

GBP Macro Report

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UK Macro views

1. **Upside inflation risk** resulting from the past pattern of BoE forecast errors and underestimating the UK's supply-side weakness.
2. **Bond market volatility** amplified by fiscal sustainability concerns. Weak supply-side performance and 'fiscal fatigue' raise questions about fiscal capacity and inflation persistence. In these episodes, yield curve steepening and risk premium episodes should be expected. Fiscal risk premiums tilt the BoE hawkish.
3. Authorities will mitigate yield curve steepening by active **debt management**, reducing the average maturity of new issuance. HMT should also prioritise spending restraint and tax rises with lower implementation risk (eg re-profiling fixed investment plans).

GBP Market developments I

GBP OIS and GBPUSD

cumulative change

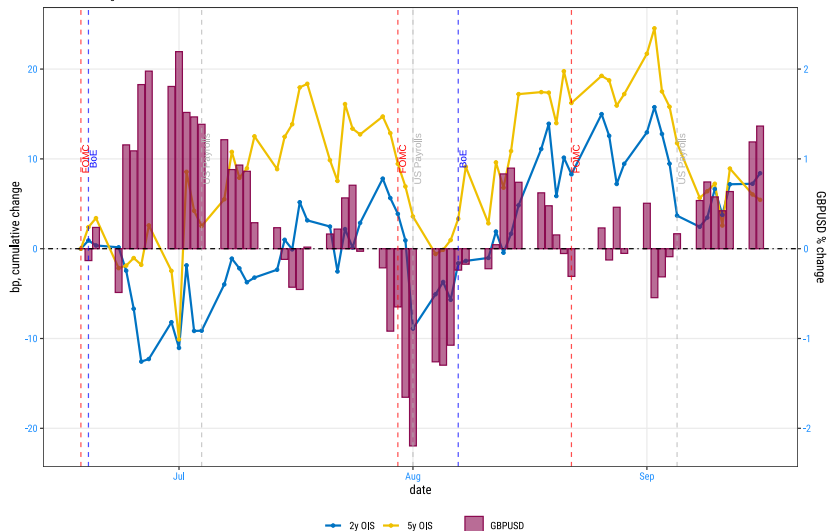


Figure 1: OIS and Sterling

GBP Market developments II

Gilt yields and UK Equity prices

cumulative change

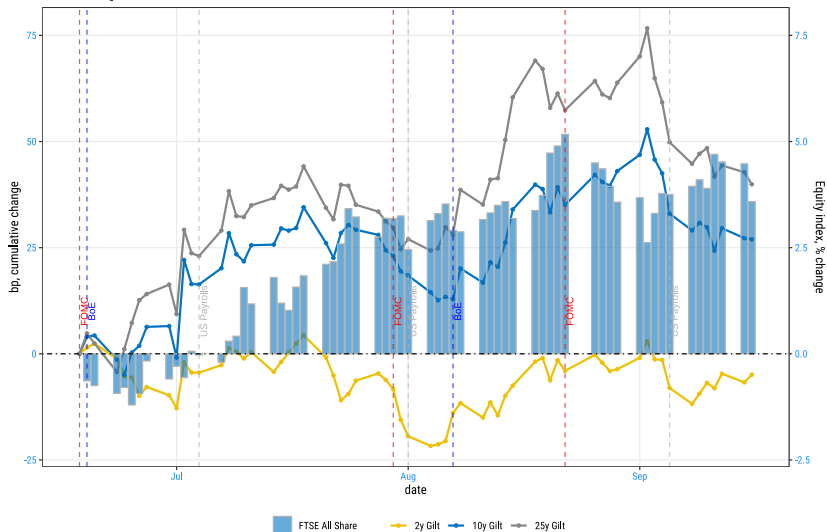


Figure 2: Gilts and Equities

Evolving macro forecasts

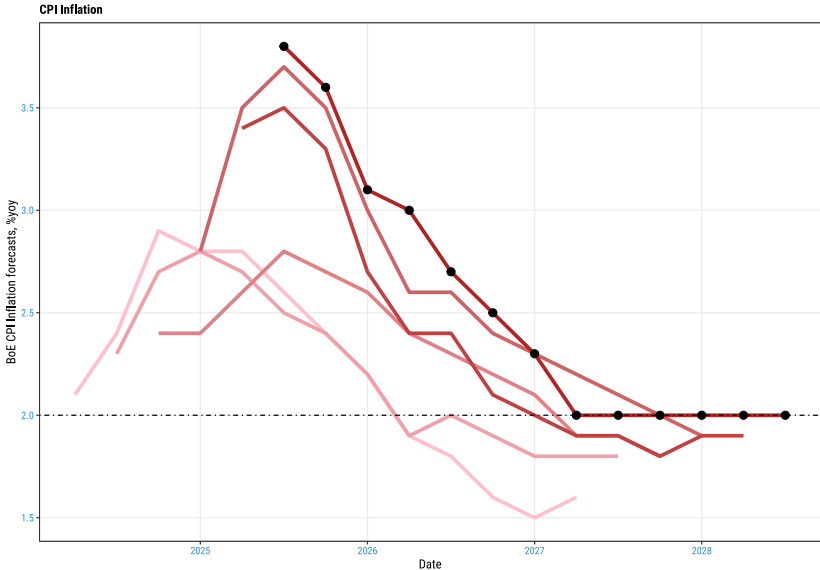
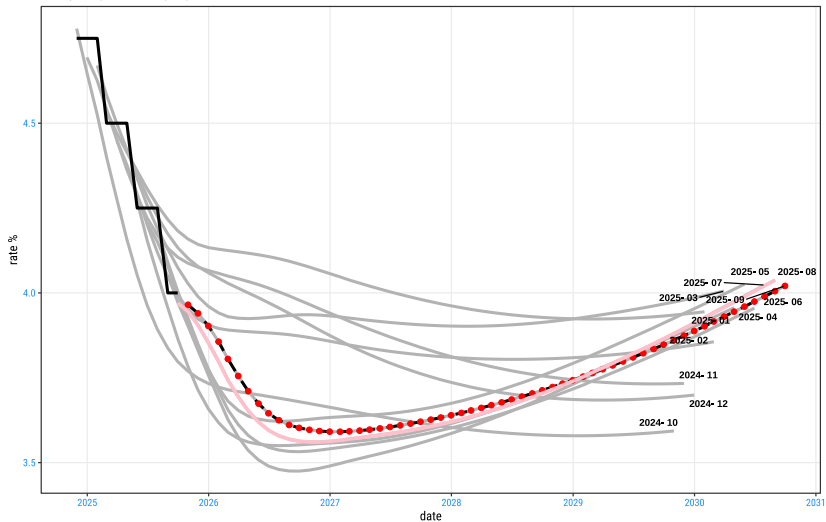


Figure 3: Successive BoE Inflation Forecasts

Successive OIS curves tilting hawkish

GBP OIS Curves: The past 12 months

monthly averages of end-of-day daily data



Source: Bank of England data

Figure 4: Successive OIS Curves

A test of fiscal fatigue?

