By Friday, March 13, we were hearing, 'You'll be next'

The Bank of England and the Treasury were plunged into crisis 15 weeks ago. Jill Treanor and Peter Evans tell the inside story

Rishi Sunak promised that the government was doing everything it could to keep the country financially secure
HM TREASURY/PA
Jill Treanor and Peter Evans Sunday June 21 2020, 12.01am, The Sunday Times

IN NUMBERS

4,994 Level to which the FTSE 100 dropped on March 23 — the lowest since 2011
0.1% Record low interest rates since March 19 (source: Bank of England)
£300bn Quantitative easing unleashed to fight the crisis (source: Bank of England)
9.1m Number of workers furloughed (source: Treasury, June 14)
£31.8bn Dividends scrapped (source: AJ Bell)
£54.5bn Amount lent to businesses through emergency loan schemes (sources: Treasury and Bank of England)
46m Unemployment claims in the US (source: US labour department)

The removal vans were approaching Threadneedle Street on Friday, March 13, but Mark Carney had no time to make a proper farewell. Before he could vacate his grand office overlooking the courtyard, the outgoing Bank of England governor had to address a crisis threatening to eclipse the one a decade earlier.

The previous day, one of the world's most important bond markets, US treasuries, had seized up, and stock markets suffered their biggest one-day fall since the Black Monday crash of 1987. Investors were selling everything, even usually rock-solid US government bonds, in a dash for cash as the realisation dawned of the economic damage that might be wreaked by the Covid-19 pandemic.

Inside the Bank, alarm bells were ringing over the UK government bond market — gilts. "By Friday 13th we were hearing 'You'll be next' warnings from anxious funds," said Andrew Hauser, who runs the Bank's market operations.

By the time Andrew Bailey officially started work the following Monday as the Bank's new governor, the US Federal Reserve had made a stunning Sunday night intervention, cutting interest rates and pledging to buy $500bn (about £400bn) of bonds.

This was just one effort by policymakers to stem the panic that gripped global markets in late February, eventually forcing Boris Johnson to shut down the UK economy on March 23.

It has been three months like no other inside the Bank of England and the Treasury, where officials have fought to keep markets alive and stave off what is expected to be the worst economic collapse in three centuries.

When Rishi Sunak, just weeks into his new role as chancellor, delivered his first budget on March 11, he promised the government was "doing everything we can to keep this country and our people healthy and financially secure". The following days tested that pledge, while the coming months and years will demonstrate to what extent the policies adopted by the Treasury and the Bank will cushion the blow to the economy. The emergency measures devised have not been seen before in peace or war — and their job is far from done.

So extreme is the position that the governor is now considering whether Britain needs to be able to use negative interest rates — an extraordinary situation, where saving is discouraged — after unleashing a £300bn stimulus through additional bond-buying in the quantitative easing (QE) programme first unveiled in the 2008 crisis. The chancellor is thought to be working on a fiscal stimulus to kick-start the economy.

Reflecting the changing shape of UK plc under the lockdown, easyJet and cruise operator Carnival have dropped out of the FTSE 100, along with aircraft parts-maker Meggitt and British Gas owner Centrica.

They have been replaced by repair company Homeserve, B&Q owner Kingfisher and cyber-security specialist Avast. Almost half the constituents of the FTSE 100 have axed dividends, with a total of £31.8bn sacrificed to conserve cash.

As the biggest struggled, Britain's 5.8 million small firms felt the most immediate pain. As Bank policymakers scrambled to underpin financial markets three months ago, Sunak sought ways to help entrepreneurs and founders.

It started with a message of hope. The chancellor addressed the daily Downing Street briefing on March 17 and promised to do “whatever it takes” to save the economy, pledging support through loan guarantees worth £330bn for “any business” in need of cash.

By the end of that week, he had gone further, unveiling his job retention scheme to cover 80% of the wages of staff temporarily laid off. More than 11 million workers — a third of the workforce — have now been supported.

“In some ways, what we’ve seen is maybe what policymakers wished they had done in 2009, or during the European sovereign debt crisis,” said Andrew Sheets, a strategist at Morgan Stanley.

“During both of those, there was hesitation, some [concern about] moral hazard, a lot of concern about rising government debt levels. Because the nature of this crisis is so different . . . it has allowed central banks and governments to act with a level of aggressiveness that would have been much harder with a different type of crisis.”

This time there is an added challenge: officials are relying on phone and video calls to make decisions. The Bank conducts about 12,000 every day. When it announced its first emergency rate cut on budget day, March 11, many Bank staff were operating remotely. Later measures, including a second rate cut to a historic 0.1% low and an extra £200bn of bond-buying QE, were made with almost all staff working from home.

Bailey, 61, has been one of few occupants of the Bank building, where last week it sanctioned another £100bn round of QE, taking the total programme to an eye-watering £745bn.

Hauser has provided an account of the behind-the-scenes co-operation with other central banks. On the evening of March 9 — after a day when oil prices plunged 30% — the Bank received an email from the Fed wanting to ease the pressure on the dollar.

The US central bank asked to revamp swap lines put in place during the financial crisis to make it easier for dollars to be made available around the world. On Friday, the Bank of England said the arrangement was being relaxed — a sign of easing tensions in the markets.

The Bank is also a regulator. Sam Woods, a Bank deputy governor, became embroiled in a virtual battle with the high street banks about their plans to pay dividends. He fired off letters to bosses spelling out the need to conserve the £7.6bn earmarked, and the banks took heed.

