

European Rates Alpha

Closing trade: pay UK vs Canada front-end rates

Front-end UK vs. Canada spread looking more stretched

In early February, we recommended selling Dec'24 BoE MPC-dated Sonia against Dec'24 BoC MPR-dated CORRA OIS. We entered the trade at 14bp, targeting 75bp with a stop of -25bp (see [European Rates Alpha, 6 Feb](#)). This idea represented a view that divergent economic outcomes in the UK and Canada should lead to Dec'24 BoE MPC-dated Sonia underperformance relative to BoC's MPR-dated CORRA OIS. Since then, the spread widened by 19bp and our conviction has moderated, given developments in economic narratives both in the UK and Canada since. We close the trade short of target at 33bp.

BoE: front-end pricing now much fairer

The market has priced out c. 15bp of Bank rate cuts by Dec'24 since early February. Current pricing is not exactly in line with our base case of BoE staying on hold at 5.25% until Aug and cut twice (50bp in total) in 2024. But headline inflation approaching the 2% target by April could result in the market increasingly entertaining the idea of more than two Bank rate cuts in 2024. We read last week's Budget as marginally hawkish, if at all, and do not think it will change BoE's thinking materially (see [UK Budget: Another heavy Gilt supply year](#), 6 Mar).

BoC: risk that the BoC waits a bit more and cuts in July

In Canada, we continue to expect the BoC to start cutting rates in Jun. But risks now skew for a later cut, unlike in Feb, when risks to June cut appeared to be skewed towards the BoC deciding to change its language in Mar, cutting in Apr. Last week's employment report put wage growth in the desired 4-5% range by the BoC, but was otherwise mixed: wage growth easing aside, job creation was strong and mainly driven by full-time jobs, but unemployment increased (see [Wage growth finally heading in the right direction](#), 8 Mar).

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For a list of open trade recommendations and trade recommendations closed in the last 12 months, please see: [Global Rates Weekly report](#) (published on 8 March 2024).

Abbreviations:

BoE: Bank of England

BoC: Bank of Canada

MPC: Monetary Policy Committee

MPR: Monetary Policy Report

CORRA: Canadian Overnight Repo Rate Average

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