

GBP Report

Andrew Benito

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Recent market developments

Latest developments

Figure 1 shows the (cumulative) changes in 2y, 5y and 10y OIS rates over the past two months. A sell-off in rates has been more pronounced among 10year rates than 2year rates. It also coincided

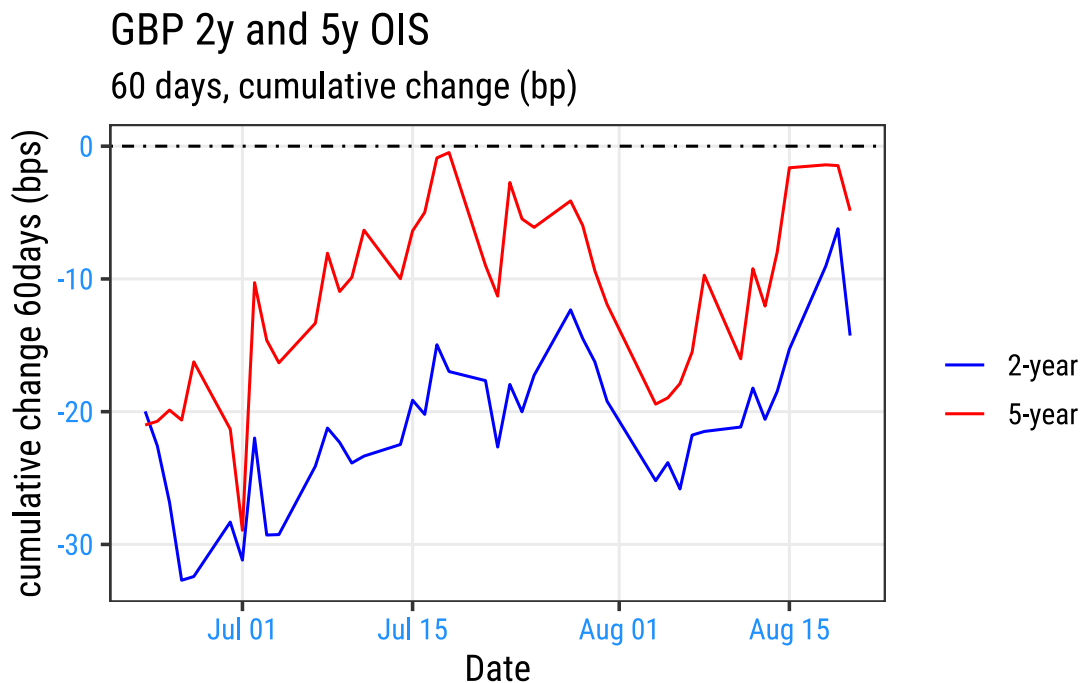


Figure 1: 2y OIS, changes

Evolving market pricing and OIS curves

Providing some context for those latest developments, [?@fig-rates-historical](#) shows how GBP OIS curves have evolved over time, alongside the MPC's Bank Rate decisions.

[?@fig-rates-recent](#) zooms-in on how OIS curves and Bank Rate have evolved over the past year.

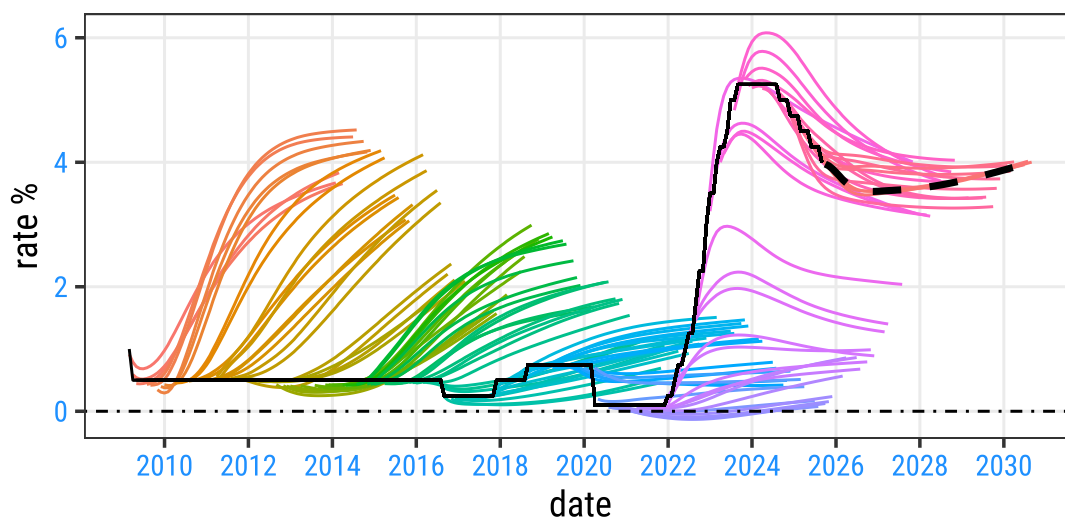
Term spreads

Setting some context for the recent spread of 10y Gilt yields relative to 2y Gilts yields is [Figure 4](#). This shows how a term spread has been restored relative to different periods over the past 10 years.

