

European Rates Watch

UK QT: progress, prospects and misconceptions

Pace to slow. Gilt sell-off means more QT per £1bn value

On Friday afternoon at 4.30pm, we will learn the Bank of England's schedule of Gilt sales for next quarter. These sales will take us to the September MPC meeting and should be sized to complete the current £80 billion programme of quantitative tightening (QT). There seems to be quite a range of views about what the Bank needs to do to complete its programme and how it might respond to market conditions, which surprises us.

We disagree with most of what we have read. Some say that the Bank is behind the pace to achieve its goal. On the contrary, we believe that it is ahead of it, and will have to slow sales in Q3 to avoid overshooting £80bn. Others argue that uncertainty over what the Bank will do is high because of market conditions, and it might slow the pace to lean against this. To us, uncertainty is low. We think the Bank will slow because it needs to, not because of the market, although there's scope to shuffle the distribution of Gilts sold.

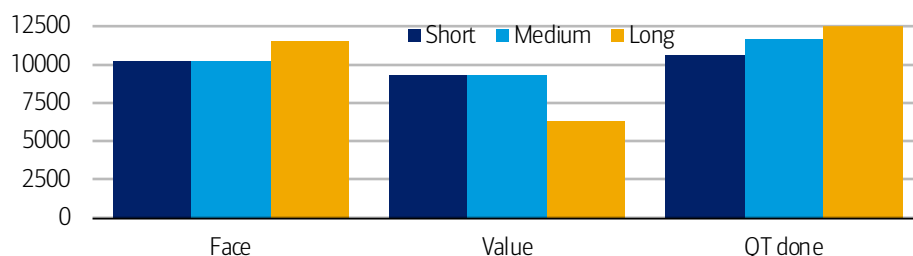
Required sales of <£7bn by value in Q3 (vs. £9.2bn in Q2)

The Bank calculates the QT it does in terms of the original purchase cost of each Gilt that matures or is sold. This involves several transactions at each operation and many in total. In calculating progress, it would be easy to make a computational error, were it not for the fact that the Bank publishes the current stock of QE, allowing us to capture tracking errors. By our calculations, two redemptions in Q3 will contribute £35.3bn of "passive QT" and, assuming the long Gilt sale next week is similar to the previous three, the £25bn of sales to end Q2 (by value) will have achieved £34.8bn of "active QT". With £70.1bn of QT accounted for (£35.3bn + £34.8bn), that would leave £9.9bn active QT for Q3. But this is in original cost terms – at current prices that would mean less than £7bn to do in value terms (£9.2bn this quarter). We provide supporting charts & tables inside.

Greater crystallised QT losses than assumed in the Budget might mean reduced sales by value, but there will be an offsetting increase in the Remit as a result, so the amount the market must absorb might not change. But that's not the whole story, as we will discuss.

Exhibit 1: BoE active Gilt sales to date across the three maturity "buckets", £m

Starting late with long Gilt sales, less has been done by value, but longs still represent largest QT amount.



Source: BofA Global Research estimates, BoE, Bloomberg

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MPC: Monetary Policy Committee

QT pace to slow. Could the mix change?

Under the hood. What's been done? What's left to do?

In the last BoE auction of “long bucket” (>20y) Gilts on 12 June, the Bank sold its usual £770m amount, but did £1,721m of quantitative tightening (according to its own methodology). The sharp difference represents the fact that it had to sell those Gilts at somewhat less than half their original average purchase cost, and it is the original purchase cost that determines the Bank's measure of QT done. The previous long operation on 1 June did £1,614m and the one before that on 4 May did £1,519m. The numbers have been getting larger because the Gilt market has been falling, and the trend is the same, if more modest, in the shorter buckets.

The Bank has been getting more QT bang for its buck, and has presumably done more QT than it expected, given the Gilt sell-off. That is why the pace will slow in market value terms next quarter.

