting to run down the central bank's balance sheet in mid-2022.

That is earlier than implied by futures, which had been well ahead of Fed intentions until now. The market has only priced in a 40% chance of a hike in March, with June still the favored month for lift off.

The signals from the Fed are a major reason why long-dated Treasury yields fell last week as the short-end rose. That left the two-10 year curve near its flattest since late 2020, reflecting the risk that tighter policy will lead to recession.

The Fed's hints of faster tightening, combined with safe-haven flows, underpinned the U.S. dollar index near its best for the year at 96.555, following a 0.7% jump on Friday.

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