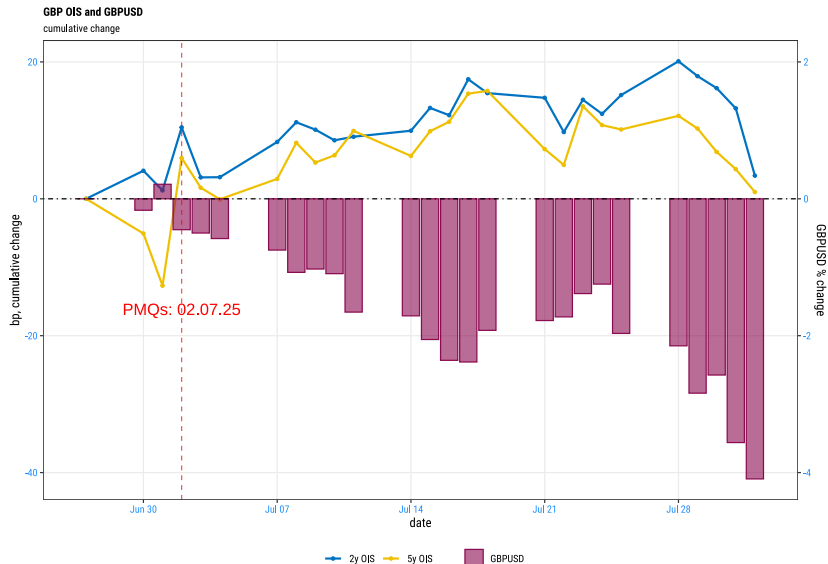


Figure 5: Fiscal fatigue and risk premium in OIS and Sterling

International spillovers in bond markets

Estimated Structural Shocks in International Bond Markets

Structural shocks from 4-country VAR with change-in-volatility identification

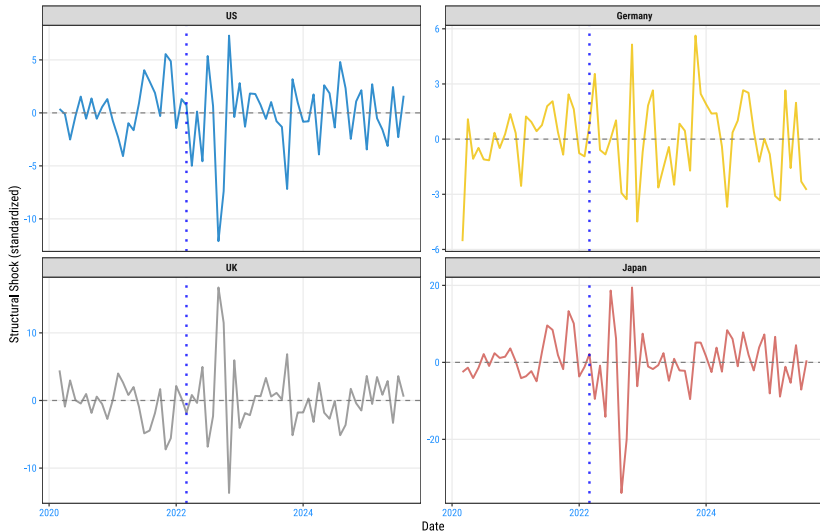


Figure 6: International spillovers

MPC Voting: increased disagreement

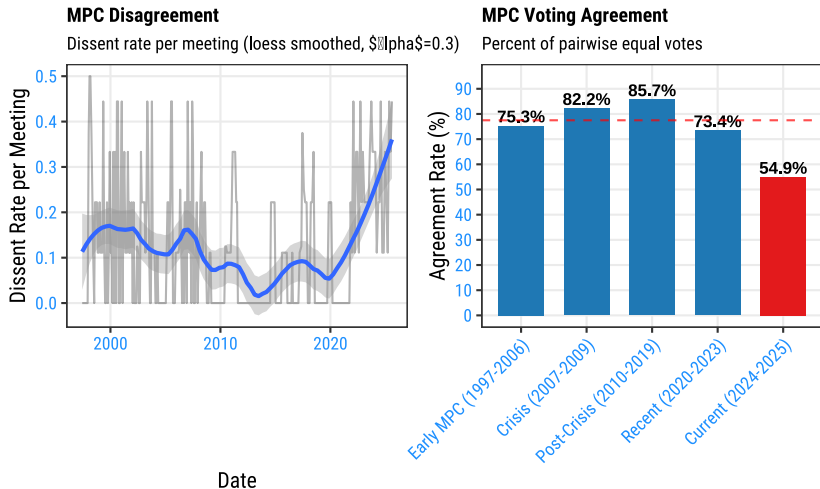


Figure 7: A weaker Consensus in MPC rate decisions

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