

# GBP Rates Report

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2025-08-26

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## Market developments

### Latest developments: the past three months

We consider (cumulative) changes in OIS rates (2-year and 5-year), Gilt yields (2-year and 10-year), the Sterling-Dollar exchange rate (GBPUSD) and the FTSE-All share Equity index over the past three months.

- OIS rates have been on a 'round-trip', rallying in June by 20bp and subsequently reversing. This has coincided with a [stronger/weaker] Sterling, at least against the US Dollar.
- Gilt yields
- Sterling strengthened against the US Dollar in June to July, with this reversing subsequently.
- Equities rallied strongly, especially since July, and by a cumulative 6% over the period.

This combination points towards positive foreign growth shocks predominating in the past 3 months. While other shocks, including domestic shocks have likely applied based on a standard macro interpretation.

### Spreads

**Term spreads** Setting some historical context for the recent spread of 10y Gilt yields relative to 2y Gilts yields is Figure 3. This shows how a term spread has been restored relative to different periods over the past 10 years and can distinguish several phases over that period.

The 10s25s term spread has widened in recent weeks, and by more than the 2s5s and 5s10s spreads (Figure 4).

**Swap spreads** have also widened in recent weeks, as shown in **?@fig-swap-spreads**. This reflects both the rise in Gilt yields, and a fall in swap rates. Swap spreads have been volatile over the past decade or more, reflecting changes in market liquidity, risk premia, and other factors.

Fiscal developments have likely played a role in the rise in term spreads and widening of swap spreads (see here for a discussion).

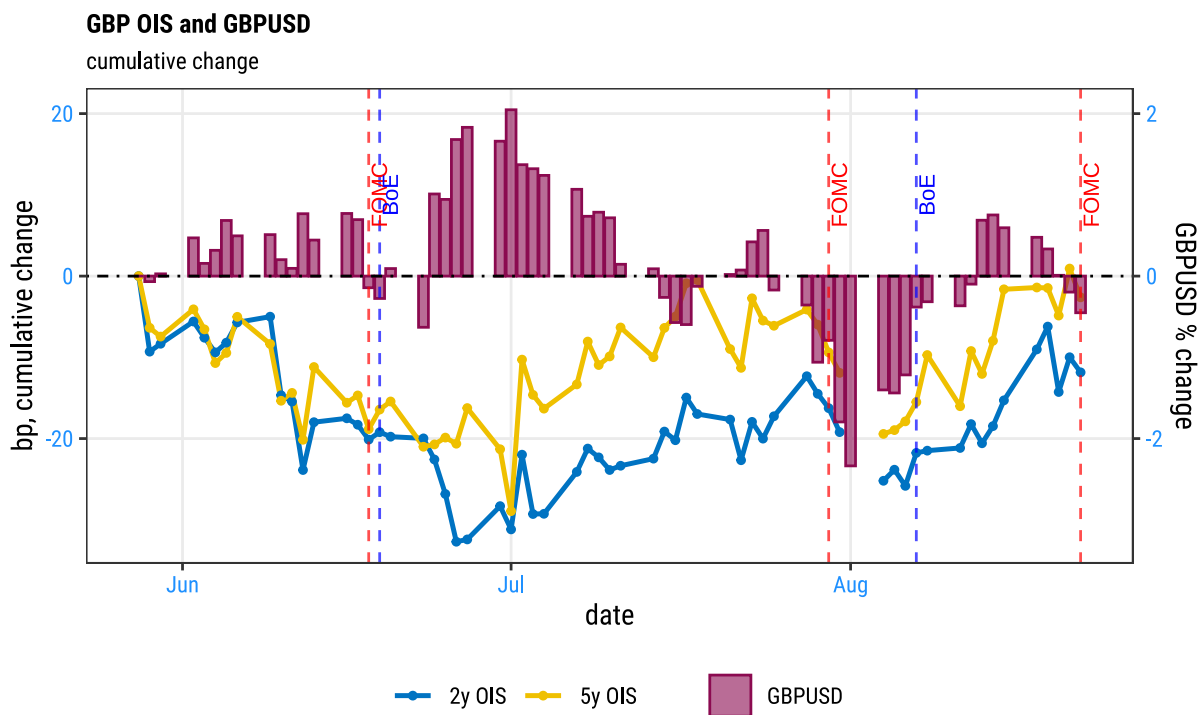


Figure 1: OIS and Sterling

**Neutral rates** We limit our discussion of neutral rates. Figure 5 shows estimates since the pandemic based on a survey of market participants in Sterling markets. In principle, this survey should embody informed assessments of the impact on neutral rates from a broad set of influences. I simulate individual responses based on the reported summary statistics published by the BoE in its Market Participants Survey (MaPS).

