Yields higher than the mini-Budget?

Synopsis: Media reports that gilt yields are now higher than in the wake of last year's ill-fated mini-Budget are misleading.

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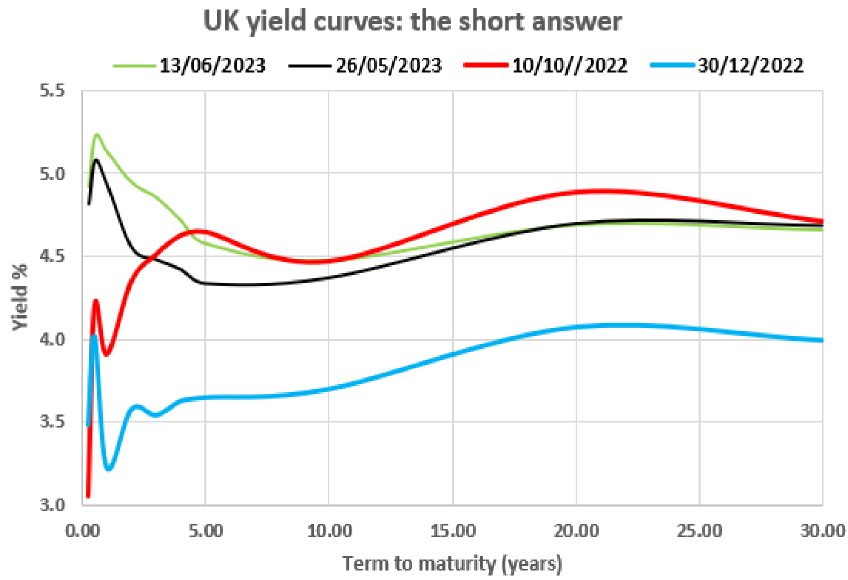

Tuesday's news contained stories purporting to explain that gilt yields were higher than at the time of last autumn's ill-fated 'mini-Budget'.

The reports were prompted by genuine bond market movements which were in turn driven by Tuesday's Office for National Statistics (ONS) announcement that the February-April Average Weekly Earnings annual growth rate (excluding bonuses) was 7.2%, up from the 6.7% of the January-March reading.

A flurry of mortgage re-pricings and offer withdrawals also helped feed the worse-than-the-mini-Budget story.

As can be the case when complex events are shoe-horned into news briefings, the facts are more complicated...

- Current gilts yields (the green line on the graph) are not universally higher than in last October (the red line).

- As the graph shows, what has happened is that short-dated yields have risen above their mini-Budget levels, but yields from about five years onward are the same or lower than last autumn. These medium and long yields are not hitting intra-day peaks above 5%, as happened back then.

- The increase in short-dated yields reflects a changing market view and a different starting point. On 10 October 2022 the Bank (Base) Rate was 2.25%, whereas now it is double that. On both occasions, the expectation was that the Bank Rate would go higher. Alongside the ONS wage data came comments from Andrew Bailey that inflation was "taking a lot longer" than hoped to fall. That combination was enough to push up both the expected peak and its expected duration. Cue a 0.3% rise in two-year gilt yields on Tuesday. In contrast, ten-year yields rose by about 0.1%.

- It is worth remembering that the wage data, which included an even higher 7.6% rise in the private sector, was at least partly driven by the rise in the 9.7% increase in the National Minimum Wage that took effect on 1 April.

Comment

On Thursday 22 June, the Bank of England will announce its latest Bank Rate decision, a day after the May inflation print emerges. Tuesday's ONS wage data has increased the odds of another 0.25% increase, regardless of what the Federal Reserve decides today (Wednesday 14 June).

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