

European Rates Watch

December's UK public sector finance data: DMO's Remit is going to plan

CGNCR's overshoot near-perfectly offset by NS&I's o'fund

Today's set of UK public sector finance data for December 2023 suggested that the DMO's Remit has been going to plan in the first three quarters of the fiscal year 2023/24 (the plan was updated in November). The CGNCR came in at £18.7bn in December, slightly above the OBR's projection of £18.3bn (Exhibit 1). Cumulatively, the CGNCR stood at £141.4bn for the first three quarters of the fiscal year, £5.3bn above the OBR's projection of £136.1bn. Meanwhile, the NS&I monthly flow was £0.4bn in December, slightly higher than November's £0.2bn (Exhibit 2). Cumulatively, NS&I stood at £12.7bn in the first three quarters of the fiscal year, £5.2bn above DMO's target of £7.5bn, almost perfectly offsetting the CGNCR's overshoot.

Rates: Limited spillover risks into 2024/25 fiscal year

Based on data to December and longer-term seasonal patterns for the remainder of the fiscal year, we do not expect a deviation that would materially impact the Gilt Remit for fiscal year 2024/25 (Exhibit 3). Upside risks to the UK fiscal deficit seem more material ahead of March budget. Without crunching exact numbers, fuel duty seems unlikely to be raised in line with inflation from April; our growth and inflation projections relative to the OBR's should dampen the "headroom"; and upside risks to spending suggest borrowing is more likely to overshoot.

Good news on deficit in December

More broadly, this morning's ONS data showed that headline deficit (Public Sector Net Borrowing) in the first nine months of fiscal year 2023/24 totalled £119.1bn, £5bn lower than the £124.1bn forecast by the OBR. The budget deficit ex. banking groups of £7.8bn in December was meaningfully below OBR's forecast of £14bn, driven by reduced interest payments and a decline in the cost of inflation-linked Gilts.

FX: Focus on Spring Budget

Sterling was little changed in following better-than-expected public finances. However, the information value will not be lost on GBP investors ahead of the March 6th Spring Budget which is being priced as a key near-term event risk. Investors have been concerned about the contours of the Budget ahead of the General Election and how it may impact risk premium on UK assets. The anchor for their views is September 2022 and the dislocation that the Autumn Statement caused. The improvement in public finances perhaps reduces this tail risk and therefore is supportive for our cyclically bullish views on GBP. However, the structural constraints that still face GBP are considerable and amplified by weak trend growth and whilst we are encouraged by the positive cyclical backdrop which is supporting our constructive GBP view, we are cognisant that these headwinds are a significant barrier to some investors thinking about medium-term GBP allocations. We are therefore comfortable in placing a large "steady but measured" caveat to our calls for GBP appreciation.

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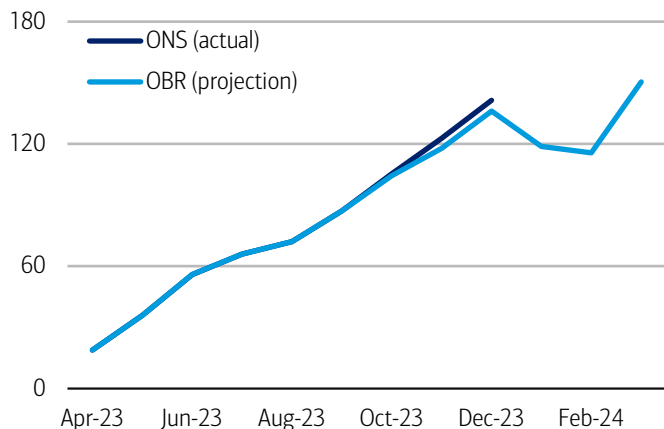
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Abbreviations:

APF: Asset Purchase Facility
BoE: Bank of England
CGNCR: Central Government Net Cash Requirement
DMO: Debt Management Office
FY: Fiscal Year
LDI: Liability Driven Investment
B&B: Bradford & Bingley
NRAM: NRAM Ltd
NIC: National Insurance contribution
CCFF: Covid Corporate Financing Facility
VAT: Value added tax
NS&I: National Savings and Investment
OBR: Office for Budget Responsibility
ONS: Office for National Statistics
QE: Quantitative Easing
QT: Quantitative Tightening

Exhibit 1: CGNCR ex. B&B, NRAM, Network Rail and CCFF, £bn cum.

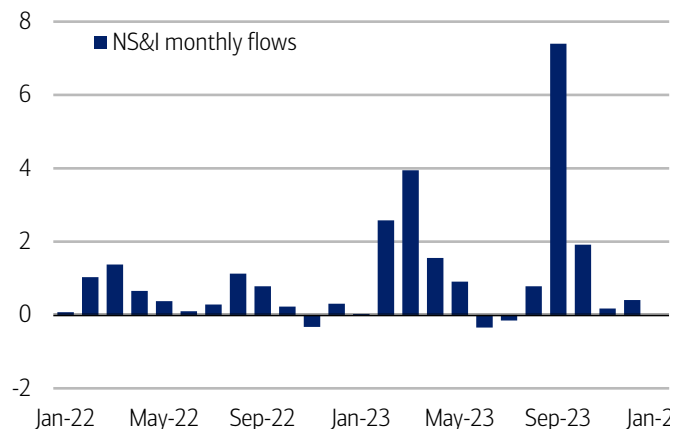
CGNCR stood £5.3bn above OBR's projection as of December 2023



Source: BofA Global Research, Office for Budget Responsibility, Office for National Statistics
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Exhibit 2: NS&I monthly flows, £bn

£0.4bn NS&I inflow in December 2023

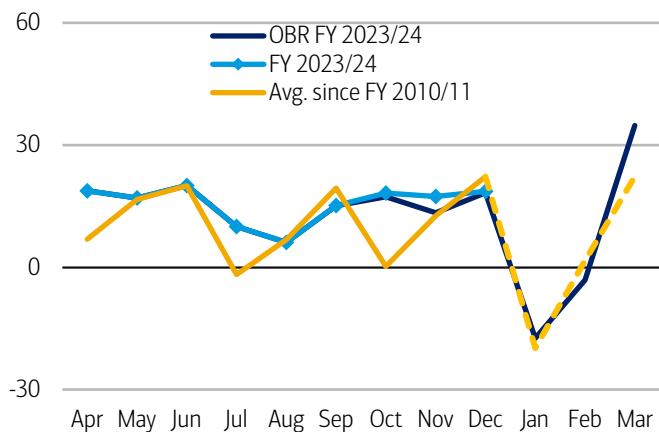


Source: BofA Global Research, Office for National Statistics

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Exhibit 3: CGNCR ex. B&B, NRAM, Network Rail and CCFF, £bn

Seasonals do not imply material deviation relative to OBR's projection



Source: BofA Global Research, Office for Budget Responsibility, Office for National Statistics
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