## Evolving market pricing and OIS curves

Reflecting related developments over a longer period, Figure 6 shows how GBP OIS curves have evolved over time, alongside the MPC's Bank Rate decisions. Research has shown how the persistent forecast errors shown in this chart reflect a gradual process of learning about slow-moving, medium-term factors such as the neutral and trend productivity growth.

Figure 7 zooms-in on how OIS curves and Bank Rate have evolved over the past year. [check this

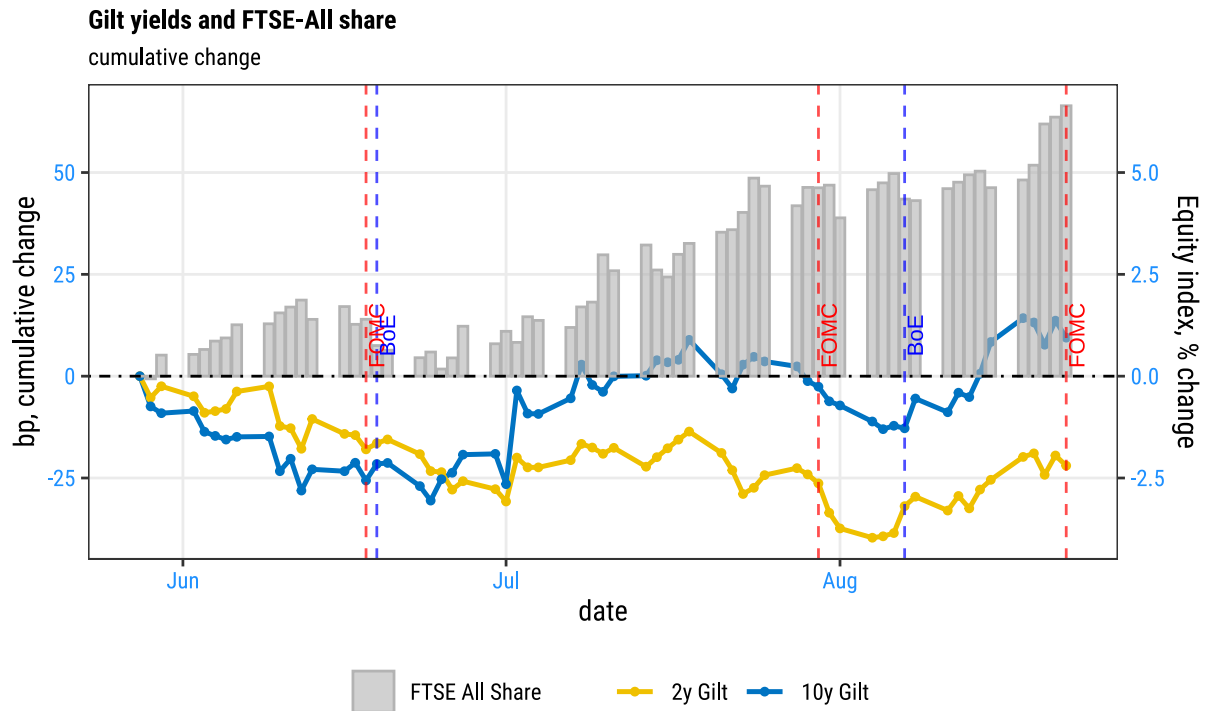


Figure 2: Gilts and Equities

chart]

