

The Bank of England deliberately hiked mortgage rates

On 21 st September 2022 on the eve of Kwarteng/Truss budget the Bank announced a 0.5% hike in bank rate. This was designed to push up interest rates. Just to make sure it would mean higher mortgage rates on the same day they announced they would over the ensuing year sell £80 billion of bonds at a loss which they had bought at very elevated prices in the previous year. Selling bonds pushes their price down which automatically pushes up interest rates.

The bond market fell in the days before the mini budget because US bonds were falling and interest rates rising , and then because the Bank so clearly signalled it wanted rates higher. This was a bad background for the Kwarteng announcements.

On the following Monday it became clear in the market that a number of pension funds had bought too many government bonds through levered funds. As bond prices fell they had to put up more money for bonds they owned but had not fully paid for. They did not have cash to pay for their losses so they had to sell bonds to raise money, on top of the planned massive sales by the Bank. No wonder the bond market tanked.

The Bank of England responsible for the overall solvency of the system at last realised their dreadful error of selling so many bonds when pension funds were so weak. They suspended the sales and agreed to buy some. The market surged upwards, Pension funds had space to reduce their heavily overcommitted positions and the crisis past. Between 28 September and 14 October the Bank bought £19.3 bn of bonds to correct its errors.

These were the special UK factors of autumn 2022 that temporarily increased volatility. The UK trend was the same as the US and EU. The higher mortgage rates that resulted were caused by Bank of England policy. Today's higher rates have nothing to do with the long cancelled Truss budget.