Exhibit 7 and Exhibit 8 are two of our QE/QT monitoring summary tables, showing holdings of each nominal Gilt in face value and market value terms, respectively. The bottom line of the second, market value, table (Exhibit 8) shows that the Bank's Asset Purchase Facility (APF) Gilt holdings (i.e. ignoring the small “legacy” scrap of Gilts bought before QE began) are now worth £595.3bn in total – 74% of the original £804.7bn cost. The average discounts of Gilts sold recently have actually been larger than that, because the Bank doesn't sell issues shorter than 3-years (where the discounts are smaller), and because the Gilts sold within each bucket have tended to be longer than the weighted average maturity (WAM), with a consequently larger-than-average discount. The tables and charts below show the active QT that the Bank has done each quarter since it began, with our estimates for next quarter.

Exhibit 2: BoE active Gilt sales, as programmed in value amounts, £m

Programme needs to slow to £6.6bn in value terms...

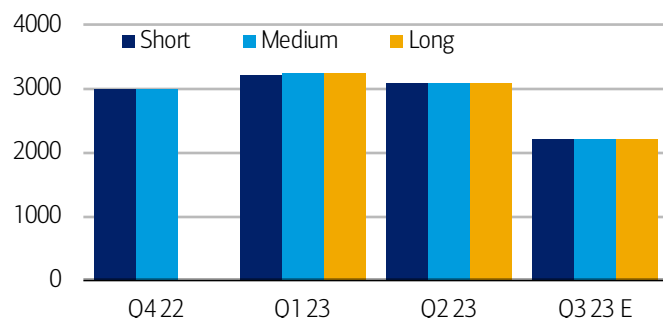
	Q4 22	Q1 23	Q2 23	Q3 23 E	Total
Short	3,000	3,221	3,080	2,200	11,501
Medium	3,000	3,250	3,080	2,200	11,529
Long	-	3,250	3,080	2,200	8,530
Total	5,999	9,721	9,240	6,600	31,560

Source: BoFA Global Research estimates, BoE, Bloomberg

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Exhibit 4: BoE active Gilt sales, as programmed in value amounts, £m

Bank might choose to do, say, £7bn, just to be sure.



Source: BoFA Global Research estimates, BoE, Bloomberg

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Exhibit 3: BoE active Gilt sales, in terms of QT done, £m

... to achieve the £10bn QT required to reach £80bn (after adding passive QT)

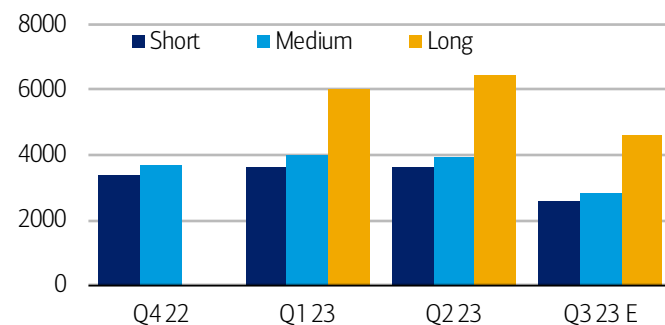
	Q4 22	Q1 23	Q2 23	Q3 23 E	Total
Short	3,371	3,641	3,624	2,588	13,224
Medium	3,677	3,989	3,951	2,822	14,440
Long	-	6,048	6,454	4,610	17,111
Total	7,048	13,678	14,028	10,020	44,775

Source: BoFA Global Research estimates, BoE, Bloomberg

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Exhibit 5: BoE active Gilt sales, in terms of QT done, £m

Bank has done more QT in longs, but a lot less in value terms.



Source: BoFA Global Research estimates, BoE, Bloomberg

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What goes around comes around? Perhaps not quite

Any BoE losses crystallised on sale or redemption will be included in the quarterly interest bill that the Bank charges the Treasury (line item MF7A in the monthly public finances release). So it is reasonable to assume that any reduction in active Gilt sales that results from bigger losses than were allowed for at the time of the Remit will just increase the expected financing need and get added to the revised Debt Management Office (DMO) Remit in the Autumn.

However, we have been arguing that any Autumn Remit change – up or down – will be used to tilt the DMO's issuance skew shorter. If it's revised up, we'd expect additional issuance to be more short-end focused. If it's revised down, we think long-dated supply should be trimmed proportionately more. And even if this is not the case, the WAM of DMO sales is already somewhat shorter than that of the BoE.