The banks were being relied on to lend billions to cash-strapped businesses through new government-backed lending packages. Those emergency schemes, including the Bank’s commercial credit facility for large companies, have now provided more than £54bn of finance to struggling businesses.

The Treasury schemes have not been without controversy. Some decisions were delayed by infighting between Whitehall departments. Other decisions — such as initially not offering fully state-backed loans, despite evidence that they were working in other countries — ran into ideological opposition. Delays are likely to have sounded the death knell for thousands of businesses.

There is also a feeling that it took some time for ministers to realise the economic consequences of the lockdown.

The flagship coronavirus business interruption loan scheme (CBILS) was based on a framework designed after the 2008-9 financial crisis, which was discussed in January as an emergency measure if a hard Brexit caused a recession.

Until February, a government source said, “Brexit was taking priority and was seen as more of an issue”.

Final terms for the CBILS loans, which are 80% guaranteed by the government, were not agreed until 4am on March 23, the day it was launched, according to a source. When applications opened, the banks were overwhelmed with requests.

Critics point to a lack of empathy for small companies in the top ranks of government. No senior cabinet minister has run a small business. Philip Hammond, then chancellor, and Jeremy Hunt, a former health secretary, both successful business owners, were swept aside after Johnson’s election victory last year.

Even so, Sunak has been praised for the furlough scheme, which was announced the weekend before lockdown took effect. By then, a decade-long stock market bull run had come to a screeching halt. Market moves on Wall Street were dramatic, and bond markets moved as much in 10 days as they had in 14 months during the banking crisis.

“Normal life ended on Friday, February 21,” said Richard Buxton, head of UK equities at Merian Global Investors. “That weekend was when it became crystal clear that Italy was having a major issue and it wasn’t a localised Asian situation.”

Cue four weeks of mayhem. Yet the FTSE 100’s low of 4,994 was on March 23. It was the Fed — announcing unlimited QE and the buying of corporate bonds (a first) — that shifted global markets. Equity investors, at least, are now looking ahead. “Markets are pricing in a recovery,” said Russ Mould of wealth manager AJ Bell.

The stimulus injected by central banks and governments to tackle what the OECD believes will be a $7 trillion dent to global growth is now $20 trillion, said Mould. And it keeps coming — for now.

LONG-TERM WINNERS FROM LOCKDOWN

AO World

The electrical goods retailer has benefited from bored Britons looking to enhance their homes. The shares have almost tripled since the lockdown started, closing on Friday at 148p to make the company, founded by former salesman John Roberts after a £1 pub bet and floated six years ago, worth more than £700m.

Bread-makers, gaming kit and TV sets have been among its best-selling items. In early March, there was also a run on freezers as consumers stocked up on frozen food ahead of feared shortages.

Roberts, 46, said the pandemic has pushed purchasers who had been reluctant to buy electrical goods online towards internet shopping."I believe that we've seen five years accelerate into only five weeks," he said last month.

Astra Zeneca

The pharmaceuticals giant was, for a time, Britain's most valuable company. Its shares, boosted by strong first-quarter results in April, were sent into overdrive after the news that it was helping to develop a coronavirus vaccine ready as early as September.

Chief executive Pascal Soriot, 61, has put in place manufacturing capacity to produce up to two billion doses of the vaccine, which is being developed with Oxford University.

Three supply chains will distribute the vaccine, should it be approved — one for Europe, one for America and one for Asia and lower-income countries. Soriot has said Britain will be first in line.

It is quite a turnaround for the Frenchman, who rejected a takeover bid worth £55 a share from American rival Pfizer in 2014. For years, the shares languished below that mark, but they closed on Friday at £84.89 to give a valuation of £111bn.

Big tech

Giant tech companies such as Amazon, Facebook and Google owner Alphabet were pervasive before the coronavirus. If anything, the lockdown has made them even more central to the lives of billions of people around the world.

Facebook, which owns WhatsApp and Instagram, has said that messaging activity increased by 50% in countries enduring the strictest lockdowns.

Amazon announced in April that it had hired 100,000 staff in less than a month to keep up with increased orders.

The next few months should see the tech giants consolidate their power. All have billions of dollars in cash on their balance sheets and are expected to buy smaller rivals, while also hoovering up talented developers at start-ups who find themselves out of work.

The crisis has also meant a delay to American watchdog investigations into Alphabet and Facebook.

Video game developers

With cinemas out of action and no live music or sport, gaming has been one of the few areas of entertainment to feel only limited disruption from the coronavirus. One survey even found that gaming — in moderation — could have a positive effect on lockdown-induced anxiety.

Activision Blizzard, which makes the Call of Duty series, said more than 60 million people had played the game's latest release, Warzone, since its March launch. Last month, it increased its full-year sales target.

Electronic Arts, which makes the Fifa football games, also said user numbers had increased during the pandemic.

Team17, the games studio behind the Worms franchise, run by Debbie Bestwick, last week said it had had an “excellent start” to the first half of its financial year.

Shares in Cambridge-based Frontier Developments, which makes titles including Jurassic World Evolution, have increased by more than 80% since March 23.

Zoom

The videoconferencing app has become one of the defining features of lockdown. According to data provider Apptopia, Zoom was downloaded 2.1 million times on March 23, the day Britain’s economy was closed, compared with 56,000 times a day two months earlier. Other tech companies that improve communication for families and work colleagues, such as Slack and Houseparty, have also seen huge increases in users — but Zoom led the way.

Founded by Chinese-born billionaire Eric Yuan, Zoom floated last year with a share price of $36. It finished last week at $241, with a valuation of $67.9bn. Despite an FBI warning over security concerns, Zoom’s share price has more than tripled this year.