## International spillovers

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

### Identification Results

Method: Changes in Volatility

Sample size: 125

Log-Likelihood: 463.6628

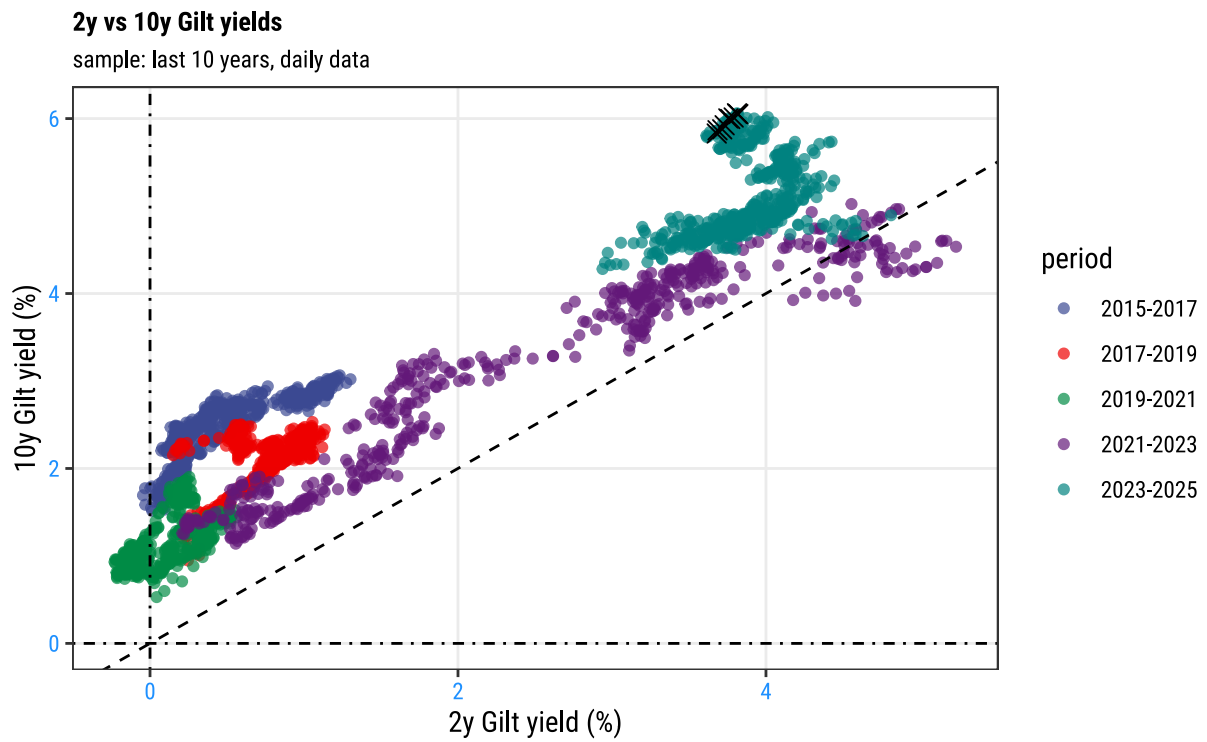


Figure 3: Gilt yields: 2y v 10y

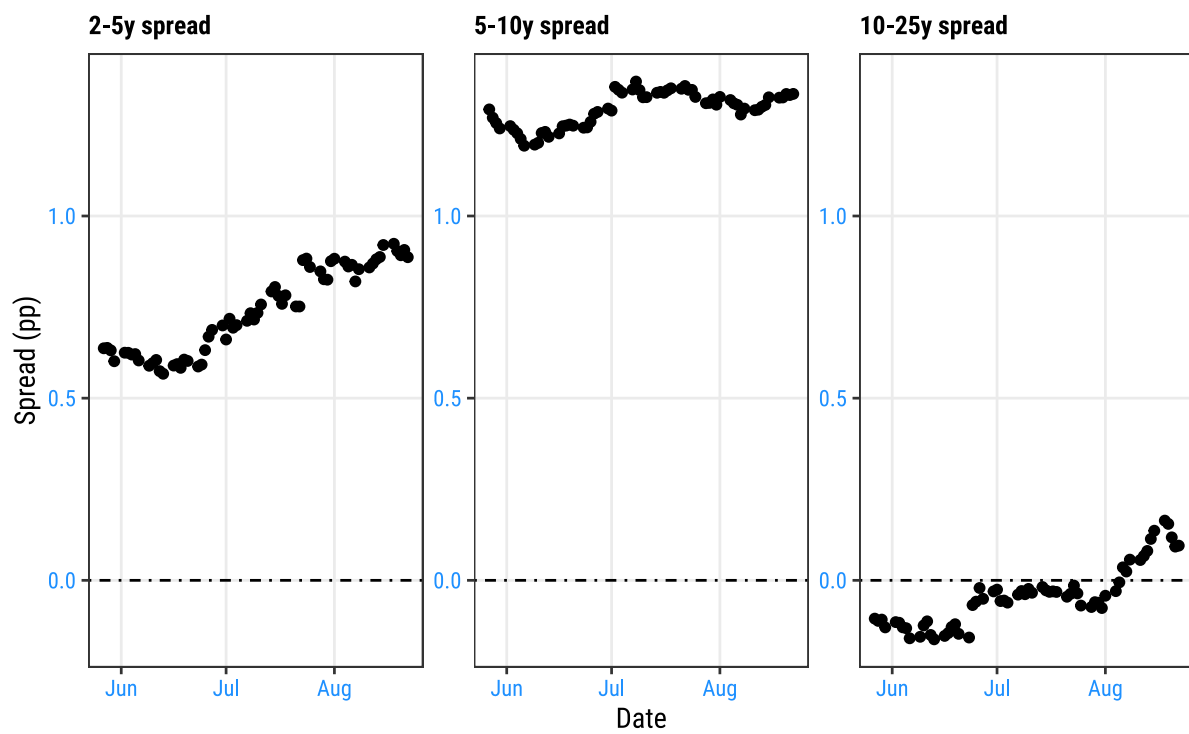
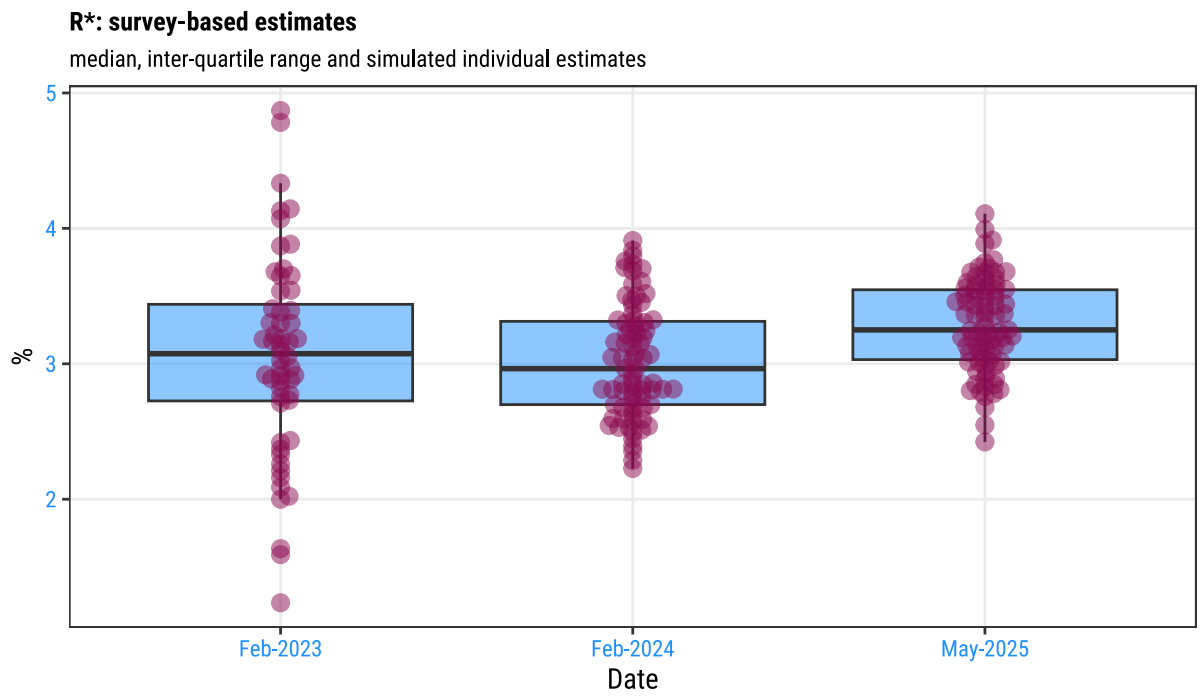