Could the BoE skew its own supply shorter?

In [the 2 June Global Rates Weekly](#), we said: "We often wonder whether the Bank should skew its sales, with a greater weight towards the short end, even though it bought evenly across its three buckets. We see three reasons why this would make sense, ranked in increasing order of importance below:

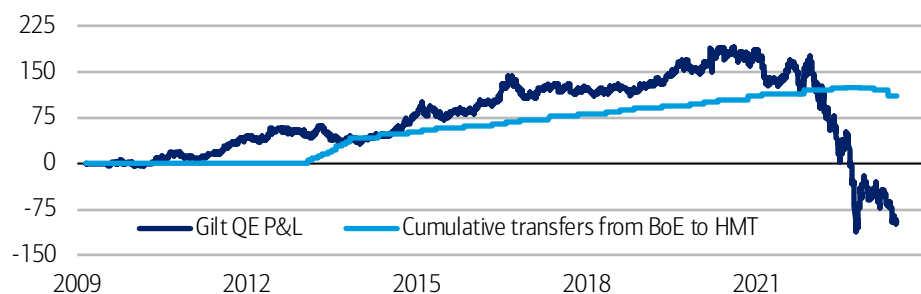
- The Bank will not sell all its Gilts – it intends to keep a permanent stock of liquidity. Why not leave more of the longs, to minimise the need for regular future purchase operations?
- The Asset Purchase Facility (APF) holdings have drifted shorter since purchase, so it would be appropriate to shift sales shorter.
- The Bank measures Quantitative Tightening (QT) done on an original cost basis. If it calibrated sales in the same way, the market value amounts sold in longs would be much smaller than in shorts [to achieve equal QT per bucket], because the losses are greater."

There's another reason, that we didn't mention on 2 June, that has been lurking at the back of our minds for a long time. Make of it what you will...

We strongly suspect that had the Bank not bought so many long-dated Gilts, particularly through the pandemic, then the DMO would have needed to shift issuance aggressively shorter. If that is the case, then the Bank is now selling long Gilts into the market that the DMO would perhaps not have issued in the first place. If that's true, then maybe the Bank shouldn't be selling them now.

Exhibit 6: How the BoE found itself with a £209bn hole in its Gilt portfolio

The APF Gilt portfolio is worth £209bn less than its cost. This arose because although the cumulative mark-to-market loss is "only" £100bn, net of financing, the BoE has also paid the Treasury £109bn in positive carry.



Source: BofA Global Research estimates, BoE, DMO, Bloomberg

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Exhibit 7: Nominal Gilt ownership summary by issue, in face value terms

£bn, unless column heading shows percentage. £bn amounts are face values, except for 'Original QE Cost' which shows the purchase consideration

