



Confident and wrong

"The crisis takes a much longer time coming than you think, and then it happens much faster than you would have thought."

- Rudiger Dornbusch (2012)

What a start to 2022! Based on feedback from readers the most popular *Brekky Wrap* in January was sent on the 12th, an issue titled [The True Death Toll](#). In it we examined an article by *The Economist* magazine that found a lot more people have probably died of COVID-19 than official figures suggest, due to some dodgy reporting in several countries.

Much to our displeasure the pandemic has not yet faded into the annals of history – even in Australia (94.9% aged 12+ are double vaccinated) restrictions remain in place and one state, Western Australia (WA), remains locked out from the rest of the world.

But before we get into the latest pandemic data let's dive into some of the metrics we report on every day. January was certainly a volatile month, with inflation taking off and tensions building on the Ukraine/Russia border, at the same time as the latest 'variant of concern', Omicron, spread across the world.

That meant it was an especially bad month for so-called 'risk-on' assets, such as the Aussie dollar and cryptocurrencies, the latter of which were absolutely smashed. Bonds were also hit hard, with yields soaring ahead of expected interest rate hikes this year (bond prices move inversely to yields).

Equity markets were extremely volatile, experiencing their worst January since the global financial crisis and biggest monthly decline since the onset of the coronavirus pandemic in March 2020. It was especially rough for stocks trading on elevated earnings multiples, such as tech companies.

On the positive side of the ledger, iron ore jumped following monetary easing by the Chinese government and [a renewed emphasis](#) on speeding up the issuance of local

government special bonds, which are predominately used in steel-intensive infrastructure projects.

Oil had its best January for 30 years as the European energy crisis from last year rolled on, with the situation worsening towards the end of the month due to the uncertainty caused by the Russia/Ukraine standoff.

Finally, gold did what it does best which is... not much, as markets weighed up an expected rise in interest rates (which increases the opportunity cost of holding it) against inflation and fears of a global crisis.

The following table shows all the movements in more detail.

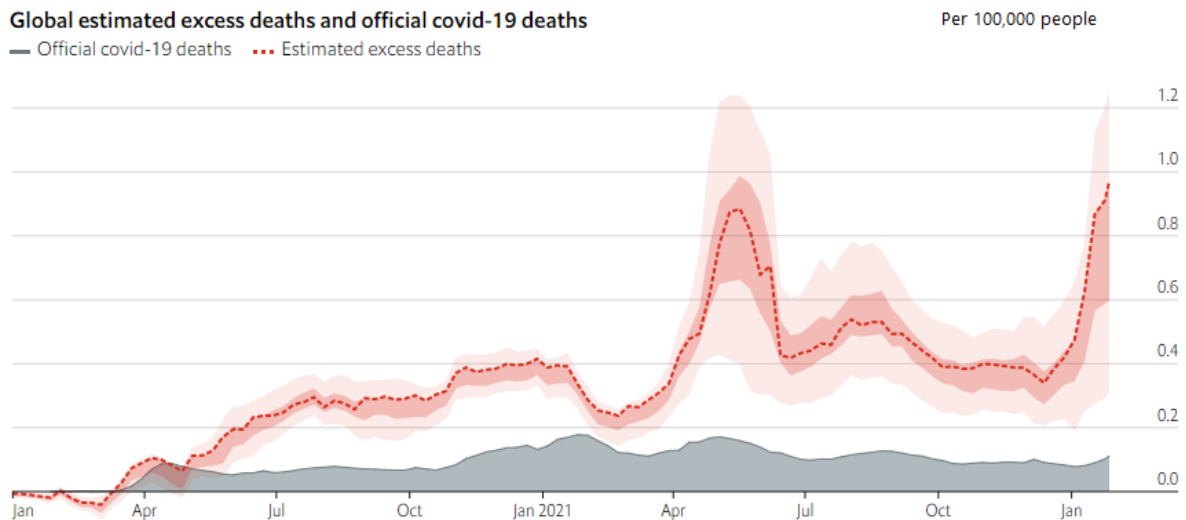
		Monthly % change
AUD/USD	70.0	-3.4%
AUD/CNY	4.42	-4.2%
AU Bond	1.91	+13.8%
US Bond	1.78	+17.9%
ASX200	6,973	-6.3%
S&P500	4,516	-5.2%
Brent (bbl)	91.2	+15.2%
Gold (oz)	1,799	-1.6%
Iron ore (t)	137.0	+13.9%
Bitcoin	38,399	-17.1%
Ethereum	2,681	-27.2%

Note: Brent oil, gold bullion and iron ore prices are the second futures contract. Bond yields are 10-year Treasuries.