The 10s25s term spread has widened in recent weeks, and by more than the 2s5s and 5s10s spreads ([Figure 5](#)).

Bank Rate and GBP OIS Curves

monthly averages of end-of-day daily data

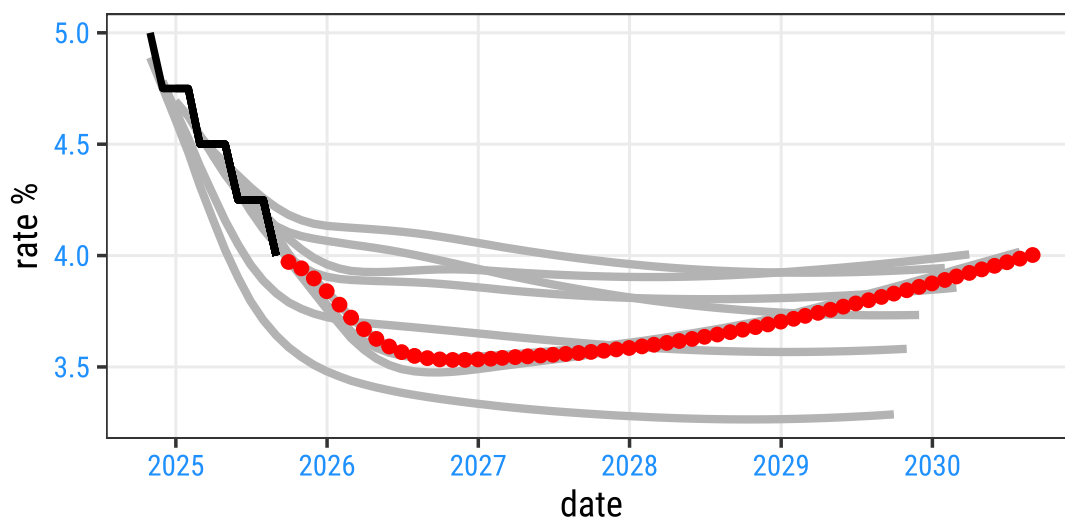


Source: Bank of England data

Figure 2: Evolution of GBP OIS curves

GBP OIS Curves: The past 12 months

monthly averages of end-of-day daily data



Source: Bank of England data

Figure 3: More Recent Evolution of GBP OIS curves

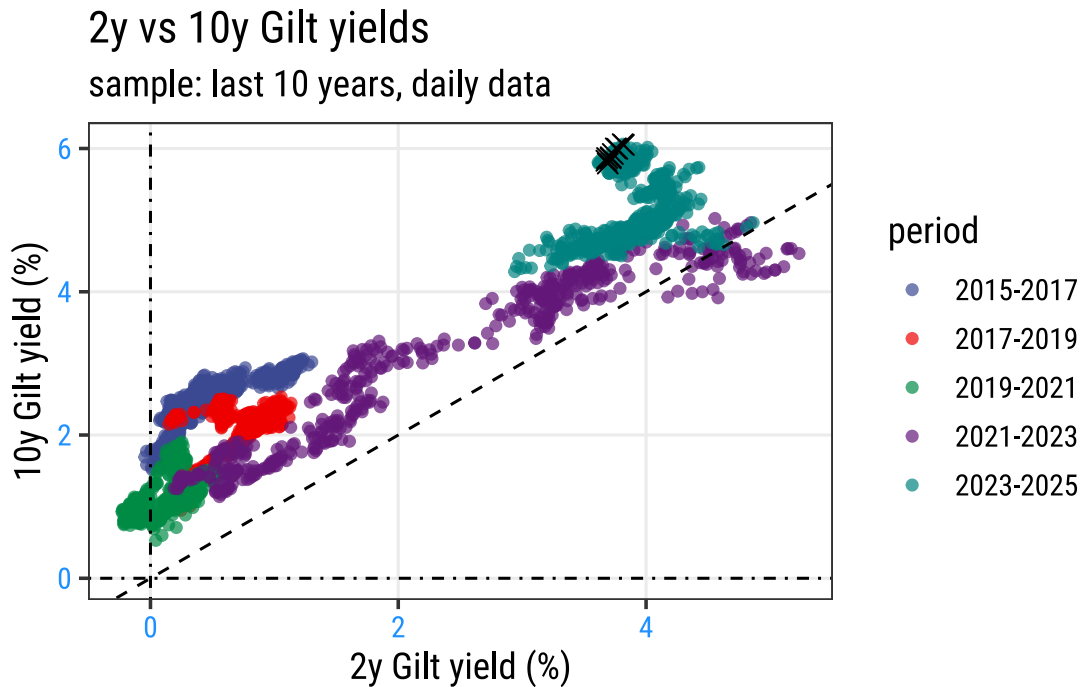


Figure 4: Gilt yields: 2y v 10y

International spillovers

What of international spillovers? Using the Rigobon (2003) methodology, we can estimate the extent to which international spillovers have contributed to the recent sell-off in GBP 10y Gilt yields.