Issue	O/S	BoE			Gov (i.e. DMO repo)	Free Float (O/S - Gov)	Private (O/S-Gov-BoE)	BoE % Free Float	70% Threshold	From Threshold	Original QE Cost
		Legacy *	QE	Total							
0.75 23	34.4	-	14.0	14.0	1.3	33.1	19.1	42.2	23.2	9.2	14.2
2.25 23	35.9	-	19.7	19.7	1.9	34.0	14.3	57.9	23.8	4.1	21.1
0.125 24	35.6	-	2.9	2.9	1.4	34.1	31.2	8.5	23.9	21.0	2.9
1 24	35.6	-	19.6	19.6	1.8	33.8	14.2	58.0	23.7	4.1	20.4
2.75 24	35.8	-	23.5	23.5	2.5	33.4	9.8	70.5	23.3	- 0.2	26.3
0.25 25	36.5	-	6.0	6.0	1.0	35.5	29.5	16.9	24.9	18.9	6.0
5 25	37.3	0.4	19.0	19.4	9.7	27.6	8.2	70.2	19.3	- 0.1	23.2
0.625 25	44.6	-	28.8	28.8	2.0	42.6	13.8	67.7	29.8	1.0	29.6
2 25	39.9	-	26.2	26.2	2.5	37.4	11.2	70.1	26.2	- 0.0	28.3
3.5 25	17.0	-	-	-	0.0	17.0	17.0	-	11.9	11.9	-
0.125 26	35.3	-	19.9	19.9	1.4	33.9	14.0	58.6	23.7	3.9	19.8
<3y	388.0	0.4	179.6	180.0	25.6	362.4	182.5	49.7	253.7	73.7	191.9
1.5 26	43.7	-	27.5	27.5	2.5	41.1	13.6	66.9	28.8	1.3	29.5
0.375 26	32.9	-	7.3	7.3	1.3	31.6	24.2	23.3	22.1	14.8	7.3
4.125 27	32.3	-	-	-	0.1	32.2	32.2	-	22.5	22.5	-
1.25 27	41.0	-	26.1	26.1	2.2	38.8	12.7	67.3	27.2	1.1	27.6
4.25 27	33.0	0.1	17.4	17.5	7.7	25.3	7.8	69.1	17.7	0.2	19.3
0.125 28	31.0	-	15.8	15.8	1.2	29.8	14.0	53.0	20.8	5.1	15.6
4.5 28	4.7	-	-	-	-	4.7	4.7	-	3.3	3.3	-
1.625 28	37.9	-	24.2	24.2	2.0	35.8	11.6	67.6	25.1	0.9	27.0
6 28	20.3	0.6	8.7	9.2	6.8	13.4	4.2	68.7	9.4	0.2	11.6
0.5 29	28.9	-	1.4	1.4	0.6	28.3	26.9	4.8	19.8	18.4	1.3
0.875 29	43.6	-	28.2	28.2	2.1	41.6	13.3	67.9	29.1	0.9	30.0
3-7y	349.2	0.7	156.6	157.3	26.5	322.7	165.3	48.8	225.9	68.5	169.2
0.375 30	38.9	-	21.5	21.5	1.6	37.3	15.9	57.5	26.1	4.7	21.4
4.75 30	42.8	-	23.6	23.6	7.4	35.4	11.8	66.6	24.8	1.2	30.7
0.25 31	40.6	-	12.8	12.8	1.6	39.0	26.2	32.8	27.3	14.5	12.1
1 32	36.0	-	-	-	0.7	35.2	35.2	-	24.6	24.6	-
4.25 32	40.3	-	18.9	18.9	10.3	30.1	11.2	62.8	21.1	2.2	22.3
3.25 33	22.4	-	-	-	0.0	22.4	22.4	-	15.7	15.7	-
0.875 33	21.5	-	0.5	0.5	0.5	21.0	20.5	2.5	14.7	14.2	0.5
4.5 34	36.3	-	22.2	22.2	3.6	32.7	10.5	67.9	22.9	0.7	30.4
0.625 35	34.8	-	13.6	13.6	1.4	33.4	19.8	40.7	23.4	9.8	13.0
4.25 36	31.7	-	14.5	14.5	8.6	23.0	8.5	63.1	16.1	1.6	19.3
1.75 37	32.0	-	11.0	11.0	1.7	30.2	19.2	36.5	21.2	10.1	12.5
3.75 38	9.1	-	-	-	0.0	9.1	9.1	-	6.4	6.4	-
4.75 38	26.8	-	11.5	11.5	8.3	18.5	7.0	62.0	12.9	1.5	14.7
1.125 39	21.9	-	1.0	1.0	0.5	21.4	20.4	4.6	14.9	14.0	1.0
4.25 39	24.2	-	11.0	11.0	2.6	21.6	10.6	51.1	15.1	4.1	14.2
4.25 40	26.4	-	11.3	11.3	3.0	23.5	12.2	48.0	16.4	5.2	15.0
1.25 41	33.8	-	9.2	9.2	1.4	32.4	23.2	28.5	22.7	13.4	9.9
4.5 42	28.4	-	9.5	9.5	7.2	21.1	11.6	45.1	14.8	5.3	12.7
7-20y	547.9	-	192.1	192.1	60.6	487.3	295.2	39.4	341.1	149.0	229.8
3.25 44	29.1	-	7.7	7.7	2.4	26.7	19.0	28.7	18.7	11.0	10.1
3.5 45	29.4	-	9.3	9.3	2.1	27.3	17.9	34.3	19.1	9.7	13.5
0.875 46	23.0	-	5.8	5.8	0.8	22.2	16.4	25.9	15.5	9.8	5.4
4.25 46	25.1	-	7.9	7.9	6.8	18.4	10.4	43.1	12.8	4.9	10.8
1.5 47	25.7	-	6.7	6.7	1.6	24.2	17.5	27.8	16.9	10.2	7.3
1.75 49	30.2	-	18.5	18.5	1.4	28.8	10.3	64.2	20.2	1.7	23.1
4.25 49	21.0	-	7.7	7.7	3.7	17.3	9.6	44.3	12.1	4.4	10.8
0.625 50	31.9	-	17.7	17.7	1.3	30.6	12.9	57.9	21.4	3.7	15.9
1.25 51	28.9	-	4.0	4.0	0.8	28.0	24.0	14.4	19.6	15.6	4.1
3.75 52	25.1	-	12.1	12.1	2.4	22.8	10.6	53.3	15.9	3.8	17.5
1.5 53	12.9	-	0.0	0.0	0.4	12.5	12.5	0.2	8.7	8.7	0.0
3.75 53	14.4	-	-	-	0.0	14.4	14.4	-	10.1	10.1	-
1.625 54	24.6	-	10.8	10.8	1.1	23.5	12.7	45.9	16.5	5.7	13.6
4.25 55	27.7	-	10.3	10.3	7.2	20.5	10.2	50.3	14.3	4.0	13.4
1.75 57	30.7	-	11.6	11.6	1.6	29.1	17.5	39.8	20.4	8.8	14.9
4 60	25.1	-	11.8	11.8	2.7	22.5	10.7	52.3	15.7	4.0	17.5
0.5 61	25.9	-	4.9	4.9	0.9	25.0	20.1	19.4	17.5	12.6	4.4
4 63	5.5	-	-	-	-	5.5	5.5	-	3.9	3.9	-
2.5 65	20.6	-	5.1	5.1	1.3	19.2	14.1	26.4	13.5	8.4	8.5
3.5 68	20.7	-	4.9	4.9	1.6	19.1	14.3	25.4	13.4	8.5	9.1