Phew. Moving on to the pandemic, the Omicron variant has really shaken everything to its core. It even broke *The Economist's* [model](#) that we covered back on the 12th, which now erroneously predicts pandemic-high levels of excess deaths due to soaring cases. That forced the authors into adding a caveat that “estimates for recent dates may be revised downwards once more data become available”.



In other words, the model's broken and we should ignore the recent spike.



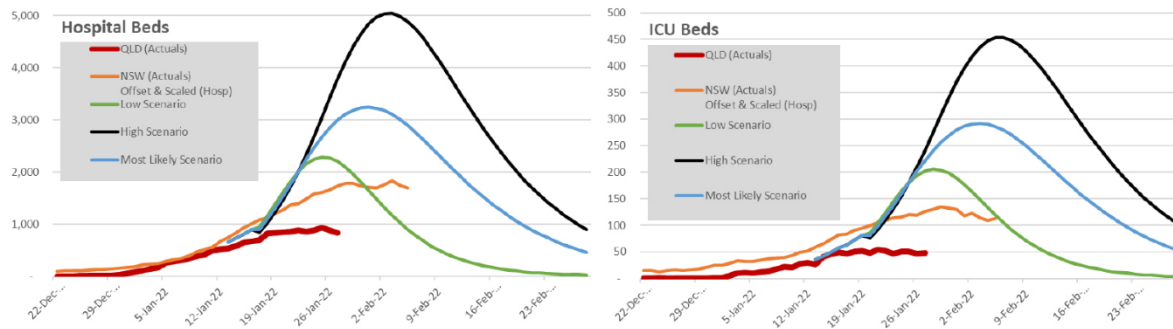
But other than raise our hopes that the coronavirus might finally have become endemic, the emergence and dominance of Omicron really shone a light on perhaps the biggest gaffe of the year (to date!) for those of us Down Under, which came when the Premier of WA, Mark McGowan, [decided to indefinitely delay](#) the state's planned 5 February reopening.

The justification for the delay was that the situation on the far more populous eastern seaboard had become an "unforeseen emergency or catastrophe", as those were [the only two conditions](#) the Premier said would cause him to back out from his deal with the people of WA.

It was a shocking call because it was patently untrue, as *The Economist's* modellers or any random person on the streets of Brisbane, Sydney or Melbourne could have told him. All the scientific evidence up to that point – the decision was announced on 20 January – showed that Omicron was producing health outcomes far milder than even the best-case modelling predicted (the orange and red lines in the chart on the following page are actual outcomes while the black, blue and green lines are modelled scenarios).¹

¹ Queensland: <https://mobile.twitter.com/AnnastaciaMP/status/1486881815671771136>
NSW: <https://www.abc.net.au/news/2022-01-22/nsw-covid-omicron-hospital-peak/100773720>

