4X Global Research

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Time is priceless but has a steep cost

While some countries, including Sweden and United states, have eschewed national lockdowns over the past nine months or so the vast majority have adopted unprecedented measures to deal with a once in a century pandemic which has so far cost almost 1.4 million lives. The strategy has invariably been a simple yet complex one – to save lives – but the tactics underlying national lockdowns have evolved.

When Asia-Pacific and European governments implemented their first blanket national lockdowns in February-March their goal was arguably to buy sufficient time to better understand the modalities of this virus, "protect" their national health systems and acquire vital PPE. The economic cost was on an unprecedented scale.

Prime Minister Boris Johnson's government arguably had the "benefit" of the United Kingdom's pandemic lagging that of a number of major European economies by 3-4 weeks but did little during that time. A case of precious time wasted.

Fast forward to today and exponentially more is known about Covid-19, PPE is in most cases readily available and health systems' capacity has been upgraded. And yet in the past couple of months most governments have once again put their economies into some form of lockdown to cope with a resurgence in Covid-19 cases and deaths. Policy-makers are once again buying time in a short-term bid to stop Covid-19 numbers spiralling out of control and heir health systems being overwhelmed.

However, governments are also buying time with a slightly longer-term perspective, namely to put a lid on the pandemic until one or more viable vaccines come on line. Governments have seemingly taken the view that most if (if not all) related health questions will be answered and logistical challenges overcome…but that this will require more time. There is little doubt, in our view, that the financial, economic and social cost of current lockdowns will be very high in absolute terms. Time costs money.

Moreover, allowing households to socialise over Christmas – a laudable goal – amounts to "selling" a bit time. This could force governments, including in Europe, into "buying" disproportionately far more time in the new year (i.e. enforcing a third round of lockdowns),

assuming that mass immunisation has not materialised by then, at great cost to the economy and society.

The Brexit clock is ticking loudly. The critical question remains whether the United Kingdom and European Union can reach agreement on a free-trade deal in the next week or so. The past 4.5 years suggest that negotiations will go to the wire but on balance of probability we think that a trade deal will be reached. Prime Minister Johnson has simply too much to lose.

Sterling's sustained appreciation since mid-September suggests to us that markets are already pricing in a reasonably high probability of such a scenario. However, the devil will be in the details of a 600+ page trade agreement – details which corporates and financial markets may take some time to digest.

UK Chancellor of the Exchequer Rishi Sunak, who postponed this year's Autumn Budget till 2021, will announce on 25th November the government's Spending Review. In effect he is buying time, kicking the fiscal can down the road. But while talented Sunak is no fiscal Lionel Messi. Driven by the negative optics of a Conservative government running a double-digit deficit-to-GDP ratio, Sunak has made clear that UK taxes will rise next year, in line with our September forecast.

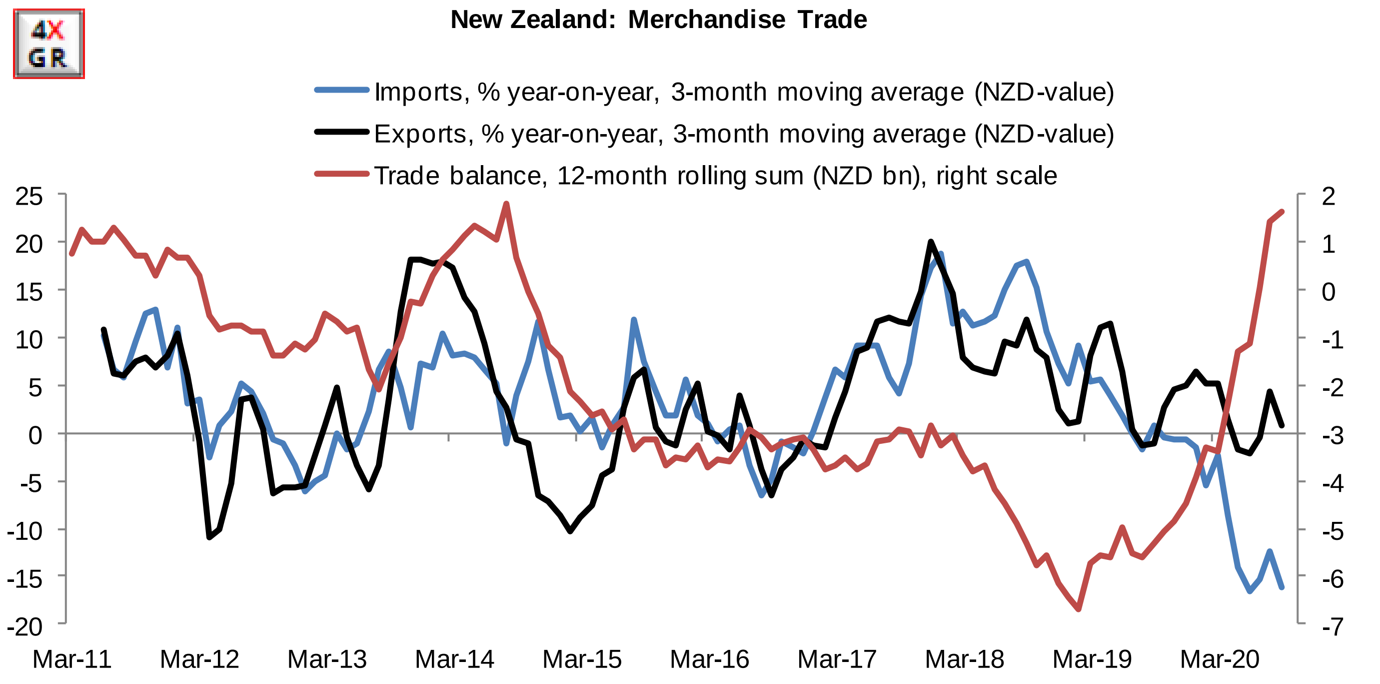
US President Trump is fast running out of options in his long-shot attempt to turn the tide of time and over-turn the election outcome and victory of President-elect Joe Biden. Yet Trump, whose raison d'être is "winning", may have a second objective. Helping Republicans retain the Senate and hobbling Biden's presidency could provide him with a stronger platform should he decide to bide his time and again run for President in 2024.