Exhibit 7: Nominal Gilt ownership summary by issue, in face value terms

£bn, unless column heading shows percentage. £bn amounts are face values, except for 'Original QE Cost' which shows the purchase consideration

Issue	O/S	BoE			Gov (i.e. DMO repo)	Free Float (O/S - Gov)	Private (O/S-Gov-BoE)	BoE % Free Float	70% Threshold	From Threshold	Original QE Cost
		Legacy *	QE	Total							
1.625 71	24.2	-	10.3	10.3	1.2	23.0	12.7	44.7	16.1	5.8	14.0
1.125 73	10.1	-	-	-	0.4	9.7	9.7	-	6.8	6.8	-
>20y	511.8	-	166.9	166.9	41.7	470.2	303.2	35.5	329.1	162.2	213.9
Total	1,797.0	1.1	695.3	696.4	154.4	1,642.6	946.3	42.4	1,149.9	453.5	804.7

* Legacy gilt holdings acquired by the Bank before QE began.

Gilts holdings at 70% maximum limit.

Source: BofA Global Research estimates, BoE, DMO, Bloomberg

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Exhibit 8: Nominal Gilt ownership summary by issue, in market value terms

£bn, unless column heading shows percentage. £bn amounts are market values, except for 'Original QE Cost' which shows the purchase consideration.

