

## European Rates Watch

# Gilt buying in 2023 - the year of the domestics

### Domestics absorbed the additional supply in 2023

Today's Bank of England (BoE) Bankstats report data confirmed that domestic investors were the main buyers of Gilts in '23 (non-banks: +£125bn; banks: +£33.2bn). Overseas investors acquired similar volume in '23 as they did in '22 ('23: +£38.9bn; '22: +£40.1bn). These numbers were significant for three reasons: (1) increased Gilt supply from Debt Management Office (DMO) and BoE in '23 was absorbed by domestics; (2) '23 was the first year since 2016 in which domestic banks were net buyers of Gilts; (3) '23 proved to be the first year since at least '15 when domestic buying dominated (non-residents dominated in '19 & '22 & the BoE in '20 & '21 - Exhibit 1 and Exhibit 2).

### Oct'22 government crisis complicates overseas buying data

The latest data revealed that overseas buying of Gilts in 2023 followed a pattern not dissimilar to the one in 2022 - net selling in Sep-Nov followed by meaningful net buying in Dec (2023: -£5.7bn in Sep-Nov, +£23.1bn in Dec; 2022: -£38.1bn in Sep-Nov, +£38.3bn in Dec). But the two Q4s were not fully comparable: net selling in Oct-Nov '22 was influenced by the Gilt crisis of Sep'22. For '22 and '23 as a whole, similar annual pace of net overseas buying of around £40bn possibly masked a stronger underlying buying by foreigners if overseas-domiciled LDI selling of Gilts in 4Q'22 and 1Q'23 was accounted under foreign selling of Gilts. Looking ahead, Jan'23 buying by overseas investors is difficult to call: the oil price is up, but trade-weighted GBP has also risen; the quarterly seasonal pattern would imply a weak demand for Gilts in Q1 due to pick-up in primary SSA issuance (Exhibit 3), but European SSA issuance in GBP appears lower so far than what we would have expected for Jan ([2024 European SSA supply](#), 24 Jan).

### Cheaper Gilts to swaps to encourage domestics in 2024

£33.2bn net Gilt buying by domestic banks in '23 suggests to us that short-dated Gilts' cheapening to Sonia is beginning to counter their disadvantaged capital treatment. If the DMO does gently shift Gilt issuance shorter from April, as we would expect (see 'Gilt supply in 1Q24 and beyond: no slowdown in sight', 11 Jan), we will be watching how sensitive demand from the banking sector is. Fiscal risks aside, we do not expect a material acceleration of supply from the current pace, but it might rise a little further. This will likely mean still cheaper Gilts to swaps to encourage banks to hold more and to encourage Gilt-based hedging versus swap-based hedging (Exhibit 4). Curve behaviour in '24 to some extent will depend on the DMO and BoE attitudes to issuance and active Gilt sales, respectively.

### GBP: Some Relief

The Dec data has rescued what was turning out to be a weak end to '23. At £23.1bn, this is the third largest build of foreign Gilt purchases in December with the 12m rolling sum the fourth largest since '00. The trend of strong ends to the year has continued and highlights that demand for UK assets has remained relatively robust.

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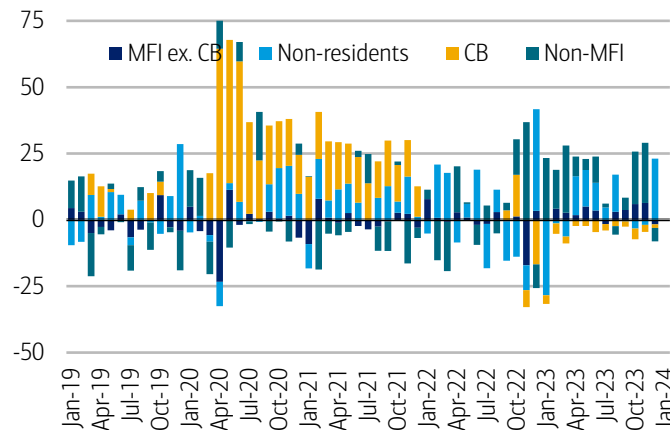
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Whilst not front and centre, it should also help to placate some of the concerns about current account financing, though longer-term concerns still remain. A benign backdrop to risk which facilitates global cross-border capital flows means that balance of payments concerns are unlikely to be exposed as they were in Sep'22. But the risks are always present particularly if the UK tips back into a recession and impacts the domestic asset market adversely. Heading into the Spring Budget, we will be focused on whether this will have a bearing on investor behaviour. We are inclined to think not given the enhanced room for manoeuvre in public finances. Today's data should not impact GBP either way as financing the deficit is not the focus and ahead of the BoE.