Lockdowns – The evolving cost of buying time and saving lives

The debate about the short and long-term financial, social and health costs and benefits of national lockdowns and associated social distancing measures (including restricting or even in some cases banning domestic and/or international travel) is one which will rage on for many years. It may arguably never be resolved satisfactorily.

At one end of the spectrum countries such as New Zealand have effectively closed their borders to the outside world (with the exception of a one-way "travel corridor" to Australia). This has arguably contributed to New Zealand's impressive record in terms of the number of Covid-19 cases and deaths but has also hobbled its economy, including a vital tourism sector which directly or indirectly contributes about 10% to domestic GDP. Growth in merchandise trade has also collapsed, even if exports growth has continued to materially out-pace that of imports (see Figure 1) with the sustained improvement in the trade balance in turn supporting the New Zealand Dollar (see Figure 2)[1].

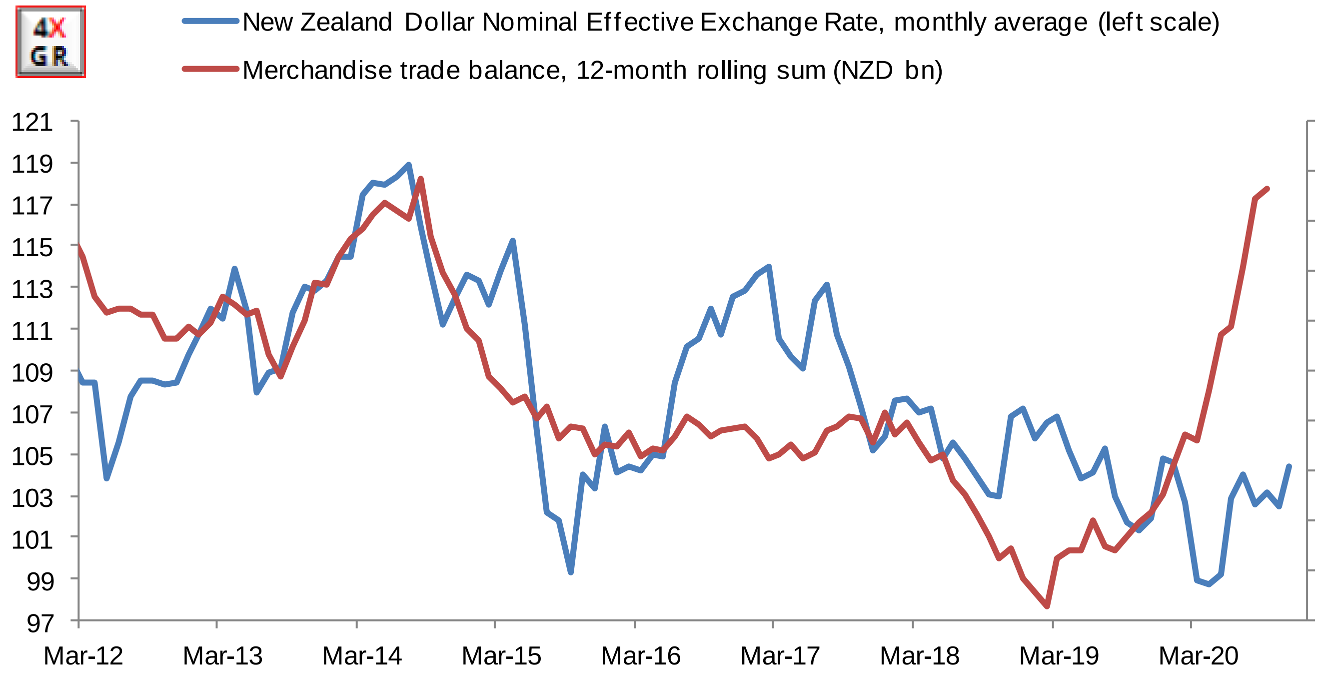
Figure 1: New Zealand's external trade has slowed sharply but trade balance has continued to improve…



Source: 4X Global Research, Stats NZ

[1] Stats NZ is due to release New Zealand October merchandise trade data on 25th November