Issue	O/S	BoE			Gov (i.e. DMO repo)	Free Float (O/S - Gov)	Private (O/S-Gov-BoE)	BoE %		70% Threshold	From Threshold	Original QE Cost
		Legacy *	QE	Total				Free Float	Threshold			
0.75 23	34.4	-	14.0	14.0	1.3	33.1	19.1	42.2	23.2	9.2	14.2	
2.25 23	36.0	-	19.7	19.7	1.9	34.0	14.3	57.9	23.8	4.1	21.1	
0.125 24	34.5	-	2.8	2.8	1.4	33.2	30.3	8.5	23.2	20.4	2.9	
1 24	34.5	-	19.0	19.0	1.7	32.8	13.8	58.0	22.9	3.9	20.4	
2.75 24	35.1	-	23.0	23.0	2.4	32.7	9.6	70.5	22.9	- 0.2	26.3	
0.25 25	33.8	-	5.6	5.6	0.9	32.9	27.3	16.9	23.0	17.4	6.0	
5 25	37.8	0.4	19.2	19.6	9.9	27.9	8.3	70.2	19.6	- 0.1	23.2	
0.625 25	41.0	-	26.5	26.5	1.9	39.1	12.6	67.7	27.4	0.9	29.6	
2 25	37.6	-	24.6	24.6	2.4	35.2	10.5	70.1	24.6	- 0.0	28.3	
3.5 25	16.4	-	-	-	0.0	16.4	16.4	-	11.5	11.5	-	
0.125 26	31.2	-	17.6	17.6	1.3	30.0	12.4	58.6	21.0	3.4	19.8	
<3y	372.3	0.4	172.0	172.4	25.0	347.3	174.9	49.6	243.1	70.7	191.9	
1.5 26	39.7	-	25.0	25.0	2.3	37.4	12.4	66.9	26.2	1.2	29.5	
0.375 26	28.3	-	6.3	6.3	1.1	27.2	20.8	23.3	19.0	12.7	7.3	
4.125 27	31.8	-	-	-	0.1	31.7	31.7	-	22.2	22.2	-	
1.25 27	35.9	-	22.9	22.9	1.9	34.0	11.1	67.3	23.8	0.9	27.6	
4.25 27	32.4	0.1	17.0	17.2	7.5	24.9	7.7	69.1	17.4	0.2	19.3	
0.125 28	25.3	-	12.8	12.8	1.0	24.2	11.4	53.0	17.0	4.1	15.6	
4.5 28	4.6	-	-	-	-	4.6	4.6	-	3.2	3.2	-	
1.625 28	32.7	-	20.9	20.9	1.7	31.0	10.0	67.6	21.7	0.7	27.0	
6 28	21.6	0.6	9.3	9.9	7.3	14.3	4.5	68.7	10.0	0.2	11.6	
0.5 29	23.1	-	1.1	1.1	0.5	22.6	21.5	4.8	15.8	14.7	1.3	
0.875 29	35.1	-	22.7	22.7	1.7	33.5	10.7	67.9	23.4	0.7	30.0	
3-7y	310.6	0.7	138.2	138.9	25.1	285.5	146.6	48.6	199.9	61.0	169.2	
0.375 30	29.2	-	16.1	16.1	1.2	28.0	11.9	57.5	19.6	3.5	21.4	
4.75 30	43.9	-	24.1	24.1	7.6	36.2	12.1	66.6	25.4	1.2	30.7	
0.25 31	29.3	-	9.2	9.2	1.2	28.1	18.9	32.8	19.7	10.5	12.1	
1 32	27.4	-	-	-	0.6	26.9	26.9	-	18.8	18.8	-	
4.25 32	40.2	-	18.8	18.8	10.2	30.0	11.1	62.8	21.0	2.2	22.3	
3.25 33	20.7	-	-	-	0.0	20.7	20.7	-	14.5	14.5	-	
0.875 33	15.4	-	0.4	0.4	0.4	15.1	14.7	2.5	10.6	10.2	0.5	
4.5 34	37.0	-	22.6	22.6	3.6	33.3	10.7	67.9	23.3	0.7	30.4	
0.625 35	22.5	-	8.8	8.8	0.9	21.6	12.8	40.7	15.1	6.3	13.0	
4.25 36	31.4	-	14.4	14.4	8.6	22.9	8.4	63.1	16.0	1.6	19.3	
1.75 37	22.9	-	7.9	7.9	1.2	21.6	13.7	36.5	15.1	7.2	12.5	
3.75 38	8.5	-	-	-	0.0	8.5	8.5	-	5.9	5.9	-	
4.75 38	27.5	-	11.7	11.7	8.5	18.9	7.2	62.0	13.3	1.5	14.7	
1.125 39	13.6	-	0.6	0.6	0.3	13.3	12.7	4.6	9.3	8.7	1.0	
4.25 39	23.7	-	10.8	10.8	2.6	21.1	10.3	51.1	14.8	4.0	14.2	
4.25 40	25.5	-	10.8	10.8	2.9	22.6	11.7	48.0	15.8	5.0	15.0	
1.25 41	20.1	-	5.5	5.5	0.8	19.3	13.8	28.5	13.5	8.0	9.9	
4.5 42	28.2	-	9.5	9.5	7.2	21.0	11.5	45.1	14.7	5.2	12.7	
7-20y	466.9	-	171.3	171.3	57.8	409.1	237.8	41.9	286.4	115.0	229.8	
3.25 44	24.4	-	6.4	6.4	2.0	22.4	15.9	28.7	15.6	9.2	10.1	