Figure 4: Term spreads in Gilt yields



Source: BoE Market Participants Survey

Figure 5: Market Participants Survey: Neutral rate estimates

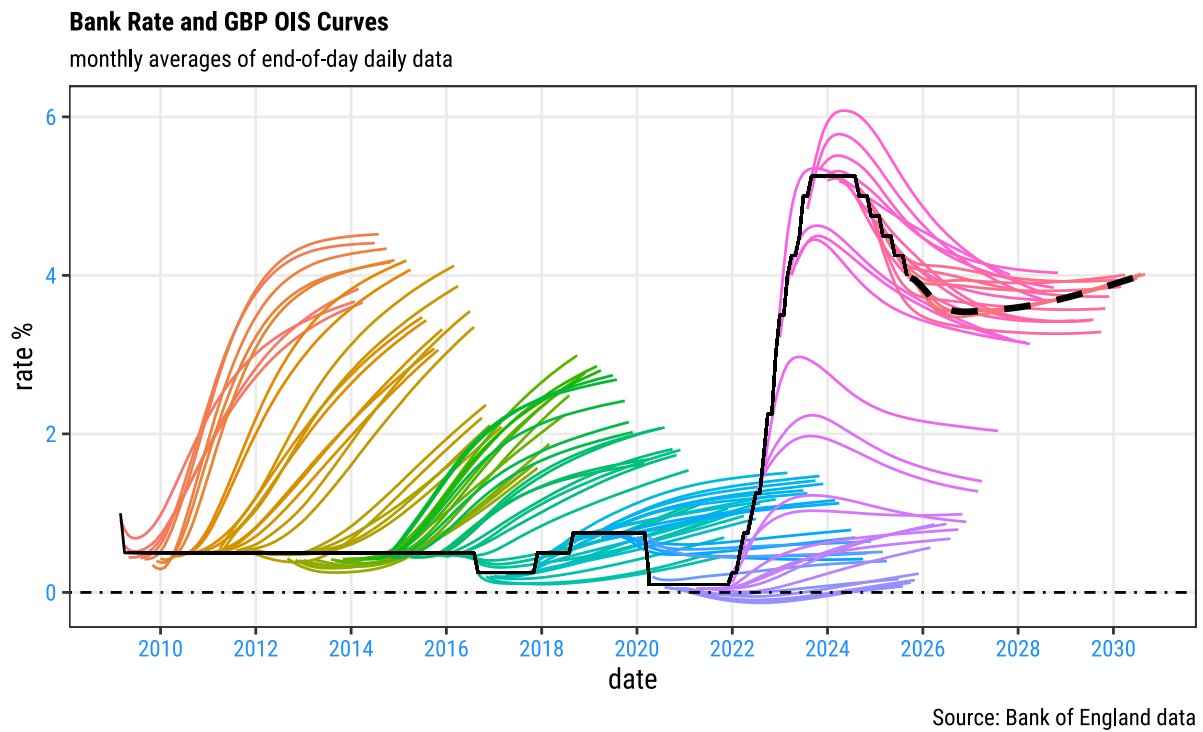


Figure 6: Evolution of GBP OIS curves



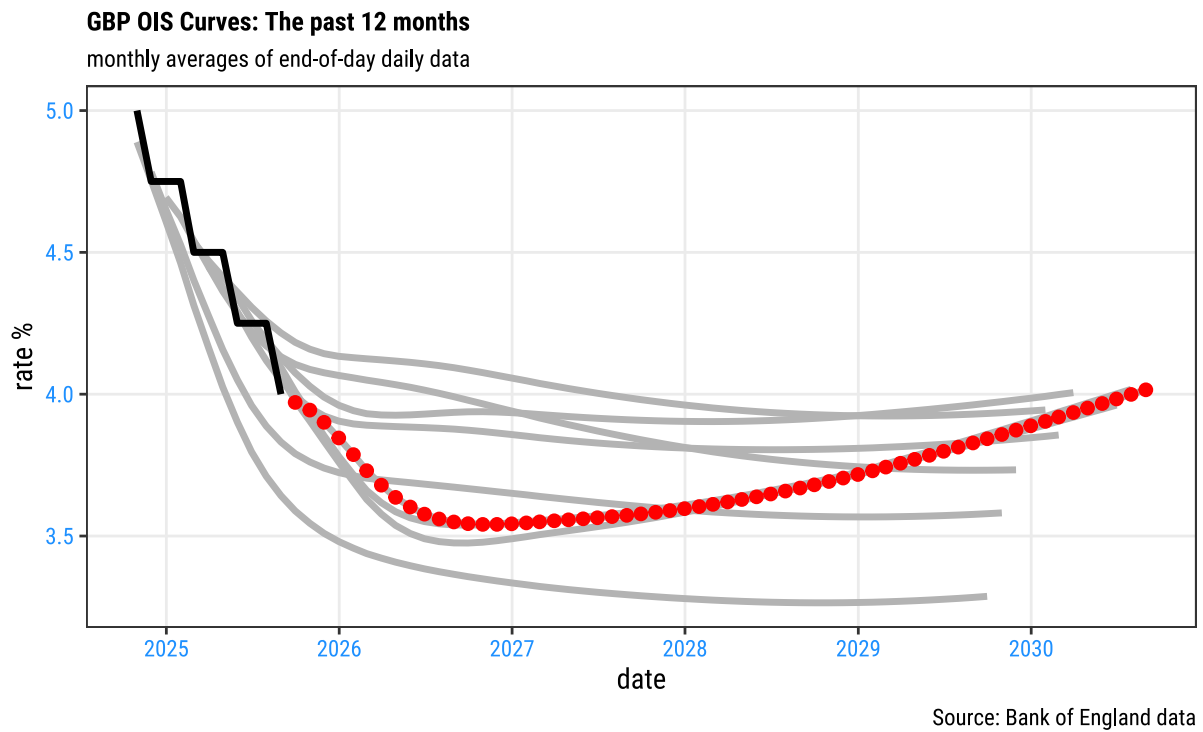


Figure 7: More Recent Evolution of GBP OIS curves

AIC: -805.3255

Structural Break: At Observation Number 63

Number of GLS estimations: 5

Number of Restrictions: 0

Estimated unconditional Heteroscedasticity Matrix (Lambda):

	[,1]	[,2]	[,3]	[,4]
US	1.221149	0.000000	0.000000	0.000000
Germany	0.000000	5.190437	0.000000	0.000000
UK	0.000000	0.000000	3.783752	0.000000
Japan	0.000000	0.000000	0.000000	4.427623

Standard Errors of Lambda:

	[,1]	[,2]	[,3]	[,4]
US	0.3088946	0.000000	0.000000	0.000000
Germany	0.0000000	1.371708	0.000000	0.000000
UK	0.0000000	0.000000	1.255382	0.000000
Japan	0.0000000	0.000000	0.000000	1.360255

