

## European Rates Alpha

# Closing receive March MPC dated Sonia shy of target

### Front-end Sonia likely at mercy of global developments

On 17 February, we entered receive March Monetary Policy Committee (MPC) dated Sonia at 4.15%, targeting 3.90% with a stop of 4.30%, seeing the trade as a cheap option to hedge against the Bank of England (BoE) potentially pausing, or stopping, the hiking cycle in March ([UK: Plenty of rides at the front-end park](#), 17 February).

At the time, the market was pricing near-certainty that the BoE would hike 25bp at that meeting. Today's rally in rates globally resulted in a sharp repricing lower in terms of Bank rate hikes, with the March MPC Sonia contract down 5bp on the day.

What happens next week will depend on two elements, we think: (1) whether BoE expect contagion from the US and/or whether uncertainty about that should lead them to want to wait and (2) the data flow. On the latter, data flow has on balance been hawkish for the BoE, but there remain two key data releases ahead (labour market and inflation).

Fundamentals aside, the front-end in the UK will very likely be dragged along with the market pricing in the US. With 15.9bp priced in for March MPC – and our Chief UK economist Rob Wood still expecting a 25bp hike at that meeting – the option to play no hike in March is no longer as cheap. We prefer to close the trade shy of target at 4.10bp.

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