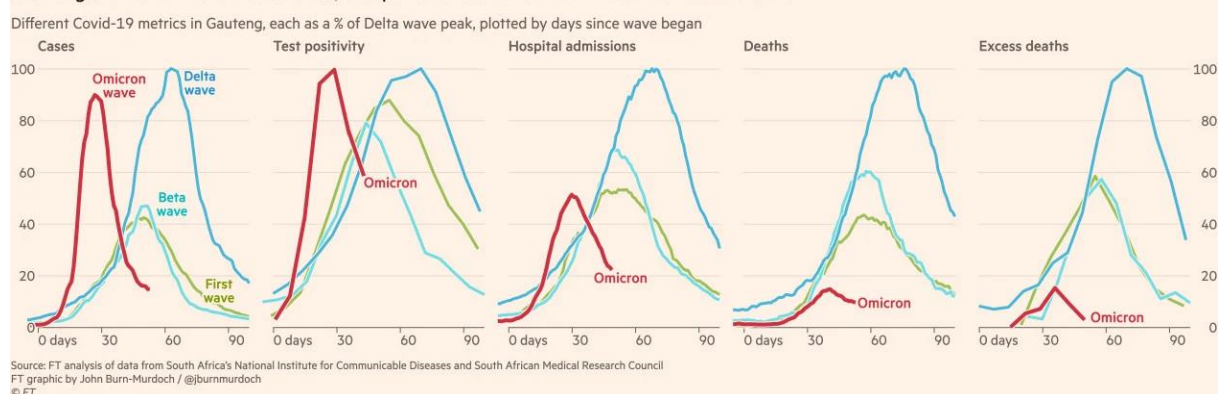
Queensland outbreak Modelling, 10 January 2022



Recent modelling from the University of WA confirmed a similar pattern would likely occur in WA were it to reopen, and “delaying reopening much past the original date of February 5 will not make much difference”, because “the benefit of further booster shots will be at risk of being offset by waning immunity among those who are already vaccinated with a third dose”.

Globally, the evidence has been out there for months: Omicron spreads rapidly, fades faster and causes fewer hospitalisations and deaths than its predecessors. That was the case in Gauteng, where the variant originated and three quarters of the population are unvaccinated, as well as places to be hit early by the variant such as the UK.²

Gauteng's Omicron wave was shorter, sharper and less lethal than those that came before



But what also bothered us about the delay – other than the lack of consideration for any costs and benefits outside of short-term COVID-19 health outcomes – was when the WA Premier made the claim that a double-vaccinated individual had just “a 4 per cent

² <https://www.ft.com/content/b0cd9239-f2df-4afc-912f-b3f87fc676ff>



protection against being infected by the Omicron variant, but a third dose can provide a 64 per cent protection”.

The claim was essentially the sole basis for a delay: to give more people time to get a booster shot ahead of a reopening. Not doing so “would be reckless and irresponsible”, [according to Premier McGowan](#).

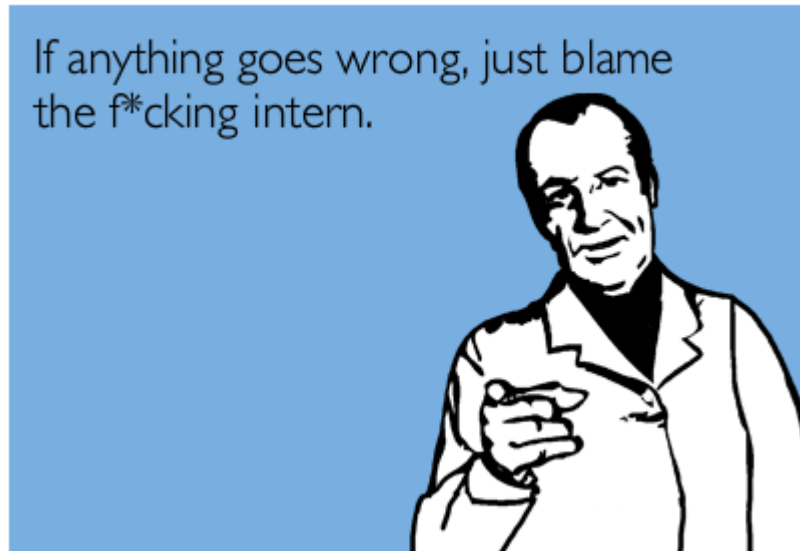
That would be a fair call if that’s what the science actually said. But we went through the Chief Health Officer’s (CHO) [advice](#) and found the source, a [not-yet peer reviewed paper](#) from December 2021 using Danish data comparing secondary infection rates in households where one member contracted either the Delta or Omicron variant.

In short, it said nothing about the protection a double dose vaccine offers against Omicron infection. What the authors of the preprint *actually found* was that within a household containing a COVID-positive patient, if that person had the Omicron variant rather than Delta then the unvaccinated had a 1.17-times higher secondary attack rate (SAR), whereas fully vaccinated and booster-vaccinated individuals had a 2.61- and 3.66-times higher SAR, respectfully.