Estimated B Matrix (unique decomposition of the covariance matrix):

	[,1]	[,2]	[,3]	[,4]
US	0.12759141	0.061805779	-0.008550644	0.02087056
Germany	0.09618057	0.048858825	0.020438144	-0.04264929
UK	0.05990447	0.088624320	-0.024659891	-0.03676633
Japan	0.04943671	-0.005871381	-0.027446588	-0.01669416

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UK	0.019441577	0.04464160	0.05051845	0.13087779

Japan 0.008795167 0.02348404 0.01927939 0.02541314

Identification Wald Test of equal Eigenvalues:

[1] 5.190437 4.427623 3.783752 1.221149

	Test statistic	dof	p-value
lambda_1 =lambda_2	0.11470	2	0.94427
lambda_1 =lambda_2=lambda_3	0.45325	5	0.99374
lambda_1 =lambda_2=lambda_3=lambda_4	9.45199	9	0.39664
lambda_2 =lambda_3	0.11210	2	0.94549
lambda_2 =lambda_3=lambda_4	7.60302	5	0.17951
lambda_3 =lambda_4	5.52632	2	0.06309 .

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Signif. codes: 0 '\*\*\*' 0.001 '\*\*' 0.01 '\*' 0.05 '.' 0.1 ' ' 1

