

European Rates Watch

Gilt buying in October: 2023 - the year of the domestics?

Domestics Hoover up Gilt supply again in October

The data in today's Bank of England (BoE) Bankstats report reveals that October's Gilt supply was once again acquired by domestic investors (non-banks: +£19.8bn in Oct after +£4.6bn in Sep; banks: +£5.9bn in Oct after +£3.8bn in Sep; non-residents: -£3.2bn in Oct after -£0.6bn in Sep – Exhibit 1). Year-to-October, domestic non-banks remain the main buyers of Gilts (+107.5bn) with banks the second largest buyer this year (+£28.3bn). These numbers are significant for two reasons: if sustained, (1) 2023 will be the first year since 2016 in which domestic banks will be net long Gilts; (2) it will be the first year since at least 2015 when domestic buying from both banks and non-banks dominates (Exhibit 2).

No bounce in foreign demand at the start of Q4

In September, we wrote that despite marginal £0.6bn selling of Gilts, a substantial £15.0bn of sterling was deposited with UK monetary and financial institutions and could be deployed into Gilts in the months ahead ([Gilt buying in September: domestics at the forefront, 30 Oct](#)). October data weakened the case with foreigners withdrawing £12.4bn. With regards to typically strong foreign demand for Gilts in Q4: in the past, November and December net buying combined tended to be in the region of £10bn in the past 10-15 years. If repeated, this would imply a relatively weak Q4 in 2023 (Exhibit 3). Oil price weakness and trade weighted GBP strength in November relative to previous months are two other factors suggesting weaker Q4 demand in 2023.

Rates: Some optimism about supply-demand in 2024

The latest Bankstats data supports our thinking in the Global Rates Year Ahead and thoughts after the Autumn Statement ([Autumn statement review: inflation risks, 22 Nov](#)). Gilt supply from the BoE and the Debt Management Office (DMO) will remain substantial in future fiscal years. But there are some reasons for cautious optimism on demand side: Gilt supply at the front-end and limited buying by foreigners at the start of the year could lead to enough short-dated Gilt cheapening for domestic banks to step up their buying even further. We believe that banks have the potential to buy a lot of Gilts. But at the right price. Thereafter, demand would be relatively elastic, we think. Concerns about future demand are well-warranted still however: dependency on overseas demand for Gilts has reduced, but remains a macroeconomic fragility. And outlook for LDI demand is highly uncertain.

GBP: structural concerns

The fourth quarter has historically been a strong one for overseas demand for Gilts but this is the 3rd October in five years that foreigners have been net sellers (Exhibit 4). Whilst one may caveat the data as a slow start to Q4 net purchases, one will not readily be able to dismiss if November (the strongest month of purchase for the quarter) is equally as weak.

(continued on next page)

29 November 2023

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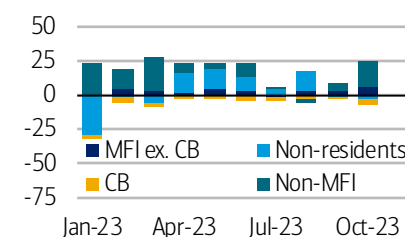
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Exhibit 1: Monthly net Gilt buying, £bn

Domestics – again main buyers in October



Source: Bank of England, BofA Global Research
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On a trend basis (using 3-, 6- and 12-month rolling sums – 12-month December rolling sum in Exhibit 5), net purchases have recovered from the post GBP-crisis fallout. But it would require a significant uptick in both Nov and Dec (of the magnitude of the 10yr average for each month) to bring some respectability to the year. Yet despite normality returning to the UK asset market and the pricing out of idiosyncratic risk, we still think the medium-term fundamentals are a cause for concern for GBP. We recently highlighted some tactical trading opportunities for long GBP exposure ([GBP: The message is getting through, 28 Nov](#)). For those whose focus extends through 2024, we continue to see a rebound in sterling as an opportunity to enter into structural GBP shorts.