The authors concluded that Omicron’s ability to spread is likely due to immune evasiveness rather than an increase in transmissibility, warning *against* relying on boosters for the benefit of preventing transmission because their protection might quickly wane:

“Although we showed that booster vaccines did offer some protection against household transmission, the reduced level of protection means that vaccination is less likely to be sufficient to curb transmission within a population. Furthermore, the duration of the protective effect is currently unknown, and the rapidly waning effectiveness of the second dose against the Omicron VOC as well as data from neutralization assays do raise some concerns about the longevity of the booster response.”

The most charitable explanation for the Premier's potentially costly error is that an analyst messed up and it wasn't noticed by any of their superiors, who probably don't read citations either. A classic blame the intern moment, if you will.



A more cynical explanation is that a reason to delay reopening – any reason – was probably music to the ears of Premier McGowan, who has showed his predisposition to having a hard border, daily press conferences and all the power and ego-boosting benefits that he derives from being the centre of attention.

And why not – it worked well when there was actually a valid health argument for maintaining a hard border, which saw his government rewarded with a second four-year term in office in a landslide victory in March 2021.

But to many, Premier McGowan has now become the boy who cried wolf just one too many times – trust has been eroded following the rash, confident and wrong decision.

Unfortunately for the people of WA, political incentives mean Premier McGowan's decision-making is unlikely to improve until an election approaches, which is three years away. As Cyrille Cohen, head of immunology at Bar Ilan University and an advisor to the



Israeli government on vaccines said when looking back on the last two years, when “you mix politics and immunology or health sciences, at the end of the day you get politics”.³

We warned about the same phenomenon in the last [Unwrapped](#), writing that a benign Omicron:

“...doesn't mean restrictions won't continue long past the point when they stop making sense – many politicians and bureaucrats have found themselves empowered by the pandemic and they'll fight tooth and nail to keep that status permanently.”

That brings us to the outlook. Ignoring WA for a moment, the rest of Australia has now transitioned to living with the virus. But that doesn't mean the impact on the economy has gone away – most states remain in a “state of emergency”, giving Premiers dictatorial-level powers.

There is a high probability that pandemic restrictions become a recurrent feature of our society through 2022-23: Omicron probably won't be the last mutation, or the last viral threat. But while restrictions were economically tolerable when governments racked up record levels of debt to make no one worse off (and some people much better off), persistent restrictions will very quickly come up against a necessary tightening of the monetary and fiscal belts.

Recent data from the UK – where they have long since been “living with COVID” – showed that even a moderate level of restrictions are crippling businesses now that government support “such as furlough payments, tax reliefs and a moratorium on landlords being able to evict businesses”, is fading.

³ <https://podcasts.apple.com/us/podcast/unherd-with-freddie-sayers/id1540134798?i=1000548253028>

In the [final quarter of 2021](#):

- 589,168 UK businesses reported significant financial distress.
- 106% rise in County Court Judgments, “a key early sign of future insolvencies”.
- Only one of the 22 sectors covered showed an improved position.
- Critical financial distress was up 7% year-on-year.

Rising inflation in the first half of 2022 – yes, even in Australia – will heap even more pressure on businesses, putting the world’s central banks in conflict not just with indebted governments and their pandemic restrictions but also many households and businesses that overextended themselves.

While the recent economic data in Australia may look strong at the moment (e.g. [record-low unemployment](#)), it’s often calmest before the storm. As the opening quote from German economist Rudiger Dornbusch highlighted, a “crisis takes a much longer time coming than you think, and then it happens much faster than you would have thought”.

Putting the stimulus breaks on is going to require a delicate balancing act that will be made more difficult because Australian governments – both state and federal rapidly expanded their spending during the pandemic – and the RBA are already about a year behind the curve.

If they don’t soon learn that it’s better to be humble and inexact than confident and wrong – the ‘transitory inflation / no rate hikes until 2024’ RBA has been especially bad in this department – then by the time they realise there’s even a problem, it may be too late to avoid a hard landing.

Thanks for reading, please feel free to forward this to friends and colleagues!



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