



GOVERNMENT OUTLINES CORONAVIRUS WINTER PLAN

This week we got to see the government’s latest plan for dealing with the coronavirus. Boris Johnson informed us of tighter restrictions on socialising and Rishi Sunak announced a new Job Support Scheme to replace the furlough measures that were due to expire in October. In both cases we expect them to have to do more before the winter is over. While the chancellor has probably made the right pivot from ‘postponing the inevitable’ to ‘saving what’s salvageable’, there are gaps in his plans that will make things difficult.

Currently the UK has been artificially shielded from real unemployment pain with 12% of the workforce on furlough. However, moving from generous furlough scheme payments to the far smaller universal credit will inevitably hit demand, making even part time workers unaffordable for many businesses - especially as they are on the hook for 50% of wage subsidy. A reduction in business contributions and enhanced unemployment benefits may yet be announced, probably alongside tighter lockdown restrictions.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-3.67%	-3.29%	-1.15%	-5.39%	-4.99%	-0.04%	+0.01%	-2.64%	-4.92%	-4.61%	-1.57%

US: DOLLAR RISING AS CORONAVIRUS INFECTIONS INCREASE



The US dollar has gained ground in the last couple of weeks as nervousness returned to financial markets. The dollar had been losing value since March as equities, particularly US markets, took heart from government and central bank stimulus and the US Fed cut interest rates to near zero.

Since the start of September, the dollar has reversed this trend as a sharp increase in coronavirus infections spurred a round of profit taking in US technology stocks. The introduction of new social restrictions in many parts of Europe this week kicked off another round of selling as investors become more defensive. The lack of action from the US Congress on a replacement for the coronavirus financial support package has also hurt financial markets. This week several senior figures from the US Fed called for further government stimulus to prevent the recovery from stalling. So far this week sterling is down almost 5 per cent against the dollar, in one of the worst weeks for the currency since shortly after the Brexit referendum.



UK: CHANCELLOR EXTENDS JOB SUPPORT AFTER FURLOUGH SCHEME ENDS

The government has announced a new job protection initiative to replace the furlough scheme which ends on 31st October. The government will replace the current scheme with a new job support scheme that requires employees to work reduced hours for 77 per cent of salary. The government will make a contribution to employers’ wage bills. Concerns had been growing about a potential huge rise in unemployment if government support was withdrawn before businesses had seen their revenues recover.

The increase in unemployment has so far been modest given the huge drop in GDP but large numbers of employees have still not returned to work. The current furlough scheme supported almost 9 million jobs at its peak and six months on from lockdown there are still nearly 5 million workers still on furlough. Anyone losing a job will find fewer opportunities for new employment. Hiring fell dramatically immediately after lockdown. It has since recovered but is around 50 per cent below the level of 12 months ago.

UK Unemployment Rate (%), LHS
New Job Vacancies (Thousands), RHS



EQUITIES: KINGFISHER SOARS ON LOCKDOWN DIY BOOM



Coronavirus lockdown has seen a lot of stock market losers and precious few outright winners in the UK. However, the growth in DIY as an activity for a population stuck at home has turned B&Q owner Kingfisher into one of the real successes so far in 2020.

Lockdown and the growth of working from home, combined with increased disposable income as people stopped travelling or eating out, have caused a big increase in spending on DIY in the first half of the year. Kingfisher’s half-year results report sales up almost 20 per cent in the three months to end July, with pre-tax profits up 23 per cent to £415m. This far exceeded analysts’ expectations causing shares to jump 6 per cent on Tuesday and shares are up almost 50 per cent in the last 12 months. Kingfisher is joined by hobby craft retailer Games Workshop and online betting firm Flutter as leisure activities available at home continue to grow.

Flutter, Kingfisher and wider FTSE All Share Index
Normalised Prices (GBP)



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