Pound falls further and bonds under pressure despite Government tax U-turn

T
he Bank of England bought just £1.5 billion in gilts on Friday as its intervention to prop up the markets after the chancellor’s mini- budget came to an end on the same day as he lost his job.

The pound and UK [Government](#) bonds also came back under pressure despite the Prime Minister’s decision to reverse corporation tax plans as the financial markets seek further action.

It came after a turbulent day which saw [Liz Truss](#) oust Kwasi Kwarteng after a 38-day spell as chancellor which was marked by severe volatility across the financial markets.

Trading in the pound and gilts, UK government bonds, became more positive early on Friday after reports that parts of the Government’s mini-budget announcement would be scrapped.

The chancellor’s unfunded tax-cutting plans in the mini-budget last month led to a surge in yields on gilts.

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Amid the chaos, the Bank of England stepped in with a promise to buy up to £65 billion in gilts to prop up the market.

By the time the gilt purchasing programme ended on Friday the Bank had spent just £19.3 billion of that, buying a little under £1.5 billion on the day.

Separately, the Prime Minister confirmed that the Government will now reverse on over £18 billion worth of spending commitments from the mini-budget, by reversing her policy to axe the planned rise in corporation tax from 19% to 25%.

Sterling had pared back some of its early losses after the chancellor's exit was confirmed.

However, the pound fell back after a brief press conference which announced the reversal on corporation tax as the only major change to fiscal policy.

Ms Truss reaffirmed plans to outline the Government's fiscal strategy on October 31, alongside projection by the Office for Budget Responsibility.

After stock markets closed, the pound had dropped 1.2% and could buy just 1.12 US dollars.

Meanwhile, the update also sparked another jump in gilt yields, which rise as bond prices fall.

The yield on 30-year UK Government bonds increased by 0.3 percentage points to 4.8% – representing an increase in the cost of state borrowing.

Gilts had seen yields surge as high as 5.1% after the chancellor's mini-budget was announced in September, causing particular distress for many UK pension funds.

Pressure to gilts returned on Tuesday after traders were spooked by Bank of England governor Andrew Bailey’s firm message that the central bank’s bond-buying scheme would not be extended beyond Friday.

However, an increase in gilt purchases by the Bank of England towards the end of this week and rumours regarding Government policy reversals helped prices recover.