Figure 2: …which has provided the New Zealand Dollar with a degree of support



Source: 4X Global Research, BIS, investing.com, Stats NZ

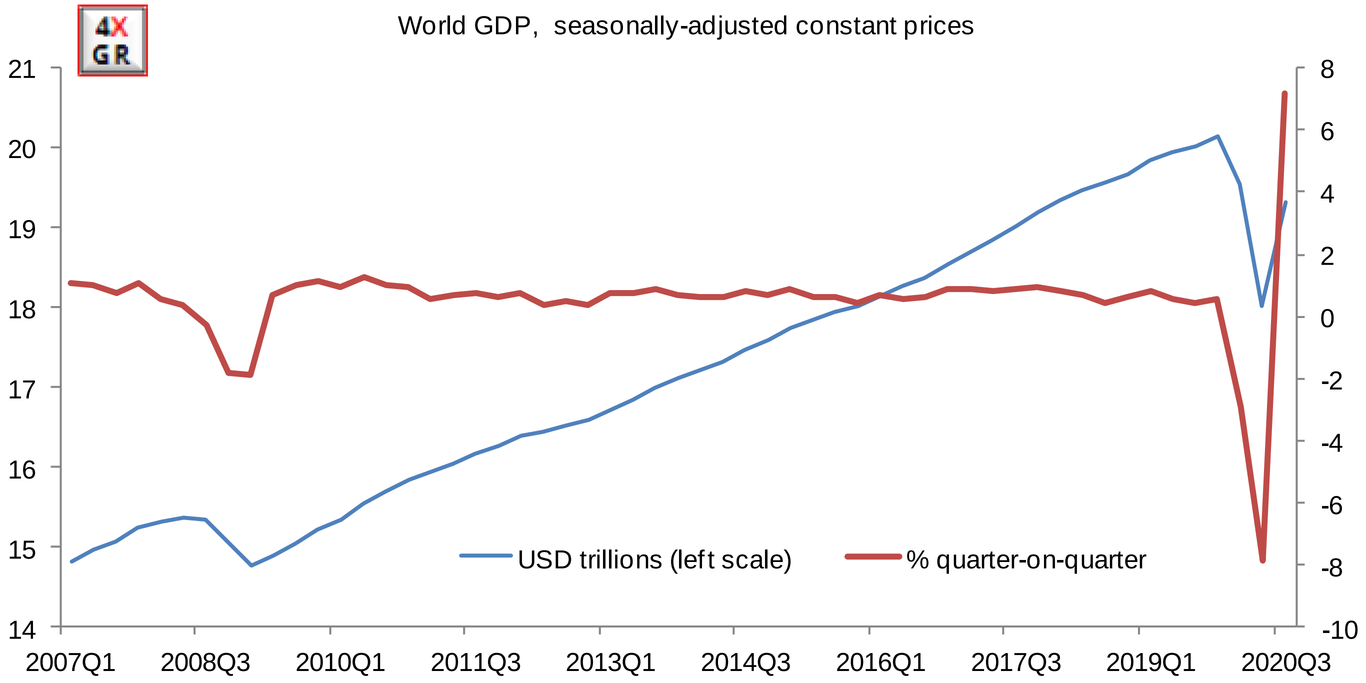
While some countries, including Sweden and the United States have opted not to put their economies into full lockdown over the past nine months or so, the vast majority have adopted unprecedented measures to deal with a once in a century pandemic which has so far cost almost 1.4 million lives. The strategy has invariably been a simple but complex one – to save lives – but the tactics underlying national lockdowns have evolved.

The first lockdowns – a steep learning curve and the acute cost of buying time

Back in February-March very little was known about Covid-19 and national infrastructures were simply not ready to cope with the sharp rise in cases and patients. So when Asia-Pacific and European governments implemented their first blanket national lockdowns their goal was arguably to buy sufficient time to better understand the modalities of this virus, "protect" their national health systems and acquire vital Personal Protective Equipment (PPE).

The economic cost was on an unprecedented scale. The collapse in GDP growth has dwarfed the "dip" registered during the Great Financial Crisis in 2008-2009 (see Figure 3) despite many governments, including the United Kingdom's, running fiscal deficits not recorded since World War Two (see Figure 4). Central banks, in both developed and emerging economies, have in aggregate loosened monetary policy even more aggressively than twelve years ago.