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```

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Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
=== Rigobon Structural VAR Results ===
Structural break date: 2020-03-01
Pre-break observations: 63
Post-break observations: 64
Number of variables: 4
VAR lag order selected: 2

```

Structural coefficients (Lambda matrix):

	[,1]	[,2]	[,3]	[,4]
US	1.2211	0.0000	0.0000	0.0000
Germany	0.0000	5.1904	0.0000	0.0000
UK	0.0000	0.0000	3.7838	0.0000
Japan	0.0000	0.0000	0.0000	4.4276

Forecast Error Variance Decomposition at 12-month horizon:

	US	Germany	UK	Japan
12	72.788	21.752	3.093	2.367

## Market reactions and macro news at BoE policy events

### Analysing monetary policy shocks

In this section, we review how a range of financial markets have reacted to BoE policy events, and how these reactions relate to macro news digested by markets at those BoE policy events.

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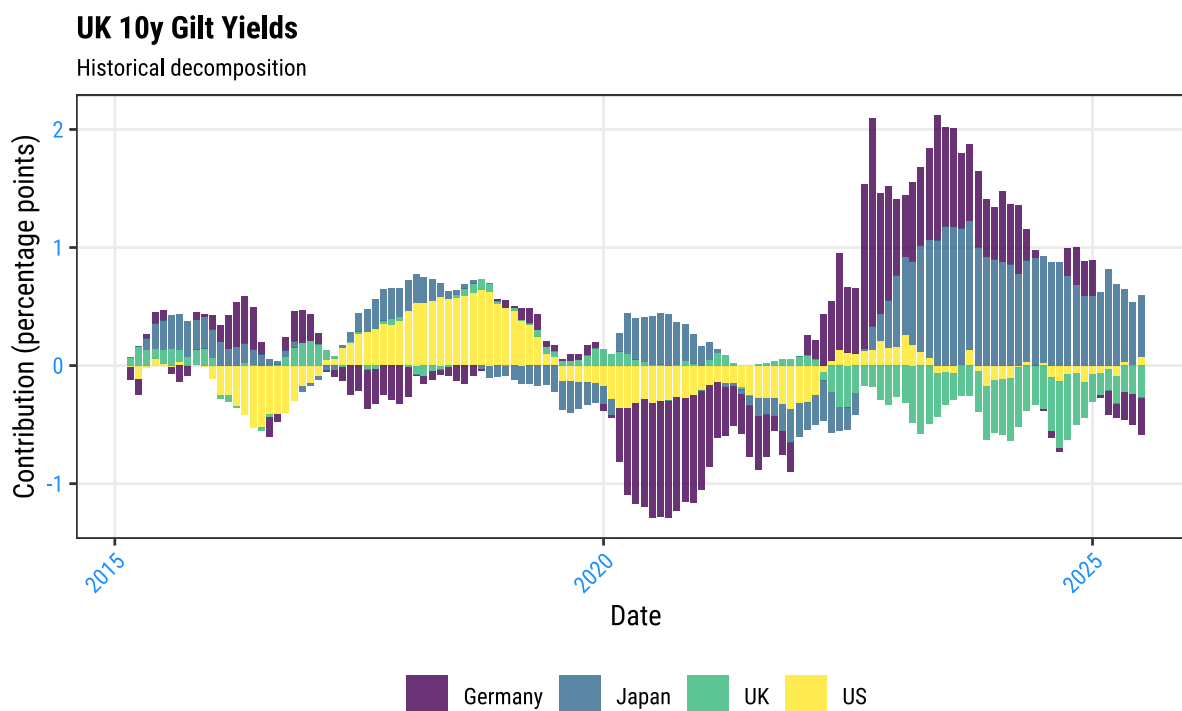


Figure 8: International spillovers to 10y Gilts yields

## Evolving macro forecasts and macro news

How has the MPC's own assessment of the UK 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, pandemic, Ukraine), and the impact of these on real incomes, have all contributed to this pattern of revisions and evolving macro forecasts.

