

European Rates Alpha

UK rates: Closing 1y forward 1s3s Sonia shy of target

Higher-for-longer supports 1y fwd 1s3s Sonia steepening

Following the Bank of England's (BoE) June Monetary Policy Committee (MPC) meeting, we argued that the inversion in the UK front-end looked overdone and recommended a 1y forward 1s3s Sonia steepener at -78.8bp ([UK rates: enter 1y fwd 1s3s Sonia steepener](#), 7 July 2023). We set a -50bp target and a stop-loss of -100bp. Following today's BoE MPC, the trade is now at -57.2bp.

We close the trade at -57.2bp

The Sonia steepening after the last UK inflation print suggested to us that the market's interpretation of the inflation release was more about the level of peak rates and the path to it, but not so much about cuts that might follow. We held onto the trade heading into the August MPC in the hopes that the Committee's focus would shift towards an average setting of policy, with the implicit intention of reducing the peak in rates but extending its duration, providing the next catalyst for front-end curve steepening. 1y1y Sonia trading at 5.26% implies that the next leg of steepening would need to come from more Bank rate cuts being priced in by the market. More Bank rate cuts being priced in by the market is not our base case currently, so we close the trade shy of target.

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For a list of our open trades and trades closed over the last 12 months, please see [Global Rates Weekly: Goldilocks and the 3 banks](#)

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