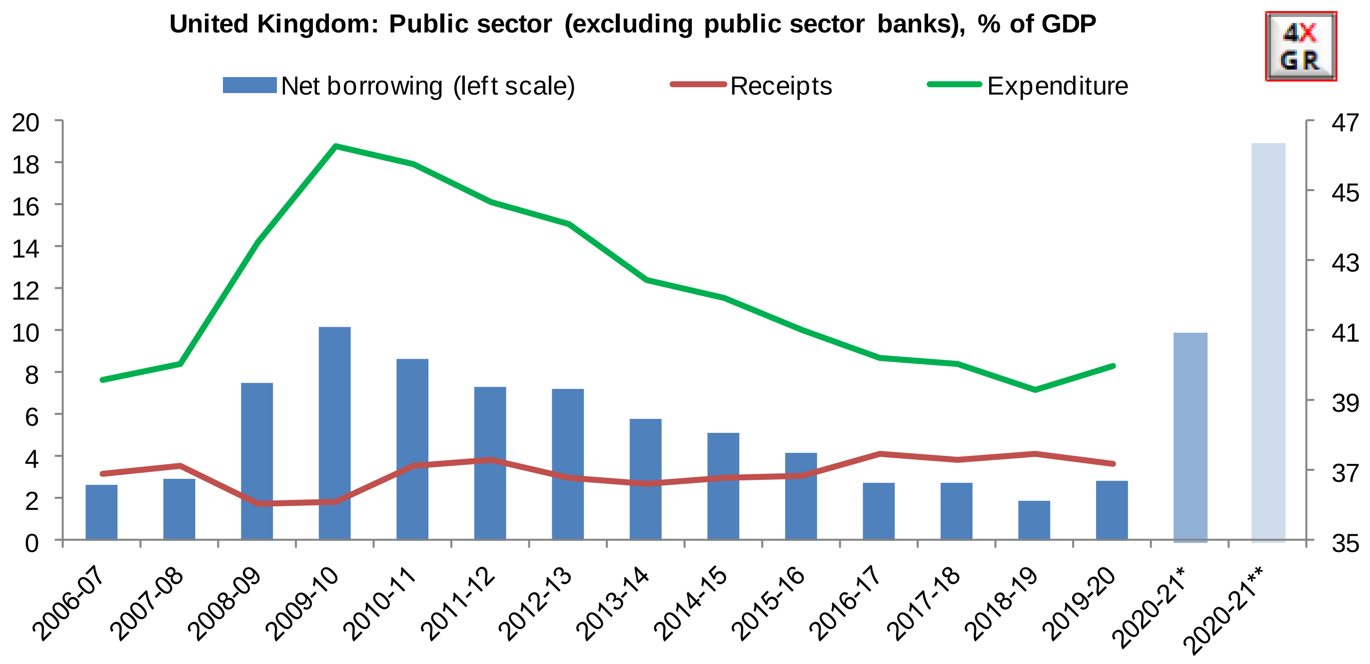
Figure 3: Global GDP growth collapsed in the wake of the first national lockdowns



Source: 4X Global Research, World Bank

Note: Latest data point (Q3 2020) is based on partial domestic data

Figure 4: UK GDP growth collapsed in H1 2020 despite a surge in fiscal spending and ballooning deficit



Source: 4X Global Research, Office of National Statistics, Office of Budget Responsibility (OBR)

*Note: * Fiscal year to date (April-October 2020); ** OBR forecast (August) for fiscal year 2020-21 (April 2020 – March 2021)*

Prime Minister Boris Johnson's government arguably had the "benefit" of the United Kingdom's pandemic lagging that of a number of major European economies (including France, Italy and Spain) by 3-4 weeks but did little during that time – borders were not shut and social distancing measures inadequate with Johnson distracted by a number of non-Covid 19 related issues. A case of precious time wasted.

The second lockdowns – buying time until hope of vaccines becomes reality

Fast forward to today and exponentially more is known about the transmission and virulence of Covid-19 (and how to mitigate it), PPE is in most cases readily available and health systems' capacity has been upgraded (for example the UK has erected seven temporary "Nightingale" hospitals even if they have admitted very few patients). And yet most governments have in the past couple of months once again put their economies into some form of lockdown to cope with a resurgence in the number of Covid-19 cases, hospitalisation rates and deaths.

Policy-makers are once again buying time but with an important twist. In the very short-term they are trying to stop Covid-19 numbers spiralling out of control and heir health systems being overwhelmed (infrastructural and medical equipment capacity has been built up but even in advanced economies, including the United Kingdom, the availability of healthcare professionals often remains a constraint).

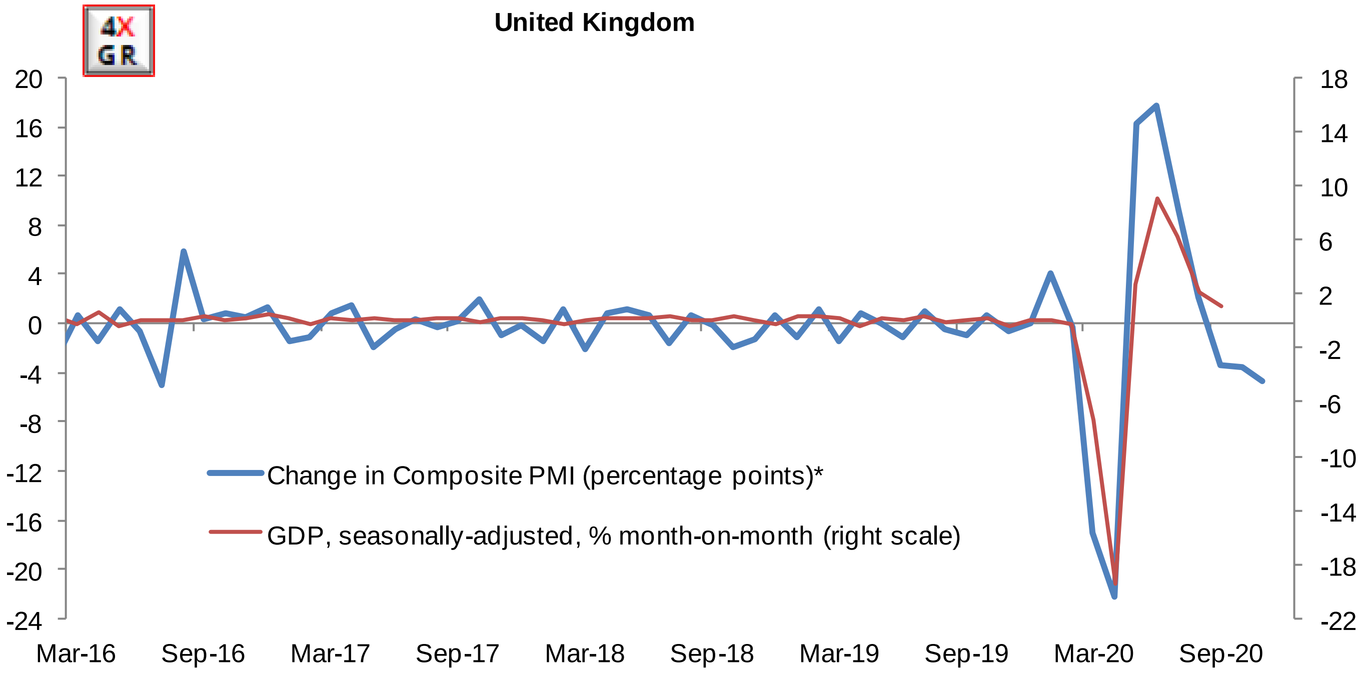
However, governments are also buying time with a slightly longer-term perspective – to put a lid on the pandemic until one or more viable vaccines come on line. Pfizer/BioNTech, Moderna and Astra Zeneca/Oxford University have announced in the past fortnight that advanced trials show their vaccines to be about 90-95% effective. Reports suggest that national health regulators, including the Food & Drug Agency (FDA) in the United States and the Medicines and Healthcare products Regulatory Agency (MHRA) in the United Kingdom, could green-light one or more of these vaccines in coming weeks. This has given hope that mass inoculation – at least of the elderly, most vulnerable and front-line health workers – could start as early as December. Professor Chris Witty, the UK's Chief Medical Officer, forecast on 23rd November that the county could conceivably pull back from social distancing rules next Spring.

