# The message from the markets

Yesterday saw a further big sell off in world stock markets. The decision of Saudi Arabia to pump more oil and slash oil prices, after a failure to agree production cutbacks with Russia, was the new development demanding a fall. Most share markets fell around 8%. Oil companies accounted for much of the decline. The big lock down in Italy, still chasing the Covid19 virus, led to additional weakness in Italy as people contemplated the economic damage clamp downs on travel and events will do. The Italian share market fell 11% on the day.

Brent crude oil was down 21% on the day and down 40% from the February peak. Whilst this means less inflation and more spending power for other items it also means lean times for the oil, oil service and oil financing sectors if the oil price stays down and the price war continues.

More extraordinary was the new low in interest rates on government borrowing. In the UK the ten year borrowing rate slumped to 0.08% at one point, and the 50 year ended the day at just 0.39%. Germany can borrow for ten years at minus 0.85%.

The UK authorities need to respond with a good package of measures to see business and individuals through the difficult times created by the virus. Companies need tax holidays to ease cashflow pressures, and access to credit to enable them to pay wages and other bills whilst turnover is impaired.

Cutting interest rates is not a lot of use from here, as the 50 basis point Fed cut showed. The Bank of England needs to cancel its increase in capital buffers for a bit, make more money available through a Funding for lending scheme, and work with commercial banks to get businesses with a decent business model for the future through temporary interruptions to revenues. It needs to change its restrictive guidance to commercial banks. I was critical of the way the Bank of England slowed the U.K. economy too much by these tightening policies. The further impact of the virus on output makes cancelling these measures essential.

Individuals need a tax cut to boost their spending power.