

## European Rates Watch

## UK Budget: Another heavy Gilt supply year

**No big news today**

The Chancellor did not deliver big surprises today – the Budget was indeed slightly stimulative but still far from a blowout. The main announcement was another 2p cut in NI, the cost of which is partly financed through tax increases. In the projections, public services spending is largely unchanged and no longer grows in real per capita terms. These plans would be consistent with debt falling as a % of GDP in the coming years. But margins remain tight – OBR estimates just £9bn to spare.

**Marginally hawkish for the Bank of England**

The OBR expects the tax cuts to provide a small/temporary boost to demand in the near term and then to drive a similar improvement to the supply side down the line. The extension of the fuel-duty freeze will probably help soften headline inflation in the near term, but the net impact of the stimulus on inflation should be slightly positive at the end of the horizon. Overall, this should not be a very big deal for the BoE – we read this Budget as just marginally hawkish, if at all.

**Small £6bn overfund in the current fiscal year**

The DMO cut its CGNCR for the current fiscal year by £1.5bn to £149bn versus the November update. With NS&I rising £3.4bn more than anticipated in November and NS&I Green Savings bonds rising an additional £1bn, the NFR for the current fiscal year turned out to be £5.9bn lower, with the "overfund" carried over to the upcoming fiscal year 2024/25 (Exhibit 1).

**Net financing need to rise by £39bn in 2024/25**

For 2024/25, the CGNCR is expected to amount to £142.8bn, £6.2bn lower than in 2023/24 and not far from our expectation of £145bn (see our report, [Budget preview: a bit more headroom](#), 1 March 2024). The £22.9bn rise in Gilt redemptions and £5.9bn carry-over from the current fiscal year versus -£24.6bn in 2023/24 mean that GFR will rise 35.4bn. The DMO's target of £9bn, to be raised via NS&I and £0.5bn via NS&I Green Savings Bonds, turned out slightly less than we had hoped for. Altogether, the NFR will rise by £38.8bn. Of that, planned gross Gilt issuance of £265.3bn next fiscal year will be £28bn higher than this year's £237.3bn. The £265.3bn is meaningfully higher than our own expectation of £240bn, largely because we had expected an ambitious increase in net T-bill sales.

**Gilt skew shorter, in line with expectations**

Heading into the budget, we expected the Gilt issuance maturity split to mean fewer long and index-linked and more short- and (quite a lot more) medium-dated Gilts. The DMO did raise the share of medium-dated Gilts to 31% from 29% in 2023/24 and cut the share of long-dated Gilts from 22% to 18% and index-linked Gilts from 12% to 11% (Exhibit 2). For now, the share of short-dated Gilts is projected to be unchanged at 36%. But some of the 4% currently unallocated could raise the short-dated "bucket" slightly.

(Continued on next page)

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**Abbreviations**

APF: Asset Purchase Facility  
BoE: Bank of England  
CGNCR: Central Government Net Cash Requirement  
DMO: Debt Management Office  
GFR: Gross Financing Need  
IGFR: Illustrative Gross Financing Requirement  
NFR: Net Financing Requirement  
NI: National Insurance  
NS&I: National Savings and Investment  
OBR: Office for Budget Responsibility  
QE: Quantitative Easing  
QT: Quantitative Tightening  
T-bill: Treasury bill

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## Effective Gilt sales in 2024/25 – likely a new record high

£265.3bn of Gilt sales in 2024/25 will be the second-largest total for a fiscal year, with the £486bn raised in 2020/21 in first place (in 2020/21, however, the BoE was conducting QE, so the effective supply was much smaller). In the current fiscal year, the DMO will sell £237.3bn and BoE £32.1bn of Gilts, resulting in £269.4bn of effective Gilt supply. In 2024/25, the DMO alone will raise £265.3bn, just £4.1bn short of this year's total from the DMO and BoE combined. While BoE's QT plans from October 2024 are yet unknown, Dave Ramsden's speech on 27 February highlighted that QT would not be constrained by liquidity requirements. Our assumption at this time is that BoE's "active" QT will amount to at least £13bn from October 2024 (see our report, [Borrowed time – end of abundant reserves in sight for UK](#), 28 February 2024). It is therefore highly likely that effective Gilt sales in 2024/25 will become the new historical record high.

We also highlight changes in DMO's IGFR projections (Exhibit 3), which were revised up by £23.7bn for 2025/26-2028/29. While revisions were not as dramatic as those observed in November (£+69bn), they do add to our list of UK macro vulnerabilities (to name but a few: the possibility of the whole current £735bn APF stock of Gilts unwinding – even if at a relatively slow pace of £100bn/year; the current account deficit; weak public sector balance sheet; large external liabilities; and a more structural inflation problem).

