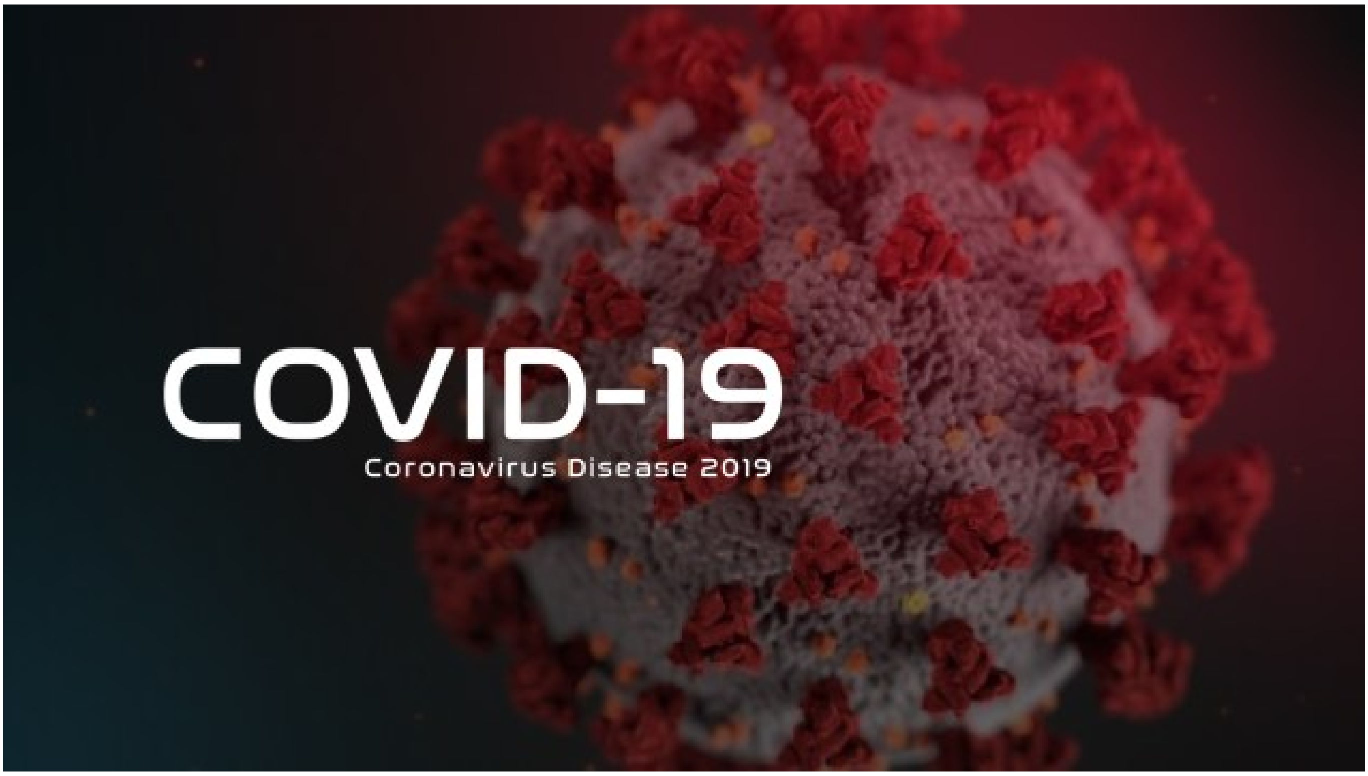
The UK switched its COVID-19 response strategy from mitigation to suppression after it became clear that both the death toll and clinical pressure would be intolerable. Vast swathes of the economy have effectively stopped. And monetary easing and unprecedented levels of fiscal stimulus, while supportive, cannot fully offset this. European countries imposed further civic restrictions, while the US Senate failed to pass the enormous $1.8 trillion package for coronavirus relief. Few weeks have the power of the one we just experienced. And it’s the shock of the new.



We’re gonna need a bigger boat. Less than a week after a fiscal stimulus of about 1.5% of GDP was announced in the new Budget, the government has realised that this is not nearly enough to fight the consequences of COVID-19 epidemics on the UK economy. Last Tuesday the Chancellor Sunak increased the stimulus 11 times! The focus was mostly on providing support to the businesses through guaranteed loans, tax holidays and cash grants. And three days later the support was extended to salaries of workers, who are not working but are kept on payroll. Government grants will cover 80% of the salary of retained workers up to a total of £2,500 a month. This is truly unprecedented. But is it enough?

Baptism of fire. What a week for Andrew Bailey to take over the reins at the Bank of England. It was a week of emergency action. On Wednesday, Bailey launched a new unlimited commercial paper funding scheme for large businesses. While this scheme was being launched, conditions in the UK government bond market were "bordering on disorderly". Thursday saw Bank Rate cut by 15bps to 0.1% – the lowest since the BoE was established in 1694. More importantly, given the bond market situation, was the £200bn of QE, to purchase government bonds and lower yields in the largest single shot of quantitative easing to date. To top it all off, the previously launched emergency SME term funding will be enlarged.

Price action. The pound saw its deepest eight-day slide since it was ejected from the European exchange rate mechanism in 1992. On Thursday strains in the UK sovereign debt markets and rumours of a London lockdown sent sterling below $1.15 (a 35-year low) and to almost €1.05. The US dollar was the sole safe haven currency with a squeeze on its liquidity triggering a surge in its value. BoE action helped sterling and the FTSE 100 end the week recouping some of their losses. UK equities are still down 30% during the last month with European stocks down one-third. Wall Street's S&P 500 fell again on Friday capping its fifth worst week of all-time with a 15% drop taking the monthly decline to 31%.

The curve. Rarely has a scientific paper had such a profound and immediate impact on our economy, society and liberty as one published last week from Imperial College London. It laid out in stark, brutally logical terms, the impossibility of the UK and US governments (then) strategy of trying to mitigate the clinical impact of COVID-19. Flattening the curve, as it become known, would still likely result in 260,000 deaths and place the NHS under intolerable pressure. Hence the swift strategic shift to partial lockdown.

Keep your distance. Social distancing tries to lower the reinfection rate to below 1. This suppression strategy attempts to limit, or even eliminate, the virus until an effective vaccine is available. But that's potentially 18 months away. The risk is that if you loosen the lockdown before the virus is eliminated, you've simply delayed and not dodged, the viral bullet. Hence talk of restrictions lasting 18 months or more. Yet critics highlight that close contact transmission is ~5% and elimination may be possible, evidenced by Wuhan. We just don't know. But evidence from early impacted counties will build.

Lock'em up. Governments in France, Spain and particularly Italy have locked down their countries to slow the rapid spread of the coronavirus. All non-essential businesses have been closed. Germany looks set to follow soon. On the fiscal front, major European countries have announced piecemeal measures to stem the looming downturn, around 1% of GDP. Support programmes have ranged from providing guarantees for domestic firms and state subsidies to forbearance of tax payments. However, a co-ordinated Euro-wide fiscal response has not been agreed, reflecting political differences. This is crucial to stemming a prolonged Euro area recession and a potential sharp rise unemployment.

Back to normal? Wuhan, the centre of the coronavirus outbreak in China and the city which experiences the strictest restrictions of social interaction, has begun to loosen its two-month lockdown on citizens. Chinese authorities have started lifting checkpoints after recording no new coronavirus cases for three days straight. Wuhan must go 14 straight days without a new case in order for travel restrictions to be lifted. But residents are allowed to go for a walk if their area deemed virus-free for the first time in weeks. The rest of the world will be closely watching.

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