

European Rates Watch

Gilt buying in August: foreigners

Gilt buying in August: foreigners galore

The data for August in today's Bank of England (BoE) Bankstats report revealed that non-residents bought £13.9bn in that month, having bought £4.6bn in July. In addition, foreign investors bought £1.0bn of T-bills and deposited £0.2bn cash with UK Monetary Financial Institutions (MFI) in August. Domestic non-bank investors sold £3.1bn of Gilts for the first time since December, having bought £1.6bn in July. Domestic banks bought £3.0bn, having sold £1.6bn in the month prior (Exhibit 1).

Domestic non-bank buying gives way to foreign demand

It appears that Gilt buying dynamics have been changing since the start of the year. In Q1, non-residents sold a significant £36bn of Gilts, while domestic non-banks were the main buyers, acquiring £63.4bn. In Q2, domestic non-bank buying of Gilts slowed to £21.5bn, while overseas' investors bought £38.8bn, more than covering their selling in Q1. So far in Q3, non-residents have accumulated £18.5bn while domestic non-banks sold £1.5bn. Domestic banks were mostly marginal buyers throughout the year, acquiring £6.8bn in Q1, £10.4bn in Q2 and £1.4bn in July and August 2023 (Exhibit 2). In addition, domestic banks accumulated £12.6bn of T-bills year-to-August.

Encouraging news on the domestic bank buying front

Despite strong demand for Gilts from foreigners lately, non-banks remain the main buyers of Gilts in 2023, having acquired £83.3bn so far this year (Exhibit 3). Q4 tends to be a strong quarter for Gilt buying by foreigners (at least partially due to a slowdown in GBP SSA primary issuance into year-end, we think) – foreign demand for Gilts could catch up to non-banks' into year-end (Exhibit 4). Oil price strength, if sustained, could aid demand further. Perhaps more encouraging is the £18.6bn buying of Gilts by domestic banks year-to-August, after selling of Gilts every year since at least 2019. While still relatively marginal in size compared to Gilt issuance from the Debt Management Office (DMO) and Gilt selling from the BoE, it is an important development for the Gilt market.

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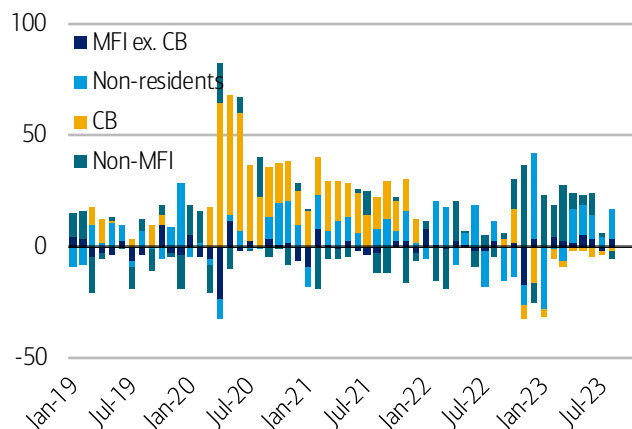
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Exhibit 1: Monthly net buying of Gilts per investor type, £bn

Non-residents back to buying Gilts lately

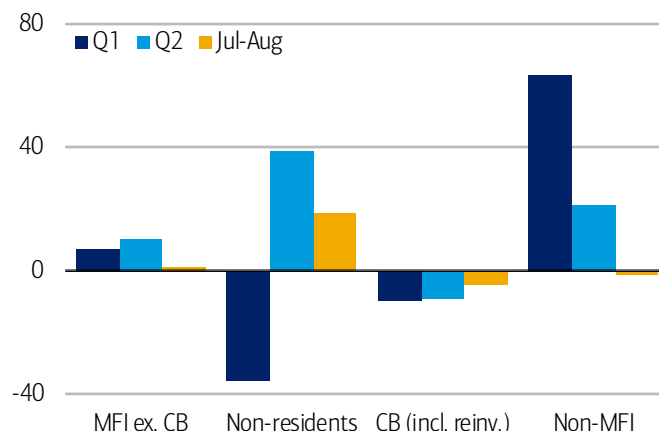


Source: BoE, BofA Global Research

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

A rebound in foreign demand for Gilts, fading buying by domestic non-banks

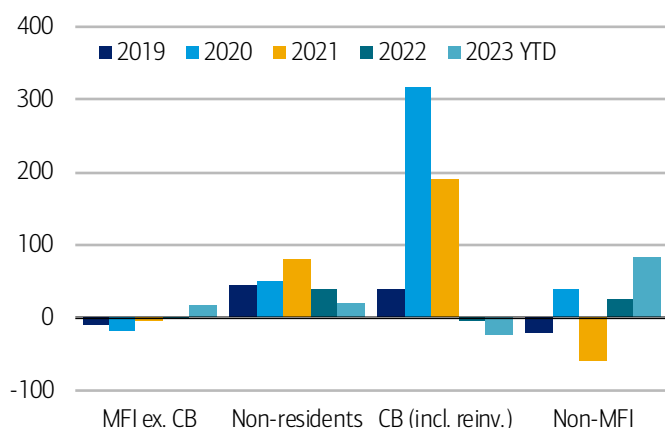


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Exhibit 3: Net buying of Gilts per investor type, £bn

Non-banks remain the main buyer of Gilts in 2023

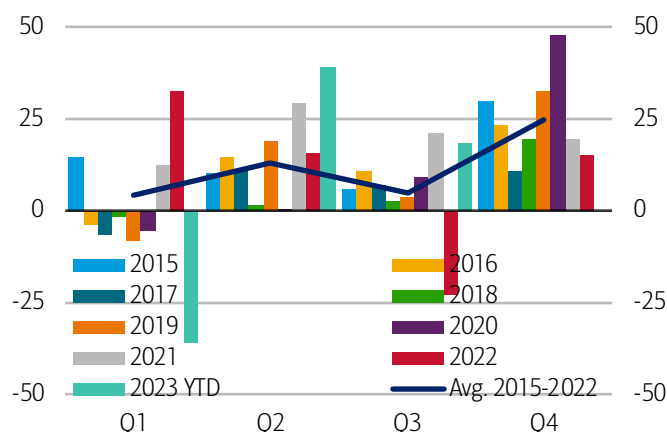


Source: BoE, BofA Global Research

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Exhibit 4: Quarterly overseas investor net buying of Gilts, £bn

Seasonality implies strong quarter for Gilt buying by foreigners



Source: BoE, BofA Global Research

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