We remain comfortable being bearish UK rates, although we trimmed our positions tactically ahead of today's budget. The existing skew shorter in BoE Gilt sales and increasing skew shorter in DMO Gilt sales should continue posing cheapening pressures to shorter-dated Gilts relative to Sonia.

### Exhibit 1: UK DMO Remit for fiscal years 2023/24 and 2024/25, £bn

Another heavy call on Gilt investors, tempered a little by skew shorter in maturity

	FY 2023/24 (DMO - Apr'23)		FY 2023/24 (DMO - Nov'23)		FY 2023/24 (DMO - Mar'24)		FY 2024/25 (DMO - Mar'24)	
CGNCR	159.5		150.5		149.0		142.8	
Redemptions	117.0		117.0		117.0		139.9	
Adj. from prev. FY	-24.6		-24.6		-24.6		-5.9	
Gross Financing Req. (GFR)	251.9		242.9		241.4		276.8	
Less:								
NS&I	7.5		7.5		10.9		9.0	
NS&I Green Savings Bonds					1.0		0.5	
Other financing	1.5		3.0		3.0		2.0	
Net Financing Req. (NFR)	242.9		232.4		226.5		265.3	
To be financed through:								
Gilt sales, through:	237.8		237.3		237.3		265.3	
Short	84.6	36%	86.6	36%	86.6	36%	95.3	36%
Medium	65.3	27%	68.3	29%	68.3	29%	82.1	31%
Long	49.7	21%	51.3	22%	53.0	22%	49.0	18%
Index-linked	26.2	11%	28.6	12%	28.6	12%	28.9	11%
Unallocated	12.0	5%	2.5	1%	0.8	0%	10.0	4%
Net T-bill sales	5.0		-5.0		-5.0		0.0	
Total financing	242.8		232.3		232.3		265.3	
DMO net cash position	2.3		2.3		8.2		2.3	

Source: Debt Management Office, BofA Global Research

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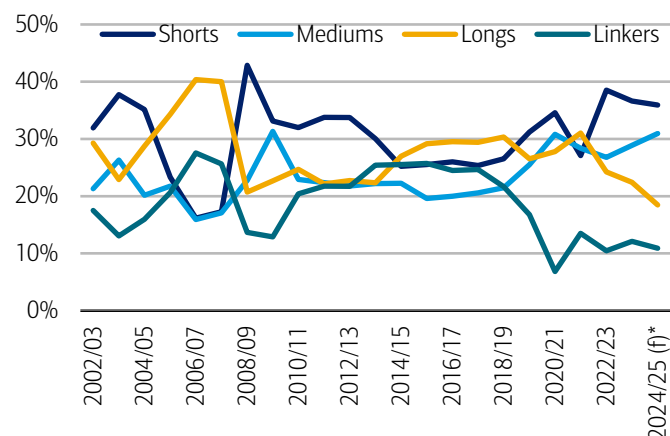
## FX: Cyclical support

The Budget has reinforced our view that GBP will continue to find cyclical support in the months ahead against the backdrop of benign market conditions. As discussed above, much of today's announcement has been well trailed by the media and just as much as there were no "rabbits out of the hat", there were equally no negative surprises that could have destabilized either the Gilt market or GBP. Given that so little was priced into the vol market for the event, it is not surprising that GBP is not materially higher now that the Budget is behind us. What it has done has been to clear a hurdle and enable focus on the next major event.

The BoE should not be unduly impacted by today's announcements, but a rise in the Minimum Wage in April may be more impactful. Combined with April seasonality, we have identified GBP/USD as one expression of a bullish GBP trade. In reality, GBP versus the low-beta currencies, such as CHF and JPY, are also to be considered. The Budget has, however, continued to expose GBP to the structural vulnerabilities of a precarious public finance backdrop. The government is walking a tightrope of balancing the books. The risks for slippage are material. For now, a benign vol environment and lack of focus on global public finances do not suggest immediate concern. But they likely will over the medium/long term.

#### Exhibit 2: Past breakdown of DMO Gilt sales & 2024/25 projection, %

Share of shorts could rise further if some "unallocated" ends up in shorts



Source: Debt Management Office, BofA Global Research

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#### Exhibit 3: DMO's illustrative gross financing projections, £bn

2025/26 to 2028/29 projections raised by a total of £23.7bn

	DMO - Apr'23		DMO - Nov'23		DMO - Mar'24
2023/24	251.9	-9.0	242.9		
2024/25	270.8	+6.1	276.9		
2025/26	239.2	+30.5	269.7	+6.4	276.1
2026/27	176.9	+28.1	205	+9.9	214.9
2027/28	198.5	+13.3	211.8	+0.4	212.2
2028/29			233	+7.0	240

Source: Debt Management Office, BofA Global Research

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