

MCD's Hot Topics of the Week

25th September 2022



Central banks raise rates for 5th consecutive month

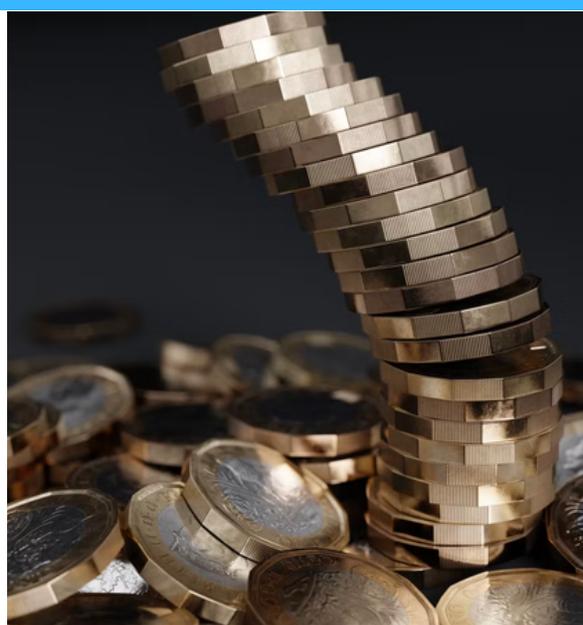
On Wednesday, the Fed announced it was raising the interest rate by a further 0.75 percentage points, pushing the target range to between 3% and 3.25%.

The decision followed last week's CPI report that showed high costs spreading more broadly through the economy, with price increases for rents and other services intensifying despite previous drivers of inflation, such as petrol, easing. Despite concern that a harsh economic downturn will be the price to pay for controlling inflation, Jerome Powell, Federal Reserve chairman, put it simply and starkly: "I wish there was a painless way to get inflation behind us. There isn't."

Pound hits new 37-year low against the dollar

On Friday, Sterling tumbled below \$1.10 for the first time since 1985, while the FTSE 100 fell 2.3%.

This downturn followed Kwarteng announcing what has been called a 'radical economic gamble' in which the government will scrap the 45p top income tax rate and replace it with a 40p rate. This cut is estimated to put Britain on an 'unstable' fiscal trajectory, coming at a time when the UK is expected to spend £150 billion on subsidising energy costs for consumers and businesses. The majority of this borrowing will need to be financed by selling gilts and the UK Debt Management Office has increased its planned bond sales by £62.4 billion for the 2022-23 fiscal year.



Gilt yields trigger mortgage worries

Kwasi Kwarteng's mini-Budget has stimulated a surge in government bond yields, compounding the effect of yesterday's Bank of England rate rise - meaning mortgage borrowers will face a significant increase in refinancing costs next week.

Responding to Kwasi Kwarteng's tax and spending plans on Friday, bond traders sent gilt yields up to 3.87%, generating concerns of a 'big impact' on the mortgage market. This is because gilt shifts usually guide swap rates, which are used by lenders to guide mortgage price decisions.

Analysts are concerned about lenders pulling deals or increasing rates, intensifying pressures already building on borrowers. On Wednesday, Santander raised fixed rates by up to 0.8% on its mortgages, a move similar to Natwest, which added 0.35% to its two- and five-year fixed-rate deals for purchases.