There is still a number of critical health questions to be answered and logistical challenges to overcome including i) these vaccines' efficacy in eradicating transmission of Covid-19, ii) the length of immunity conveyed and iii) potential (cumulative) long-term side effects, iv) the ability of pharmaceutical companies to mass-produce these vaccines in a short-space of time, v) the ability of governments to distribute these vaccines (some which have difficult handling properties) to health-care providers (including hospitals, doctors' surgeries, pharmacies, health centres or care homes) and vi) the ability and willingness of populations to get themselves inoculated.

On the whole governments have seemingly taken the view that most (if not all) of these critical questions will be answered in due course and that complex logistical challenges can be surmounted…but that this will require more time. Their analysis suggests that the cost of these recent and arguably more "surgical" lockdowns will be lesser than the blanket lockdowns introduced in February-March and that the price to pay is ultimately an acceptable one given the likely health benefits.

Yet there is little doubt in our view that the financial, economic and social cost of current lockdowns will be very high in absolute terms. Benjamin Franklin famously said that "*Time is money*" but one could argue that time *costs* money. In the United Kingdom, the further fall in the Composite PMI in October-November points to GDP having once again contracted after modest growth of just 1.1% month-on-month in September (see Figure 5).

Figure 5: UK GDP growth has collapsed since the summer and likely turned negative in October-November



Source: 4X Global Research, Office of National Statistics, IHS Markit

*Note: * Composite PMI is weighted average of manufacturing and services output. Last figure (November 2020) is preliminary.*

Selling **time for Christmas may result in having to subsequently** ***buy*** **far more time**

British Prime Minister Boris Johnson, who is currently self-isolating, confirmed on 23rd November that England's four-week lockdown would end on 2nd December and that the country would revert back to the three-tier social distancing system which was in place throughout October. He will detail on 26th November under which tier cities and counties fall (London had been under Tier 2) but warned that the new tiering will likely be stricter. In a nutshell England will move from lockdown to "lockdown light", with the critical service sector allowed to partially re-open and households allowed to mix in certain circumstances. Scotland is already under its own 4-tier system.

Importantly British officials have suggested that social distancing measures could be significantly relaxed over the Christmas period and leaders of the four devolved nations – England, Scotland, Wales and Northern Ireland – confirmed on 24th November that up to three households would be allowed to mix indoors between 23rd and 27th December. This will arguably be a popular decision and a "vote winner" for an under-pressure government fearful that households would simply ignore tight restrictions over the festive period. The risk is that looser social distancing measures even for five days could trigger a new spike in Covid-19 cases and officials have already hinted that in such an event a full-blown national lockdown could be re-introduced in January. In effect, "selling" a bit time over Christmas could force governments into "buying" disproportionately far more time in the new year – assuming that mass immunisation has not yet materialised – at great cost to the economy and society.

