

Mortgage rates

I write to counter the Labour lies that Liz Truss's mini budget of September 2022 caused higher mortgage rates, owing to unfunded tax cuts.

I wish to make it clear Liz Truss did not take my advice on either the mini budget or the policy on the conduct of bond buying and selling. As set out on my website I recommended tax cuts matched by some spending reductions, with support for energy bills limited to lower income households, not for everyone. I strongly argued against starting a large programme of bond sales from the joint Treasury /Bank portfolio amassed under Quantitative easing.

So first the facts.

UK ten year bond yields rose to a peak of 4.4% on 9 th October 2022, more than two weeks after the budget. They fell back to 3.1% on 20 th November following temporary reversal of the Bank's aggressive bond sale programme. They hit a new higher high on 13 th August 2023 at 4.67%. They are currently at 4.2%.

They largely mirrored US (and EU) bond rate rises. The US ten year yield rose to 4.2% on 21 October 2022. The US bond rate rose to a higher high of 4.9% on 20 October 2023.

These changes were not reflected in Japan or China as their Central banks did not make the same errors as the Bank of England, Fed and ECB who needed to rein in excess money they had created by forcing up interest rates.

This pattern shows there was no big special effect from the Kwarteng budget. It also shows rates went higher a year after the Kwarteng budget had been reversed, as happened in similarly placed EU and US,

Tomorrow I will explain two special factors hitting the UK in the autumn of 2022 from Bank policy which did temporarily cause sell offs in the bond market.