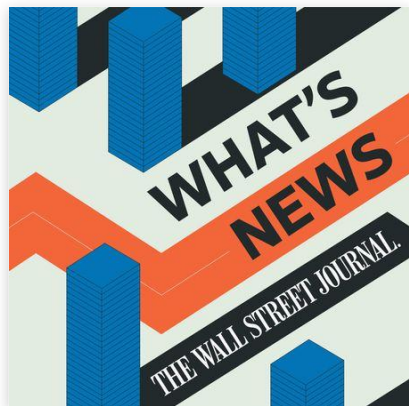


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WEDNESDAY, SEPTEMBER 28, 2022

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Global Bonds Rally on Bank of England Plan to Buy Up Debt

P.M. Edition for Sept. 28. Hurricane Ian makes [landfall in Florida](#) as a powerful Category 4 storm. Plus, the Bank of England announced a [plan to buy longer-term U.K. debt](#) to help restore market stability. [Global bonds rallied](#) on the news. But will the plan work? Markets reporter Caitlin Ostroff joins host Annmarie Fertoli to discuss.



FULL TRANSCRIPT

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Annmarie Fertoli: Ian has made landfall in Florida as a Category 4 hurricane, more from on the ground. And bonds rally after the Bank of England announces an emergency plan to buy up debt.

Caitlin Ostroff: The big question around Bank of England policy is just, what do they wind up doing next? One of the other things is, will there be an emergency essential bank meeting to boost interest rates because the Pound has also slid very sharply over the last couple of days?

Annmarie Fertoli: Plus, why a psychic wants to stop bending spoons and start bending it like Beckham. It's Wednesday, September 28th. I'm Annmarie Fertoli for the Wall Street Journal. This is the PM edition of What's News, the top headlines and business stories that move the world today. Hurricane Ian made landfall as a Category 4 storm in Cayo Costa, Florida just after 3:00 PM this afternoon according to the National Hurricane Center. The coast was blasted with maximum sustained winds near 150 miles per hour. Forecasters are warning of potential storm surges up to 18 feet in some coastal areas of southwest Florida. Governor Ron DeSantis spoke earlier this afternoon.

Ron DeSantis: There's going to be widespread power outages, particularly in southwest Florida. We have over 100 portable cell towers ready to be deployed into the area once it is safe to enter. Once the storm has passed and it is safe to go outside, you still need to be cautious.

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Annamarie Fertoli: DeSantis said the state has fleets of aircraft and high water vehicles, as well as 42,000 line workers to fix downed electrical gear. More than two and a half million people were under an evacuation order ahead of the storm. But our reporter, Elizabeth Findell, spoke with residents who are hunkering down in Port Charlotte and Fort Myers.

Elizabeth Findell: People are really just waiting to see what's going to happen. I spoke to John Buccia, who's a Baptist pastor down there. And he was showing me videos of his house just looking out their back windows and it just looks like an ocean, waves lapping up against the house. But he said they're still feeling pretty good. The road in front of his house looks like a river with probably a foot of water and some branches have snapped and some metal has come off the roof. But they're doing all right. Have been hearing from some other folks in the Fort Myers area. One person near Fort Myers Beach who said they're dry enough for the moment, but some neighboring properties are underwater and that the wind is just starting to get very scary. So these conversations were all around the time that the storm was starting to make landfall mid-afternoon here. So waiting to see how people fare the rest of the afternoon.

Annamarie Fertoli: We have continuing coverage and the latest updates on our website, wsj.com. US bonds rallied today after the Bank of England said it would buy longer term UK bonds to ease concerns about recent turmoil and global debt markets. The news came just after the yield on the 10-year US Treasury note climbed above 4% for the first time in more than a decade. It later retreated from the milestone. Yields on government bonds rise when their prices fall, and they've been climbing all year as central banks try to tame inflation by raising short-term interest rates and tightening monetary policies. But a rapid rise over the past week has been raising concerns among investors. We'll talk more about the Bank of England's moves to stabilize markets in just a few minutes. The European Union is threatening to retaliate against attacks on Europe's energy facilities after detecting leaks on two major Russian natural gas pipelines. The US and several European governments have pledged to find out what caused the leaks in Nord Stream and Nord Stream 2 with some pointing to Russia. The Kremlin has dismissed allegations that it was responsible. The EU is already working on new sanctions against Russia after President Vladimir Putin escalated the war on Ukraine last week, threatening nuclear strikes and pledging to mobilize hundreds of thousands of troops. We'll have more on the fallout from the Nord Stream leaks in our show tomorrow morning. Here in the US, business groups, including the Chamber of Commerce and the American Bankers Association, are suing the Consumer Financial Protection Bureau over new antidiscrimination guidelines. The groups are asking a federal court in Texas to stop the bureau from looking for discriminatory behavior during routine financial examinations. Federal statutes prohibit discrimination in lending based on race, religion, sex, or other factors. But it's less clear whether the laws apply for other financial products, like bank accounts. Coming up, the Bank of England is hoping to tame market turbulence by buying up bonds, how the plan will work and the risks if it doesn't after the break. Global bonds rallied today after the Bank of England said it would buy longer term UK debt to help restore market stability. The announcement comes after a turbulent stretch for UK markets, which have been on a rollercoaster ride since the government unveiled a large set of tax cuts last week. Those plans aimed at boosting the economy appeared to be at odds with the Bank of England's plan to continue raising interest rates to cool down inflation. The latest plan appeared to help bring yields down at least slightly. The yield on the 10-year UK bond declined from 4.5% to just above 4% on news of the Bank of England's latest plans. So will the plan to help further stabilize markets work? And what will it mean for the UK economy? Joining me now to explain is Wall Street Journal Markets Reporter Caitlin Ostroff. Hi Caitlin, thanks for being here.