Market reactions and macro news at BoE policy events

Analysing monetary policy shocks

In this section, we review market reactions to BoE policy events, and how these reactions relate to macro news digested by markets at those BoE policy events. This provides further context to recent market and macro developments.

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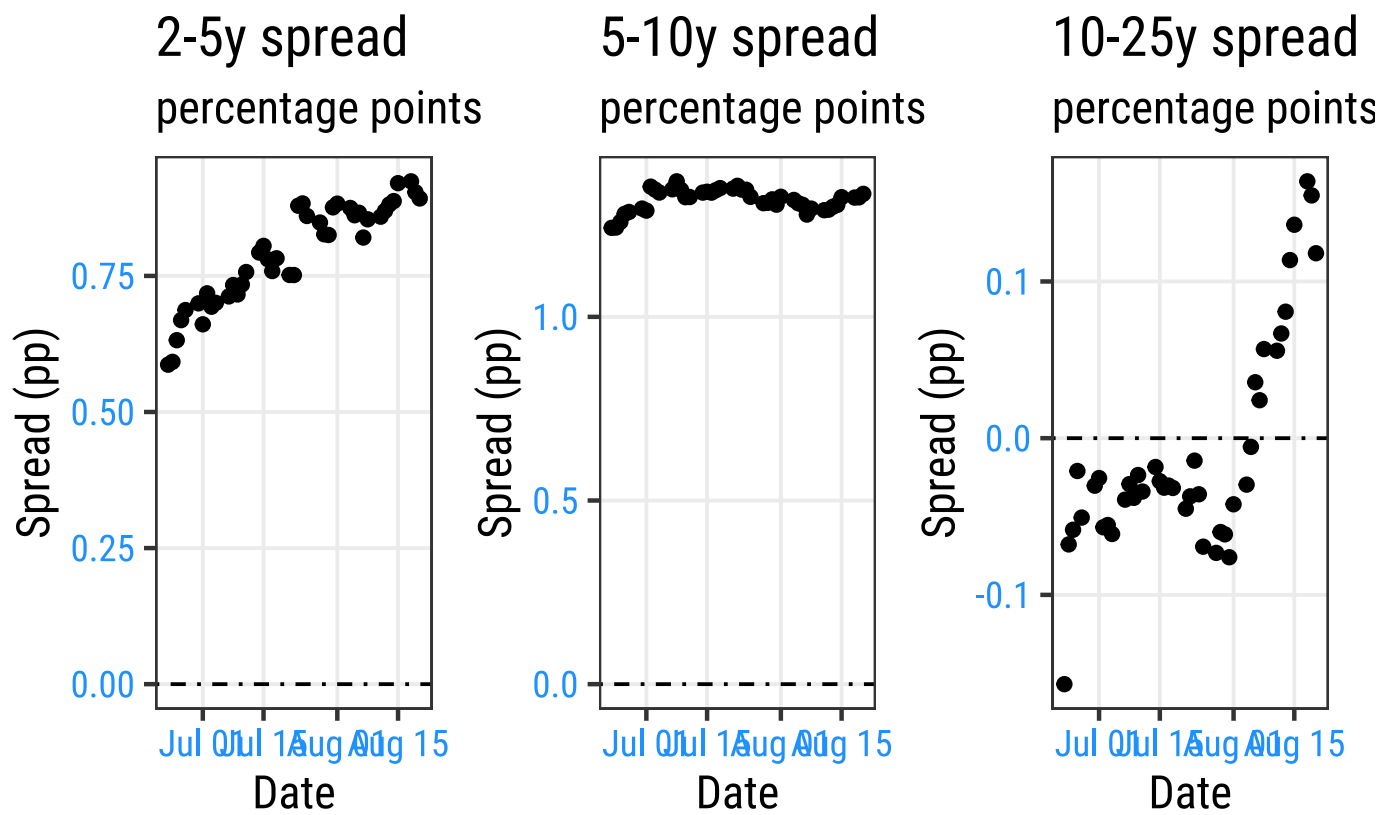


Figure 5: Term spreads in Gilt yields

Evolving macro forecasts and macro news

How has the MPC's own assessment of the macro outlook evolved?

Medium-term Over the past decade or more, the MPC has tended to revise higher its forecasts for inflation, revise its outlook for unemployment lower, without an obvious bias in its forecasts for GDP growth. This points to a pattern of the BoE having had to respond to negative supply shocks, updating its assessments in the light of that repeated pattern.

The weakness of productivity growth, negative terms of trade shocks (e.g. Brexit, Covid, Ukraine), and the impact of these on real incomes, have all contributed to this pattern of revisions and evolving macro forecasts.

Recent updates Looking over the past six MPC forecasts...

MPC preferences and macro forecasts

A Lambda update

As past BoE Governor Carney clarified, the MPC's preferences over inflation and unemployment can be inferred from the MPC's macro forecasts.

Taylor-type policy rules and the latest macro outlook

MPC Voting