

## GFC 2.0

With Ted spreads blowing out and the US government mulling the resurrection of GFC-era policies, it is beginning to feel a bit like the GFC again - nostalgic times



### Break out the powdered egg

I did something yesterday that I have not done for more than a decade. I looked at Ted spreads on Bloomberg. If you've forgotten, and I had to remind myself, these are the spreads between interbank rates and US Treasury bill yields. They were one of the indicators of financial stress that filled our days back in 2008/2009 during the global financial crisis. In normal times, there will be a small spread between these and interbank rates, reflecting counterparty risk. The Treasury bill is essentially risk-free government paper.

Such is the demand for cash and near-cash like Treasury bills, that 3m T-bills now have negative yields, and the Ted spread has widened out about 70bp to just over 110bp. I seem to remember it being much wider at times during GFC1.0. But we are on the way.

There is also talk of the US Fed resurrecting the Term Auction Facility, or TAF, which was also a GFC-era policy to provide liquidity. This was just one of a lexicon of policies, all designed to stem leakage in a particular aspect of the US and to some degree, global financial plumbing. Add to this

list, there have also been some proposals to guarantee money market mutual funds. This is all about the danger of "breaking the buck". And if money market funds see fewer withdrawals, then this will reduce pressure on them to restore liquidity by selling bonds, so seems a sensible direction of travel. All this stuff is interconnected, but it is a bit like a leaky garden hose - stem one leak, and the water spurts ever harder from other leaks.

Overnight, the bond sell-off we saw on Wednesday / Thursday seems to have started to abate. Moreover, the differentiation across bond markets in Europe that we observed a few days ago is much less evident. Possibly this is a reflection of the new EUR 750bn bond-buying programme unveiled by Christine Lagarde. This had helped to undo some of the damage from her unfortunate comment about the ECB and bond-spreads when she first took over.

## This time, banks not to blame

A further observation as the GFC-era copybook is dusted off by the Fed and other central banks around the world, is that the terms of lending and attitudes to the collateral offered in exchange for cash are far more generous. I suppose this is because this time, there is no sense in which "banks are to blame". During GFC1.0, even as help was extended to the financial sector to prevent a wholesale meltdown, there was also a sense that banks and finance companies needed "punishing", so there was no free-lunch, no bailout without consequences.

This doesn't seem to be happening now. The assistance being offered seems to be with both hands, and with no hidden agenda. That, I think, is encouraging, when there are so few things to be upbeat about.

## Is now the time for really radical thinking?

I did a CNBC interview earlier in the week, and the anchor, Sri Jegarajah, who is always a very thoughtful host, asked whether this was the time to start helicopter money drops? I admit I had not joined the dots to reach that conclusion at that time, but yes, now I think of it, it may well be.

Here's why: This coronavirus could lead to substantial layoffs, unemployment and income losses for households. They aren't likely to be in the market for a new car or flat-screen TV. But they still need to buy food, pay rent, utilities, medical bills. With estimates of up to 80% of populations getting the coronavirus on top of that, this lays the setting for utter global collapse if somehow, things aren't kept ticking along. US Treasury Secretary Mnuchin is urging Congress to pass a \$1tr stimulus package by Monday. That's extremely helpful. But it may still be way too little.

Struggling firms now, but which have an underlying profitable model should not be lost in this crisis. If you lose them now, you lose them forever. A V-shaped recovery was never on the cards, but you do at least want some sort of recovery when this is all over. That requires government help in paying debts and keeping healthy workforces engaged, even if on a reduced wage. And without having yet done the sums, I suspect that the costs to governments are far more than are likely to be able to be achieved through normal means, even on the scale of that now being proposed by Mr Mnuchin.

And that is where some direct money-financed spending might be the only viable option. I will return to this in the coming days after I have dug a bit deeper into the scale that might be needed. But in the meantime, [can I commend the FT article](#) It helps to put all of this into some sort of perspective.

## Asia today

There really isn't much going on in Asia today, or for that matter the G-7, apart from some PMIs in Europe which are guaranteed to plummet, the only interest will be to see how much they fall.

We do have some monetary policy action in China with the PBoC announcing its 1Y and 5Y Loan Prime rates. Iris Pang Writes: "The market largely expects a symbolic cut of 5bp, though the necessity of any cut is questionable, as liquidity in China is currently ample. It is also because the PBoC did not cut the 1Y Medium lending facility (MLF) a few days ago, and the MLF is part of the LPR formula. This improved liquidity position relative to some other markets reflects the semi-closed nature of the Chinese capital account, which limits outflows".

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