Exhibit 2: Net buying of Gilts per investor type, £bn

Domestic non-banks the main buyer of Gilts so far in 2023

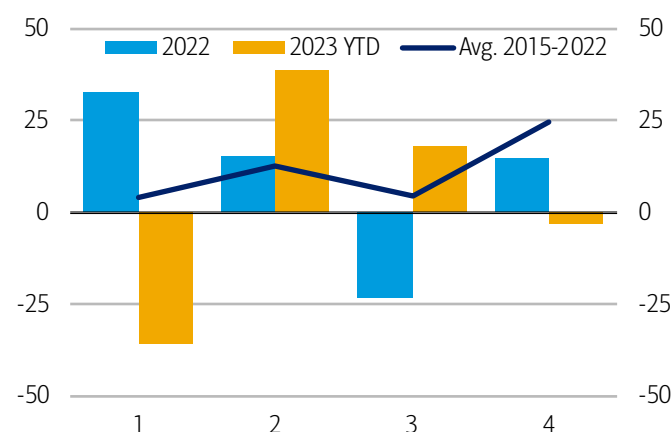
	MFI ex. CB	Non-residents	CB (incl. reinv.)	Non-MFI
2015	2.6	60.5	27.5	-2.7
2016	5.3	44.4	68.5	-34.0
2017	-15.4	22.7	32.6	31.9
2018	-10.8	22.0	21.2	24.8
2019	-10	46.4	40	-22
2020	-18.1	51.2	317.9	38.8
2021	-5.7	81.9	190.0	-58.7
2022	-1.7	40.1	-3.8	24.5
2023-to-Oct	28.3	17.8	-29.7	107.5

Source: Bank of England, BofA Global Research

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Exhibit 3: Quarterly net buying of Gilts by foreigners, £bn

2023 could turn out weaker than in previous years

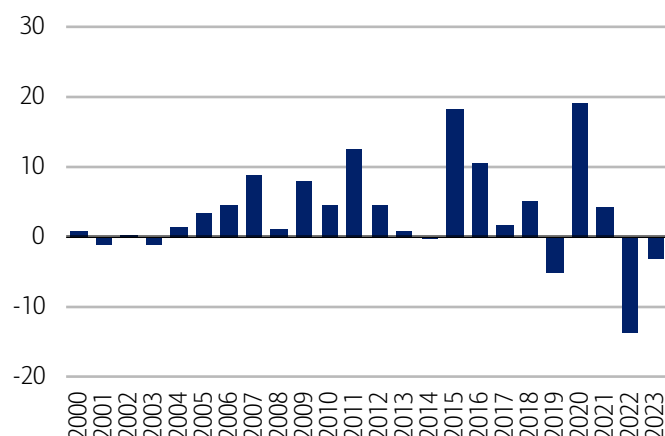


Source: Bank of England, BofA Global Research

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Exhibit 4: Foreign net buying of Gilts in October since 2000, £bn

Weak start of Q4 in recent years

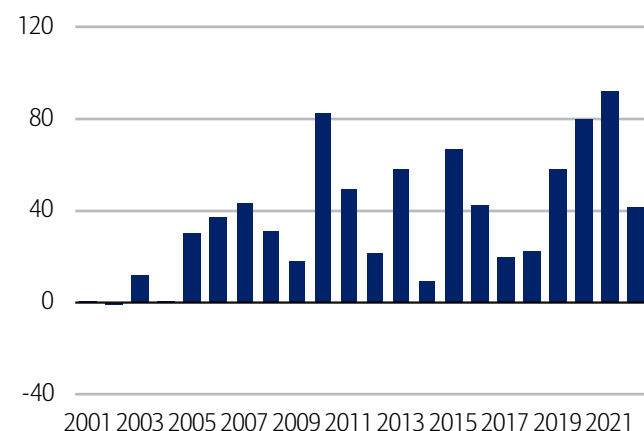


Source: Bank of England, BofA Global Research

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Exhibit 5: 12-month December rolling sum of foreign net buying, £bn

Around £40bn in 2022



Source: Bank of England, BofA Global Research

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