Fast-spreading Omicron variant disrupts U.S. labor market

TOP NEWS

**U.S. weekly jobless claims at three-month high amid Omicron wave**
The number of Americans filing new claims for unemployment benefits jumped to a three-month high last week, likely as a winter wave of COVID-19 infections disrupted business activity, which could weigh on job growth in January. Initial claims for state unemployment benefits surged 55,000 to a seasonally adjusted 286,000 for the week ended Jan. 15, the highest level since mid-October. Economists polled by Reuters had forecast 220,000 applications for the latest week. Unadjusted claims fell 83,418 to 337,417 last week. A report from the National Association of Realtors showed existing home sales dropped 4.6% to a seasonally adjusted annual rate of 6.18 million units in December as higher prices amid record low inventory continued to shut out some first-time buyers. Meanwhile, the Philadelphia Fed said its business activity index rose to a reading of 23.2 in January from 15.4 in December.

**ECB accounts unveil deep divisions on inflation outlook**
Euro zone inflation could "easily" get stuck above target and so the ECB should keep the door open to tightening policy, ECB policymakers argued at a crucial meeting last month, accounts published by the ECB showed. The central bank cut the amount of stimulus it is pumping into the economy at the Dec. 16 meeting but extended its bond-buying until at least late 2022, arguing that inflation is likely to dip back below its 2% target by the end of the year. "For 2023 and 2024, inflation in the baseline projection was already relatively close to 2% and, considering the upside risk to the projection, could easily turn out above 2%," ECB head Christine Lagarde told France Inter radio that inflation in the euro zone will decrease gradually over the year as its main drivers, such as surging energy prices and supply bottlenecks, are expected to ease.

**China cuts key rates, steps up monetary stimulus to boost economy**
China lowered mortgage lending benchmark rates as monetary authorities step up efforts to prop up the slowing economy, after data earlier in the week pointed to a darkening outlook for the country's troubled property sector. China lowered its one-year loan prime rate (LPR) by 10 basis points to 3.70% from 3.80%. The five-year LPR was reduced by 5 basis points to 4.60% from 4.65%, its first cut since April 2020. All 43 participants in a snap Reuters poll had predicted a cut to the one-year LPR for a second straight month. Among them, 40 respondents also forecast a reduction in the five-year rate. Property firms' shares and bonds jumped following the LPR cut, as investors hoped it and other recent government measures would help to ease a funding squeeze in the sector that has seen a growing number of developers default on their debts.

**Euro zone Dec inflation confirmed at record 5.0% on energy surge**
Euro zone consumer prices jumped at a record high pace in December, the EU's statistics agency confirmed, boosted by a surge in energy prices and supply chain bottlenecks as the economy recovers from pandemic lockdowns. The EU's statistics office Eurostat said consumer prices in the euro zone rose 0.4% month-on-month in December for a 5.0% year-on-year jump. Without the volatile energy and food prices, or what the ECB calls core inflation, prices went up 0.4% month-on-month and 2.7% year-on-year. Energy was responsible for 2.46 percentage points of the overall year-on-year increase and more expensive services a 1.02 point boost. Meanwhile, official data showed German producer prices rose 24.2% year on the year in December, with the record annual jump driven by higher energy prices.
Japan’s Dec exports, imports hit record high by value as supply bottlenecks ease
Japan’s exports and imports in December hit record highs in terms of their value in yen, data showed, as supply bottlenecks eased at the end of 2021 amid rising prices. Exports in December rose 17.5% from a year earlier, Ministry of Finance data showed, outstripping a 16.0% gain expected by economists in a Reuters poll but below a 20.5% rise in November. Imports surged 41.1% in December on higher raw material costs and a weak yen, versus expectations of a rise of 42.8% and growth of 43.8% in the previous month. The led to a trade deficit of 582.4 billion yen in December, versus expectations of 784.1 billion yen. For the full year 2021, Japan reported a trade deficit of 1,472.2 billion yen, the first in two years and following a 388.3 billion surplus in 2020, amid higher fuel import costs.

DEEP DIVE

POLL-Fed to raise rates three times this year to tame unruly inflation
The U.S. Federal Reserve will tighten monetary policy at a much faster pace than thought a month ago to tame persistently high inflation, now viewed by economists polled by Reuters as the biggest threat to the U.S. economy over the coming year.

GRAPHIC- Fed may run fast on long road to normal balance sheet
As part of its battle against inflation and a return to more normal monetary policy, the U.S. Federal Reserve is approaching a decision to reduce its balance sheet, which has roughly doubled in size during the pandemic to nearly $9 trillion.

Market, Omicron risks pose new challenge for Fed policy pivot
U.S. Federal Reserve officials, having plotted what seemed a clear battle plan against high inflation, must now contend with fresh signs the coronavirus is again slowing the economy as well as markets conspiring to tighten financial conditions faster than Fed policymakers may have hoped.

GRAPHIC-Five ways the U.S. housing market stood apart in 2021
The market for existing U.S. homes softened unexpectedly in December, but 2021 still wrapped up with the strongest annual sales in 15 years, data from the National Association of Realtors out Thursday showed.