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

Overseas investors bought £23.1bn in Dec after 3m of net selling in Sep-Nov

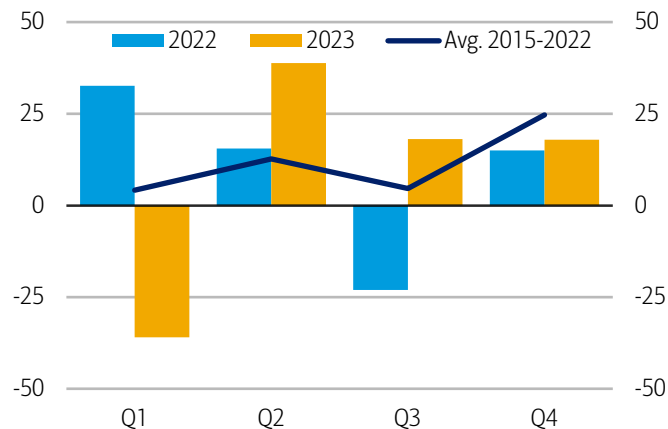


Source: Bank of England, BofA Global Research

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#### Exhibit 3: Quarterly overseas investor net buying of Gilts, £bn

Despite looking quite similar, Q4'22 and Q4'23 not quite comparable



Source: Bank of England, BofA Global Research

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#### Exhibit 2: Net buying of Gilts per investor type since 2015, £bn

Domestic investors bought £158.2bn of Gilts in 2023

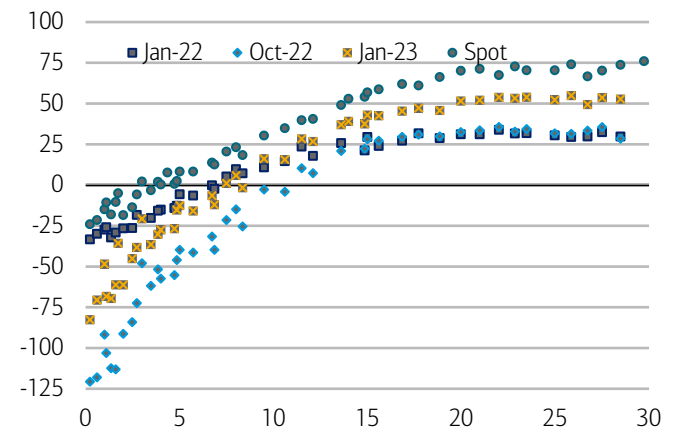
	MFI ex. CB	Non-residents	CB (incl. reinv.)	Non-MFI
2015	2.6	60.5	27.5	-2.7
2016	5.3	44.4	68.5	-34.0
2017	-15.4	22.7	32.6	31.9
2018	-10.8	22.0	21.2	24.8
2019	-10	46.4	40	-22
2020	-18.1	51.2	317.9	38.8
2021	-5.7	81.9	190.0	-58.7
2022	-1.7	40.1	-3.8	24.5
2023	33.2	38.9	-33.7	125.0

Source: Bank of England, BofA Global Research

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#### Exhibit 4: Gilt z-spreads to Sonia vs. years to maturity, bp

We see still cheaper Gilts to swaps in 2024



Source: Bloomberg, BofA Global Research

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