Markets eye “chink of light” as Rishi gets ready to be PM

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HE pound railed, government borrowing costs fell and a turbulent stock market regained some sense of calm as markets welcomed signs of stability from central government.

With former chancellor Rishi Sunak on track to be the new Prime Minister, leading economic indicators at least stopped pricing in Armageddon after several weeks of turbulence.

While the latest economic figures remain challenging, there was some sense of calm today.

UK business activity fell for a third month in a row in October, according to the latest PMI figures.

That measure of growth fell from 49.1 in September to 47.2 – any figure above 50 indicates growth, so today’s number suggests a tough recession and was far worse than City experts expected.

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But the pound was up by nearly a cent to $1.136 – fears that it would hit parity with the dollar are in the background for now.

And the mass sell-of of government bond that caused chaos for pension funds and forced an intervention from the Bank of England is abated.

The yield on 10-year UK gilts fell from above 4% to 3.8% today, a sizeable drop that reduces future government borrowing costs and is a sign of faith in the expected new government.

Susannah Streeter at Hargreaves Lansdown said: “It’s an indication that bond vigilantes have been pacified by the expectations of a calmer political horizon ahead with fiscal responsibility forecast to be the new mantra of the incoming Prime Minister. Whoever clinches the leadership, faces a daunting task given the looming recession, volatile energy prices, continued supply chain tangles and labour shortfalls and a Bank of England determined to raise interest rates in the face of a shuddering economy to bring rampant inflation under control.”

The Bank was today under less pressure to ramp up rates, however, precisely because bond yields are falling.

Interest rates are now expected to hit 5% next year, down from above 6% a few weeks ago. That should be good news for those renegotiating mortgage deals.

The FTSE 100 was down 42 points to 6923, led by falls in companies that make most of their money abroad, a reflection of the relative strength of the pound today.

The wider mood music remains gloomy. Billionaire private equity king and Tory donor Guy Hands told the BBC that the UK economy is “frankly doomed” with the UK “on a path t0 be the sick man of Europe”.

AJ Bell financial analyst, Danni Hewson said: “At least PM-in-waiting Rishi Sunak knows he’s got the markets on his side. Investors clearly hope Sunak will stabilise the economy and the political situation – though it’s hard to work out at this point which is the harder task. As well as the recovery in sterling and the reduced cost of government borrowing, Sunak will be pleased to see European gas prices going in the right direction thanks to mild temperatures across the continent. And while the outlook is still filled with dark clouds, for the first time in a while it is possible to spy a chink of light.”