CHART OF THE DAY

![U.S. jobless claims chart](chart.png)
MARKETS TODAY

TREASURIES: Treasury yields were little changed after a rapid sell-off that sent yields to two-year highs drew buying interest. Yields have jumped this month as investors adjust to the likelihood that the Federal Reserve will tighten monetary policy more aggressively to stave off unabated inflation. Benchmark 10-year notes rose 2/32 to yield 1.82%. 30-year bonds were up 6/32 to yield 2.13%. 5-year notes lost 1/32 to yield 1.61%.

FOREX: The dollar fluctuated but remained rangebound as this week’s upward trajectory of U.S. Treasury yields took a breather. The dollar index was up 0.34% at 95.838. The euro fell 0.34% to $1.1303. Sterling was down 0.10% at $1.3592. Versus the Japanese yen, the dollar fell 0.11% to 114.19 yen.

CORPORATES: Corporate bond spreads widened after disappointing U.S. jobless claims and home sales data stoked investor optimism. The CDX-iG.37 index widened by 1 bps to 57 bps.

STOCKS: Wall Street’s main indexes fell and a rally in U.S. stocks faded late in the session as investors debated whether equities were becoming bargains after a sell-off to start the year that has seen the Nasdaq fall into correction territory. Travelers rose 3.52% after the property and casualty insurer reported a record quarterly profit. Baker Hughes gained 1.48%. Peloton jumped 24.50% after CNBC reported that the exercise bike maker is pausing production of its connected fitness products as demand wanes and the company looks to control costs. The S&P 500 lost 50.40 points, or 1.11%, to end at 4,482.36 points, while the Nasdaq lost 185.31 points, or 1.30%, to 14,154.94, the Dow fell 315.30 points, or 0.91%, to 34,709.00.

C&E: Oil fell, posting slim losses after several days of strength that pushed benchmarks to seven-year highs due to concerns about tight supply. Brent was down 1.18% at $87.40 a barrel. U.S. crude lost 0.77% to $86.90 a barrel. Gold dropped 0.10% to $1838.07 per ounce.
LATAM NEWS

Investor ‘bleed-out’: Mexico risks more capital outflows of sovereign debt
Record capital outflows of Mexico’s sovereign debt could intensify in the coming months ahead of an expected U.S. interest rate hike that is likely to ratchet up pressure on Mexico’s peso currency, analysts said. Mexico last year registered debt outflows of 257.6 billion pesos amid greater risk aversion and the hit from the coronavirus pandemic, just beating the 2020 tally. The first week of 2022 saw another 8.9 billion pesos of Mexican government debt flow out. The market anticipates at least three U.S. rate increases in 2022 from the current rate of between 0% and 0.25%, potentially harming emerging assets like Mexican sovereign debt, which is viewed as riskier despite offering better returns.

Brazil central bank chief sees no major Omicron impact on economy yet
Brazil’s central bank chief Roberto Campos Neto said the Omicron variant of the coronavirus had not yet made a major impact on the country’s economy and was not expected to because there were not restrictions on mobility. Addressing an online conference hosted by Santander, he said China by contrast has adopted a severe policy to contain the new variant and the biggest concern regarding Omicron would be a supply disruption there affecting the global economy. Campos Neto said services inflation in Brazil “is a reason for us to worry,” and is being closely watched by policymakers.

LATAM MARKETS

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EYE ON ASIA

Indonesia cbank surprises with hefty RRR hikes to steady rupiah before Fed
Indonesia's central bank announced a surprise 300 basis points of staggered hikes in the reserve requirement ratio for banks over the next eight months, in one of its first concrete signs of monetary tightening. Bank Indonesia (BI) kept its benchmark 7-day reverse repurchase rate steady at 3.50%, as expected in a Reuters poll. It also left two other main policy rates unchanged. But in a sign that BI has a keen eye on the U.S. Federal Reserve's anticipated tightening and potential jolts to Indonesian financial markets, Governor Perry Warjiyo announced three RRR hikes, starting with 150 basis points in March, 100 bps from June and another 50 bps from September to contain liquidity.

Australia jobless number dives to lowest since 2008 as case builds for rate rise
Australian employment raced ahead in December as the jobless rate fell to its lowest point since 2008, showing strength that should help the economy weather the current surge in coronavirus cases across the country. Data from the Australian Bureau of Statistics showed employment jumped 64,800 in December, topping market forecasts of a 43,300 rise and adding to November's record jump of 366,000. The unemployment rate fell to 4.2%, from 4.6% in November, the lowest reading since August 2008, when the jobless rate bottomed out at 4%. The ABS noted that to find a result under 4% you needed to go back to the 1970s.
ASIA ECON WATCH (For Jan 21)

Japan CPI Core Nationwide YY for Dec: Expected 0.6%; Prior 0.5%
Malaysia CPI YY for Dec: Expected 3.1%; Prior 3.3%
Thailand Custom Based Export Data for Dec: Expected 15.50%; Prior 24.70%
Thailand Custom Based Import Data for Dec: Expected 18.15%; Prior 20.50%
Thailand Custom Based Trade Data for Dec: Expected 0.47 bln; Prior 1.02 bln