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## MPC Voting: increased disagreement

We inspect MPC voting patterns to illustrate two points. First, the rising extent of disagreement among MPC members. Second, how current MPC member voting compares with that of past members.

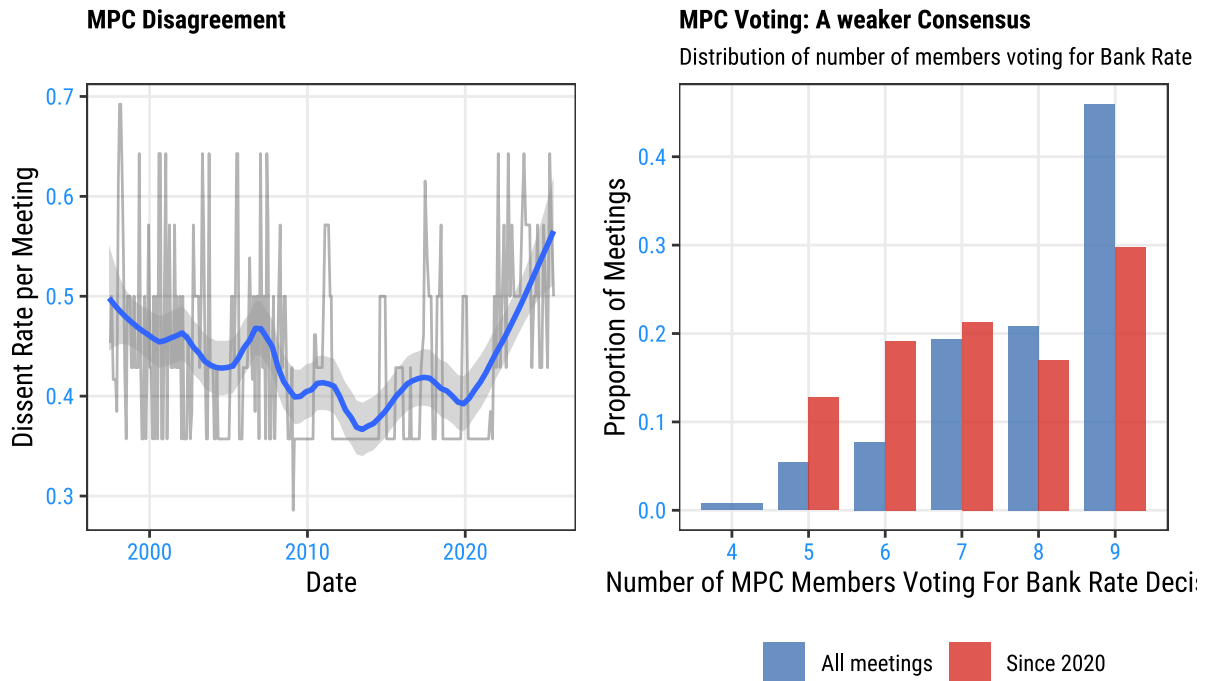


Figure 9: A weaker Consensus in MPC rate decisions

Rising disagreement among MPC members culminated in the August 2025 MPC vote requiring a second vote among Committee members in order to secure a clear majority for the rate cut decision.

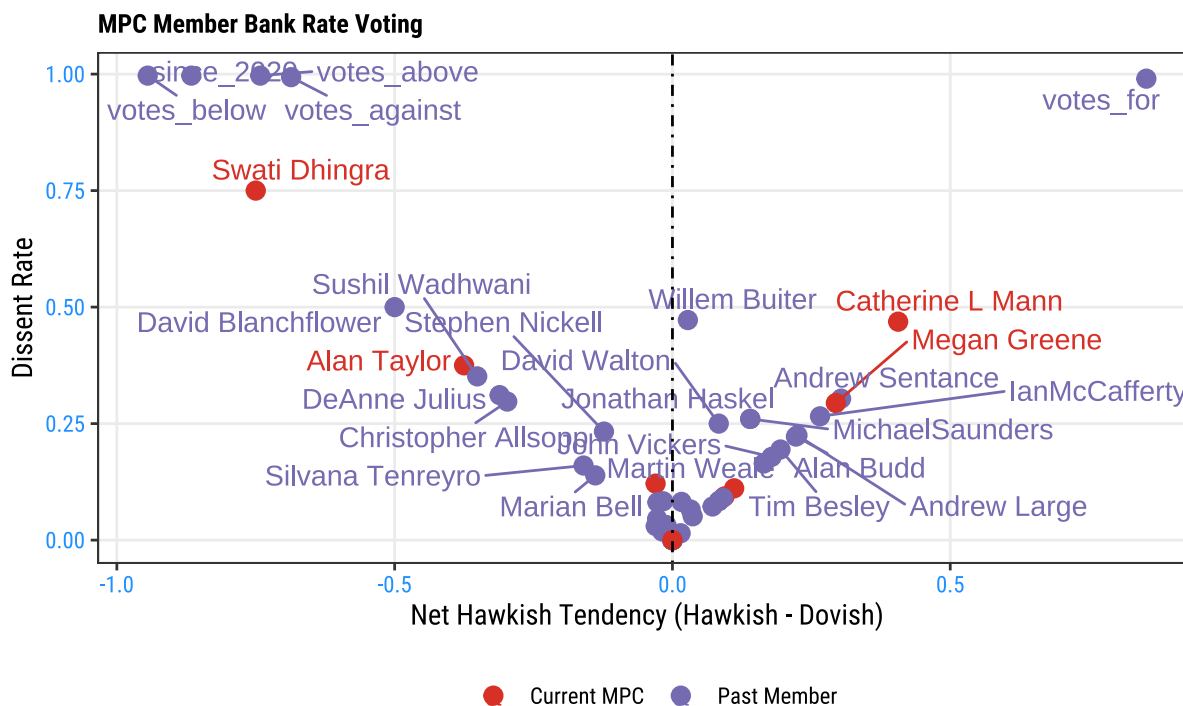


Figure 10: MPC disagreement and preferences

Increasingly nuanced macroeconomic assessments are producing more closely contested votes and heightened disagreement among MPC members. This development places greater emphasis on the quality of macroeconomic analysis and forecasts that underpin MPC decisions. While such complex judgements reinforce the importance of maintaining independence from political pressures, the forecast errors documented earlier pose a risk to both the credibility of the MPC's analytical process and public confidence in its institutional independence. This may leave Sterling markets more sensitive to international spillovers and to political and fiscal news.