Brexit clock ticking loudly for British and European negotiators

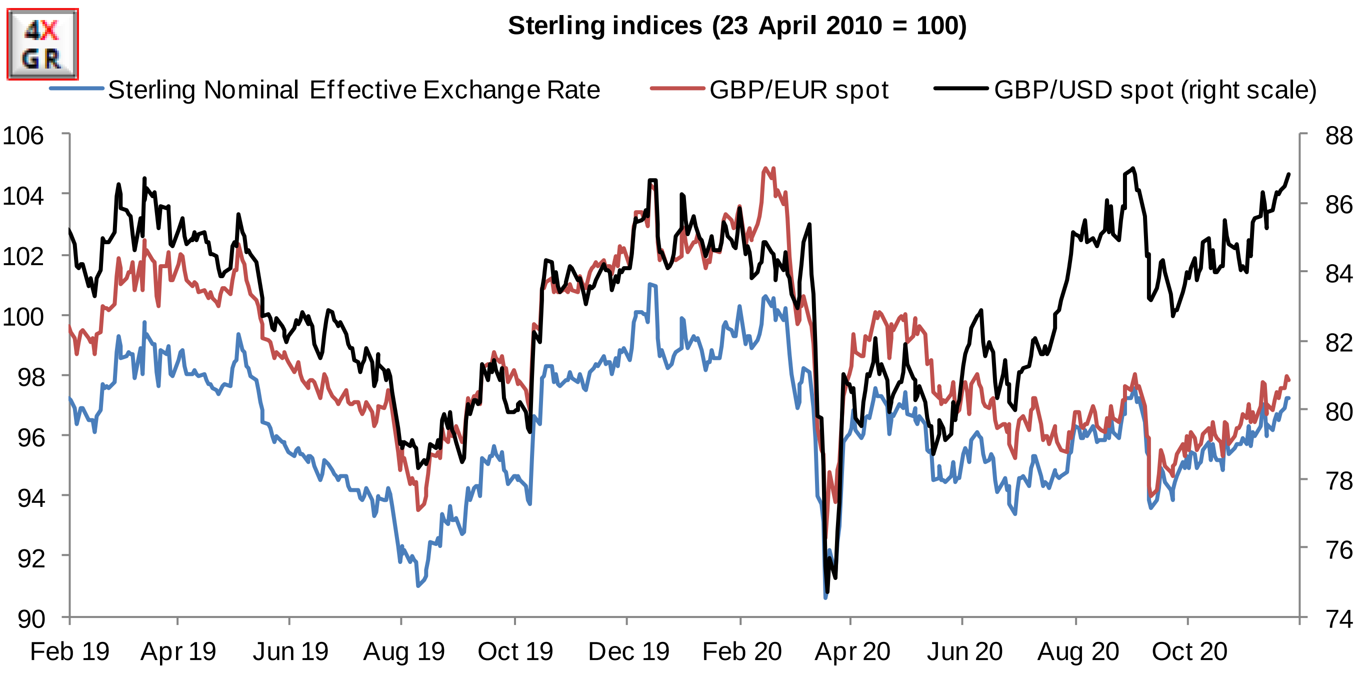
The United Kingdom officially left the European Union on 31st January 2020, with both sides finally agreeing on the terms and conditions of the UK's divorce after 43 months of (often bitter) negotiations and countless UK parliamentary votes (not to mention a change of Prime Minister with Boris Jonson taking over from Theresa May in July 2019). The UK has since remained in both the Single Market and Customs Union but this transitional arrangement is due to end on 31st December 2020.

Should the UK and EU fail to reach an agreement on a new free-trade deal the UK would revert to punitive World Trade Organisation (WTO) terms of trading with the EU ("hard" Brexit) which would include higher tariffs on both British imports and exports. Current and former Bank of England governors have argued that such an arrangement would cause material economic damage to the open UK economy – in line with our conclusion that "*complex cost-benefit analysis points to UK having more to lose from hard Brexit*" (see Appendix in Final Twist in Brexit Plot, 14th September 2018).

The central question therefore remains whether the UK and EU can reach an agreement with time fast running out. In theory they have another 36 days to do so, assuming that Boris Johnson is true to his word in not seeking an extension to the transition arrangement. However, both sides probably only have one or two weeks at most as the British House of Commons (lower house of parliament) and House of Lords (upper house), as well as the European Parliament and European Council would need to vote a draft treaty into law – a process which could take up to a month. As William Penn (1644-1718) assiduously noted "*Time is what we want most, but what we use worst*."

UK and EU negotiators, led by respectively David Frost and Michel Barnier – who cannot currently meet in person after a member of the EU team recently tested positive for Covid-19 – have agreed on about 90% of a draft text for a new trade deal. Moreover, both sides are reportedly prepared to negotiate till early December and accelerate the deal's parliamentary approval to meet the 31st December deadline. However, agreement on many clauses is still subject to a broader agreement and negotiators on both sides are still at loggerheads on a number of key issues, including fishing rights (which French President Macron wants to be able to re-negotiate in 2030) and state subsidies ("level playing fields").

Figure 6: Sterling's two-month rally suggests markets at least partially pricing in new UK-EU trade deal



Source: 4X Global Research, Bank of England, investing.com

The past four and a half years suggest that negotiations will go to the wire, with both sides likely to be hammering out the details of a treaty (which will reportedly exceed 600 pages) till the very last hour. On balance of probability we think that a free-trade deal will be reached. Prime Minister Johnson has simply too much to lose. For starters he has invested a huge amount of political capital in promising to secure a trade deal for the UK. Second, domestic political turmoil – including the recent sacking of his chief advisor, Dominic Cummings, and a less-than-flattering enquiry into Home Secretary Priti Patel – and acute criticism of his handling of the Covid-19 pandemic have left him under pressure to secure a policy "victory".