Exhibit 8: Nominal Gilt ownership summary by issue, in market value terms

£bn, unless column heading shows percentage. £bn amounts are market values, except for 'Original QE Cost' which shows the purchase consideration.

Issue	O/S	BoE			Gov (i.e. DMO repo)	Free Float (O/S - Gov)	Private (O/S-Gov-BoE)	BoE % Free Float	70% Threshold	From Threshold	Original QE Cost
		Legacy *	QE	Total							
3.545	25.5	-	8.1	8.1	1.9	23.6	15.5	34.3	16.5	8.4	13.5
0.87546	11.2	-	2.8	2.8	0.4	10.8	8.0	25.9	7.6	4.8	5.4
4.2546	24.0	-	7.6	7.6	6.5	17.5	10.0	43.1	12.3	4.7	10.8
1.547	14.5	-	3.8	3.8	0.9	13.6	9.8	27.8	9.5	5.7	7.3
1.7549	17.8	-	10.9	10.9	0.8	17.0	6.1	64.2	11.9	1.0	23.1
4.2549	20.1	-	7.3	7.3	3.6	16.5	9.2	44.3	11.6	4.2	10.8
0.62550	12.7	-	7.1	7.1	0.5	12.2	5.1	57.9	8.5	1.5	15.9
1.2551	14.2	-	2.0	2.0	0.4	13.8	11.8	14.4	9.6	7.6	4.1
3.7552	22.4	-	10.8	10.8	2.1	20.3	9.5	53.3	14.2	3.4	17.5
1.553	6.6	-	0.0	0.0	0.2	6.5	6.4	0.2	4.5	4.5	0.0
3.7553	12.7	-	-	-	0.0	12.7	12.7	-	8.9	8.9	-
1.62554	13.0	-	5.7	5.7	0.6	12.4	6.7	45.9	8.7	3.0	13.6
4.2555	26.7	-	9.9	9.9	7.0	19.8	9.8	50.3	13.8	3.9	13.4
1.7557	16.8	-	6.3	6.3	0.9	15.9	9.6	39.8	11.1	4.8	14.9
460	23.8	-	11.1	11.1	2.5	21.3	10.2	52.3	14.9	3.8	17.5
0.561	7.8	-	1.5	1.5	0.3	7.5	6.1	19.4	5.3	3.8	4.4
463	5.2	-	-	-	-	5.2	5.2	-	3.6	3.6	-
2.565	13.6	-	3.4	3.4	0.9	12.8	9.4	26.4	8.9	5.6	8.5
3.568	17.8	-	4.2	4.2	1.4	16.4	12.2	25.4	11.5	7.3	9.1
1.62571	11.5	-	4.9	4.9	0.6	11.0	6.1	44.7	7.7	2.8	14.0
1.12573	3.8	-	-	-	0.1	3.6	3.6	-	2.5	2.5	-
>20y	346.1	-	113.8	113.8	33.4	312.7	198.9	36.4	218.9	105.1	213.9
Total	1,495.9	1.1	595.3	596.4	141.3	1,354.6	758.2	44.0	948.2	351.8	804.7

* Legacy gilt holdings acquired by the Bank before QE began.

■ Gilts holdings at 70% maximum limit.

Source: BofA Global Research estimates, BoE, DMO, Bloomberg

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