Caitlin Ostroff: Thanks for having me.

Annamarie Fertoli: Caitlin, can you start by telling us what's been going on in bond markets since the announcement of the British government's plan to cut taxes last week?

Caitlin Ostroff: Broadly speaking, what we've been seeing is that investors are just selling especially long-dated UK government bonds. So governments issue bonds, they issue debt to raise money. This is a general thing that governments do. And we've seen that outstanding debt, stuff that's already been issued in the market, investors just don't want to hold it right now. And that's been driving up yields and pushing down sizes. And one of the big byproducts of that is that because no one wants to hold that government debt anymore, the amount of interest that has to be paid out on it rises. And so that increases the borrowing costs for the government. It increases how

much incentive they have to give investors to make them want to hold these bonds. And so that selloff has the potential to have a lot of reverberations across the UK economy.

Annamarie Fertoli: So what prompted the Bank of England to make this move now? Is that a sign that they are more concerned about what's happening than they had been previously?

Caitlin Ostroff: So I think they've been watching it for the last couple of days. And it seems like some of the hope was that the market would take the news of the government tax cuts and the desire to boost growth and to cushion some of the energy crisis, that it would take that news and digest it. And eventually, this selloff would start to pause. That really has not happened and it accelerated sharply today. And so it seemed to have pushed the Bank of England to the point where it said, "We need to do something in order to stabilize this. Because clearly, the market is not finding some sort of equilibrium on its own." And the reason that the selloff has spooked people so much is that in order to pay for a lot of the initiatives that the government has proposed, there would have to be a ton more debt issuance to fund a lot of it. And so it seems to have been enough that that equilibrium was not found and so the central bank had to step in.

Annamarie Fertoli: So the government had ended bond purchases in December of last year. Is this a big reversal for the Bank of England's long-term plans?

Caitlin Ostroff: For the moment, it seems like the long-term plans for them to reduce the bonds that they had purchased in the pandemic are still intact. And those bonds were purchased because obviously, the UK government and most governments globally boosted spending to cushion impacts of COVID. And so the Bank of England bought a lot of those bonds. It had always said it was going to eventually sell those back, and again, putting more issuance into the private markets after holding them for a couple of years now. And with this, what they've said is, "We're going to put those plans on pause for a couple of weeks." They still plan to reduce those holdings, but not quite yet. And what's more is they said that they're going to start buying some longer-dated bonds, 20 years plus in maturity, to help stabilize especially the longer end of the market because that's where a lot of the carnage has been the last couple of days.

Annamarie Fertoli: We've already been seeing reaction since this new plan was announced. What are the risks of this plan?

Caitlin Ostroff: A lot of concerns right now are around central bank credibility. And that's not necessarily the fault of the Bank of England as you have the Bank of England, which has been fairly consistent in messaging and saying they want to raise interest rates, they want to tighten demand from the consumer side. This needs to be the point where the economy slows a little bit, at odds with the government saying, "We want to boost growth. We want to do these tax cuts. We want to do all of this." And so there is a little bit of question around how the Bank of England will go from here. Clearly, the consensus is that they're still going need to boost interest rates. But there seems to be a lot of confusion on how much they're going to have to do that, how that's going to affect the government debt-to-GDP ratio, especially if they're now having to give even more interest on all of these bonds that need to be issued. And so the policies are really still at odds with each other, and it's not quite clear if any equilibrium is going to come out of that. And so for the moment, the big question around Bank of England policy is just, what do they wind up doing next? One of the other things that's been pondered is, will there be an emergency essential bank meeting to boost interest rates because the Pound has also slid very sharply over the last couple of days? There are no clear answers to that just yet.

Annamarie Fertoli: That's Wall Street Journal Markets Reporter Caitlin Ostroff. Caitlin, thanks so much for joining me.

Caitlin Ostroff: Thanks for having me.

Annamarie Fertoli: And finally, renowned psychic Uri Geller made a name for himself in the 1970s for bending spoons with what he said was the power of his mind. But spoons were not all he had in mind. Several years ago, Geller bought a rocky puffin-occupied island off the coast of Scotland, which he turned into a micronation called the Lamb. It has a flag, an anthem, and even an extraterrestrial welcoming constitution. The one thing it didn't have was a soccer team. Well, not anymore. Reading about his wish for one in the paper, a local team emailed the

psychic. Now our reporter James Hookway says, "While Geller claims he doesn't use his powers for evil, he would use them to help his new football team."

James Hookway: There's been some interesting instances whereby the players feel they might not be doing too well. So they jokingly suggest to someone to text him, to see if he can send a bit more help their way. And he's quick to respond. And he'll try to visualize the ball flying into the back of the net and all the rest of it, or helping the goalkeeper save a penalty. And lo and behold, this seems to happen a lot more regularly than it did before he got involved in the team.

Annamarie Fertoli: And that's What's News for this Wednesday afternoon. We'll be back tomorrow morning. If you like what you hear, please rate and review us. I'm Annmarie Fertoli for the Wall Street Journal.

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