Sterling's sustained appreciation since mid-September suggests to us that markets are already pricing in a reasonably high probability of such a scenario (see Figure 6). If this assumption is correct, Sterling's near-term reaction to a free-trade deal being reached may only be modestly positive, in our view. Sterling's subsequent evolution will be prey to a number of factors, including the nature and scope of the free-trade deal.

The devil will be in the details – details which corporates on both sides of the Channel and financial markets may take some time to digest. The ability of British companies and the UK's trade-infrastructure to cope with what could be a complex transition will also be under close scrutiny. Moreover, while the British government has in recent weeks signed free-trade deals with a number of trading partners (including Canada and Japan) under the same terms as the EU's current deal with these countries, the UK has yet to conclude trade deals with a number of other countries. While they account for only a modest share of total

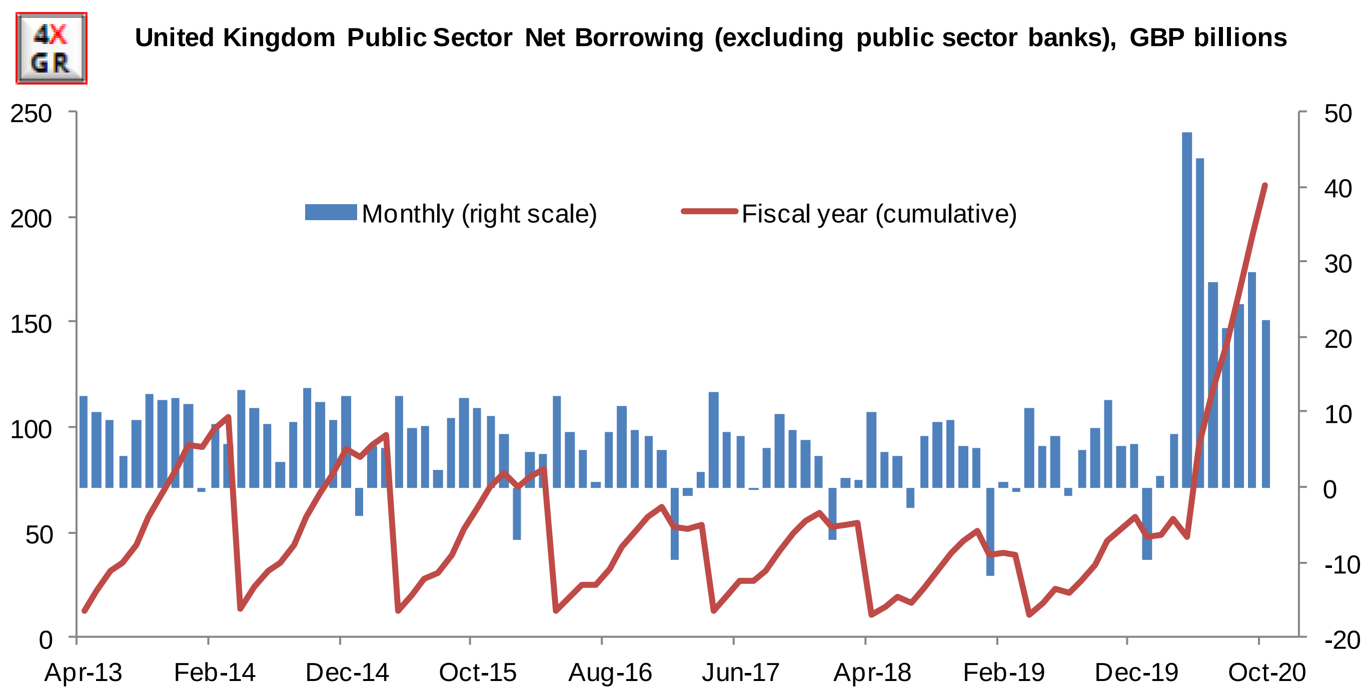
UK trade, reverting to WTO terms and conditions on 1st January could stymie (and make more expensive) trade between these countries and the UK.

UK Chancellor's Spending Review – Kicking the can (and time) down the road

Chancellor of the Exchequer Rishi Sunak did not deliver a budget this autumn, as is customary, due to the pandemic's impact on the country's finances. He is instead due to announce to the House of Commons on 25th November the government's Spending Review. As its name suggests the review will focus on the spending side of the government's fiscal equation, rather than revenues and thus taxes, and Sunak is expected to announce increases in spending for a number of front-line ministries and new programs to support the under-pressure labour market.

He is also reportedly considered pay-freezes for public sector workers in an initial bid to start balancing the fiscal books but in effect Sunak is buying time. Specifically he is seemingly counting on the possibility that by next Spring (when he is likely to deliver his next Annual budget) mass immunisation will have started, social distancing or lockdown measures will have been unwound (or at least eased), economic growth will have picked up and the government's finances started to improve. In this scenario, he could shelve (or at least further postpone) and/or dilute some of the more difficult and potentially politically-damaging fiscal decisions. A case of kicking the can down the road in the hope that the can will become less difficult to kick.

