Prepare for British pound collapse as consequence of pandemic

Brendan Brown

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All currencies are now in a "race to the bottom". In typically short-sighted currency markets, there are no prizes for skill in identifying the ultimate winner. Even so, there should be gains for those who spot the interim winner – say, over the next year or so - as central banks continue to administer huge doses of "non-conventional monetary policy". The British pound looks most likely to fit that role.

The UK is especially exposed to continuing damage from the pandemic even long after the medical emergency is over. Deep trouble comes from COVID 19 having forced the pace and direction of technological change in ways which destroy the foundations of prosperity for the British capital city. This is now likely now to remain mired in Great Depression for many years ahead. On the eve of the pandemic, the London metropolitan area (LMA) accounted for one third of UK economic activity, hugely concentrated in the service sector, and generated a huge fiscal surplus.

During recent decades of accelerated globalization, growth in the LMA had been rapid, reflecting the dynamism of this city as global business hub. London became a mecca of real estate speculation. Now all this is set to go into reverse. The networking advantages of concentrated economic geography, especially in the financial sector - think of the once famous "square mile" - are fading. Much of the work previously done in fantastically priced office towers will permanently spread out to homes and suburban offices. It is dubious whether the concept of "financial and service centre" can survive intact in a brave new world of stay at home technology and shrunken global travel.

International equity sales teams are celebrating the forced pace of technological progress into the forest of the unknown, driven by exigences of the pandemic and highly speculative narratives. The result, however, is huge economic waste, as will be growingly evident in London. A slower pace, as likely to have occurred under the guidance of market signals uncorrupted by the mania of asset inflation, would have given much scope for London to gradually adapt.

Adding to the woes of the LMA is the double whammy of the Johnson Government's "capitulation trade deal". Under this, the EU retains barrier free access to the UK market for merchandise exports, where it (most of all Germany) records a huge trade surplus. By contrast, the UK faces an immediate end to barrier free access to the EU market for services. This is where the British economy, most of all the LMA, has huge comparative advantage.

The gloom is set to spread to the wider UK economy through two channels. First, there are huge potential losses for UK banks related to their domestic loan portfolios much of which is collateralized against London real estate. Second, we should consider the knock-on effects to consumer and business demand beyond the LMA. Yes, the Johnson government has set itself on a renaissance of the Northern England economy, but how can the North prosper when the London powerhouse is choking?

The UK government's chosen strategy to contend with London's depression and its consequences will be manipulating the pound down by repeated and enlarged programs of quantitative easing as enacted by its tame central bank. The Johnson government will count on the fact that the watchdogs of currency manipulation, most of all in Washington, have bigger fish to fry, and that the EU will not choose a fight over an issue which could boomerang given their own negative interest rate practices Sound money forces in the UK political system, never strong in recent decades, are now virtually dead. When the currency markets get the message – and the fixation of pound traders on the question will there or won't there be an EU-UK trade deal, never mind how bad, passes – the pound is set to plunge.