Figure 7: United Kingdom's fiscal deficit has ballooned and tax hikes will be unavoidable in 2021



Source: 4X Global Research, Office of National Statistics, Office of Budget Responsibility (OBR)

But as talented as Sunak is (a potential future Prime Minister in our view) he is no fiscal Lionel Messi or Cristiano Ronaldo (i.e. he can't conjure fiscal magic out of nothing). Indeed, he has in recent weeks intensified his warnings that UK taxes would very likely rise next year, with capital gains and pension taxes up for review. This is in line with our 4th September forecast that "*the [UK] economy faces a potential quadruple whammy in coming months of fiscal stimulus measures being unwound, a no-deal Brexit, higher taxes and a re-tightening of national lockdown measures*" (see *UK & Sterling facing potential quadruple whammy*). Sunak is in part being driven by the negative optics of a Conservative government running a double-digit deficit-to-GDP ratio and triple-digit debt-to-GDP ratio rather than concerns about whether the Bank of England can or will continue to finance such deficits via its Quantitative Easing program.

According to Office of National Statistics data, UK Public Sector Net Borrowing excluding public sector banks (PSNB ex) – effectively the general government fiscal deficit – was £214.9bn (9.9% of GDP) in the fiscal year to October, or about 4.7 times as high as in April-October 2019 (see Figures 4 and 7). Public sector net debt excluding public sector banks was around 100.8% of GDP at end-October. The Office of Budget Responsibility, which forecast on 21st August that PSNB ex could reach £372.2bn in the fiscal year ending in March 2021, will publish updated forecasts on 25th November.

President Trump unable to turn the tide of time and overturn Biden's victory

The already very low odds of Donald Trump over-turning President-elect Biden's victory have continued to fall as US states proceed with their certification of the presidential election results.

- The State of Georgia (16 electoral college votes) completed its recount of five million presidential election ballots, which was certified on 21st November and confirmed that Biden had won by a slightly narrower margin of 12,284 votes.
- The State of Michigan on 23rd November certified the election result, formally granting President-elect Joe Biden the state's 16 electoral votes.
- The Supreme Court of Nevada (6 electoral college votes) certified its vote count in favour of Biden on 24th November.
- The State of Arizona (11) is due to certify its vote count 30th November while the deadline for Wisconsin (10) – which is undertaking a vote recount in the counties of Milwaukee and Dane – is 1st December.

On the present count Joe Biden is still on track to secure 306 electoral college votes – well clear of the 270 majority required – and Trump 232 when the formal vote takes place on 14th December (see Figure 8). Mathematically Trump could still retain the presidency if he over-turns a number of state-wide results and/or a very large number of electoral college voters "go rogue".

However, his odds are at best extremely slim and time is running out for his legal team to challenge county or state-wide results (all legal disputes must be settled by 8th December). There has in the past been a very limited number of cases whereby electoral college voters, which are appointed by their states, have ignored the certified vote count and effectively cast their vote to another candidate. This happened in the 2016 presidential election when seven electors voted for a candidate which had not won his/her state. However, no presidential election result has ever been over-turned on this basis. Most states forbid this practice and since 2016 electoral laws have been tightened in many states.

Figure 8: The path to the US presidency is long and tortuous

	Timeline of the US presidential elections
03-Nov-20	**US presidential and congressional elections**
07-Nov-20	Most major media networks declare Joe Biden President winner of presidential elections; State of Georgia to order vote recount as result within 0.5% of total votes cast for the office.
5 Nov - 11 Dec 20	Individual US states to certify vote counts
08-Dec-20	Deadline for all legal disputes about US election vote counts to be settled
14-Dec-20	**Formal electoral college vote**
05-Jan-21	Run-off for the two Senate seats in Georgia
06-Jan-21	Congress to meet in joint session presided by Vice President Pence to count states' electoral votes
20-Jan-21	**Inauguration day for the new president**

Source: 4X Global Research

As per the aptly titled Rolling Stones song from their 1974 album It's Only Rock 'n Roll, "*Time Waits for No One*", and Trump has seemingly acknowledged that his time at 1600 Pennsylvania Avenue is almost up. After weeks of stalling he approved on 23rd November the start of initial protocols involving the handover of power to Biden while Emily Murphy, the administrator of the General Services Administration, formally kicked off the formal transition of power with the release of funds to Biden's team. Biden will be reportedly be given access to the White House's daily briefings and key staff.

The not-so-small issue of the two Senate seat run-offs

The seemingly widespread assumption is that Trump's legal and at times border-line illegal long-shot attempts to over-turn the presidential election result are solely aimed at keeping him in the White House. We would argue, however, that Trump may have a second, equally blunt objective – namely to hobble Joe Biden's presidency by:

i) Stalling the transition process;
ii) Purging staff which may be loyal to Biden:
iii) Using executive orders to carry out policies which Biden may find difficult to reverse; and
iv) Sewing doubt in voters' minds to help the Republican Party retain the Senate (the upper house).

A split Congress would certainly make it more difficult for Biden and the Democrats to put forward a large second fiscal stimulus. Republicans currently have 50 seats in the Senate, Democrats 48 with the run-off for the two vacant seats in the state of Georgia set for 5th January. The Democrats need to win both seats to regain the Senate (in a 50/50 split Democratic Vice-President elect Kamala Harris would have the casting vote).

Trump has shown during his long career and four-year presidency that "winning" – however hollow the victory or ungainly or puerile the battle – is high on his agenda. So while he may or may never (publicly or explicitly) acknowledge that he lost the presidential election (and the popular vote), he could still claim that the Republicans retaining the Senate was a victory of his making. This would in turn arguably provide him with a stronger platform should he decide to bide his time and run for President again in 2024.

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