

GBP Rates Report

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2025-08-31

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Market developments

Latest developments: the past three months

Summarising some key developments in Sterling markets in the past 3 months:

- **OIS rates** have seen a 'round-trip', rallying in June by 20bp and subsequently reversing that move.
- **Sterling** strengthened against the US Dollar in June (while OIS rallied), and then reversed that (as OIS rates sold-off).
- **Gilt yields** rallied similar to OIS in June, but that has been more than reversed since then and especially at the long-end. 10y and 30y Gilt yields end the period xxxbp higher.
- **Equities** rallied strongly by a cumulative 6% over the period, and concentrated in the period since July.

This combination points towards positive foreign growth shocks predominating in the past 3 months. While other shocks, including domestic shocks have likely applied, positive global growth sentiment has been the predominant driver based on a standard macro interpretation. A dovish monetary policy impulse in June was subsequently reversed yet was accompanied by a rally in equities thanks to a belief in stronger growth.

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 help shed light on potential effects from bond supply in different markets. Swap spreads have moved more deeply negative in recent weeks and by more in the UK than in the US or Germany.

[some detail]

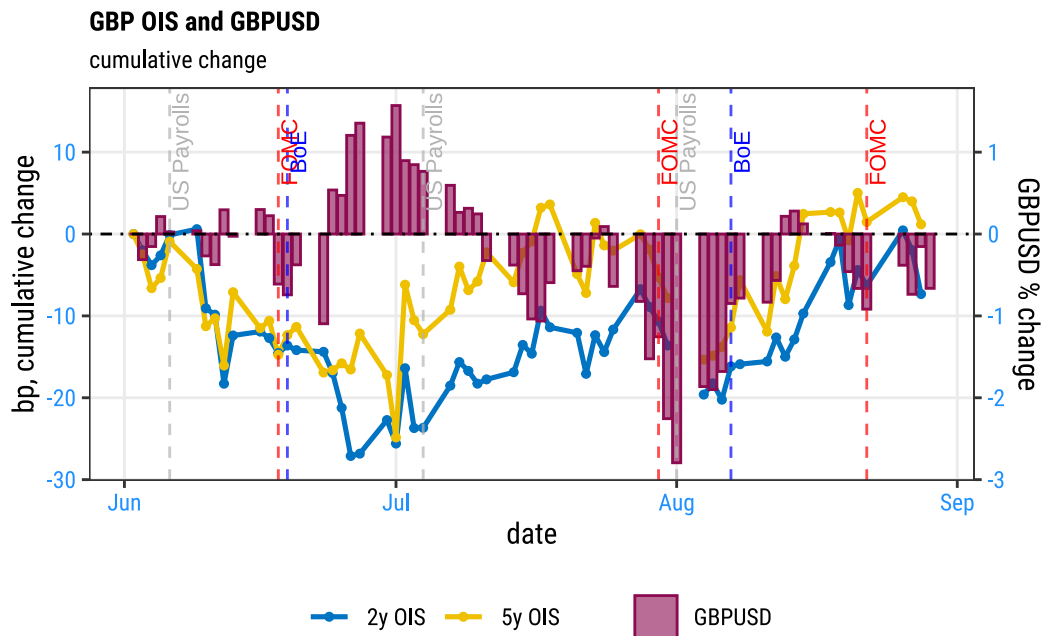


Figure 1: OIS and Sterling

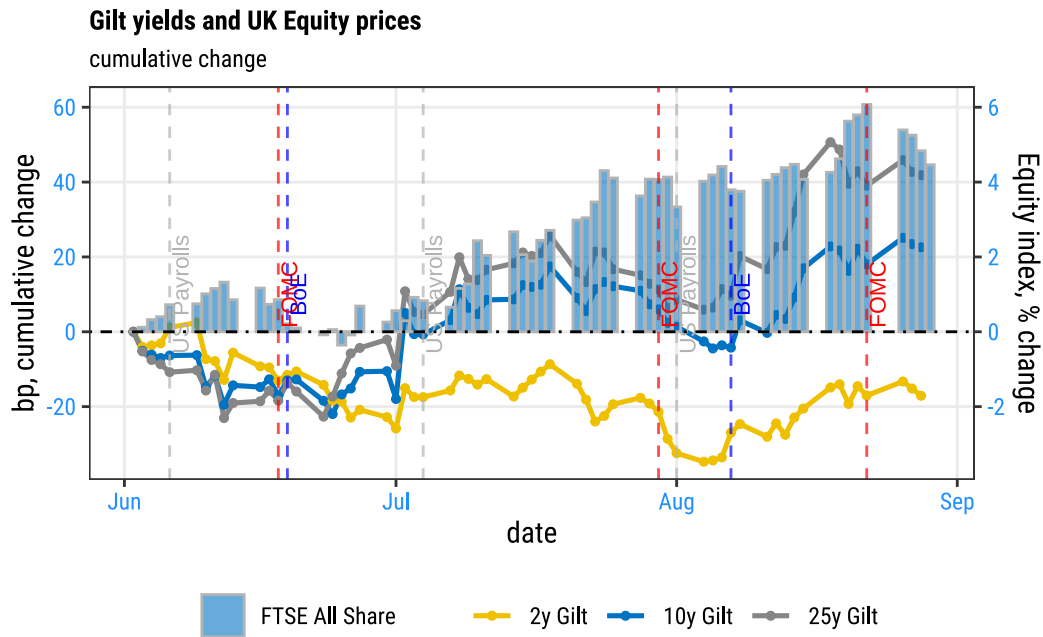


Figure 2: Gilts and Equities

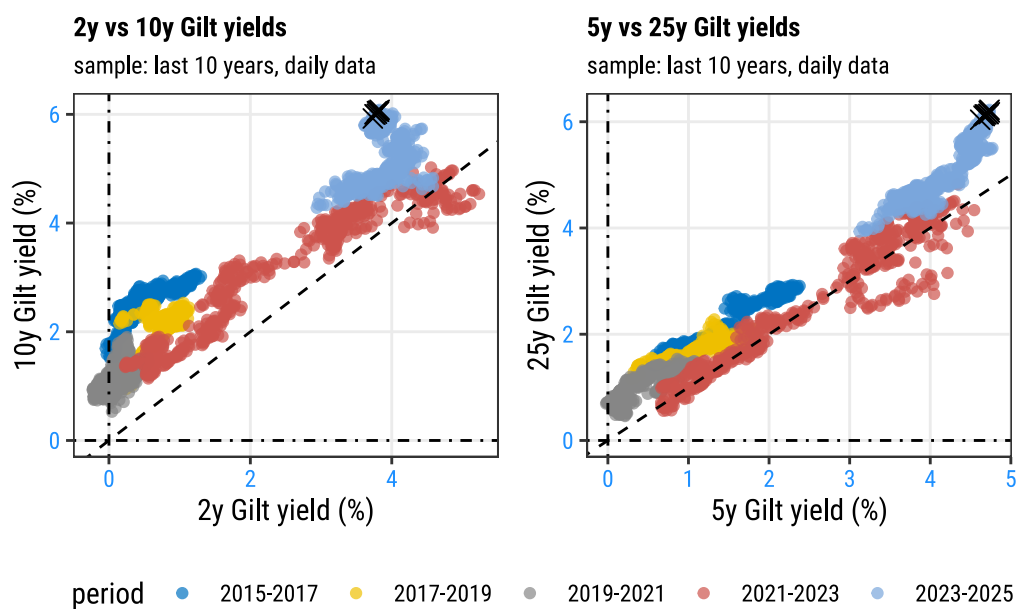


Figure 3: Gilt yields

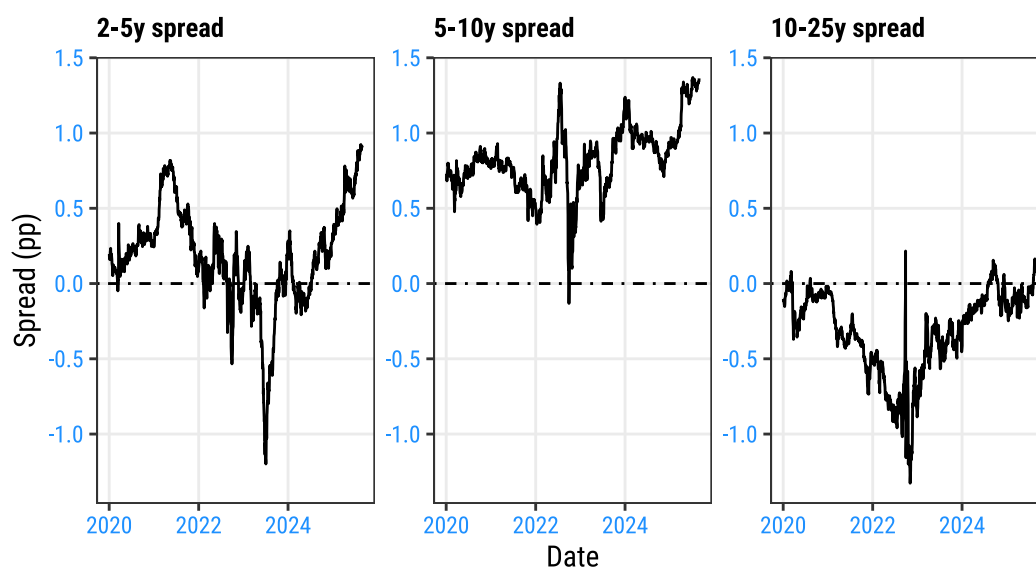


Figure 4: Term spreads in Gilt yields

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

[contribution from OIS and bond yields to changes in swap spreads in UK, US, GER since 2022-01-01]

Evolving market pricing and OIS curves

Reflecting related developments over a longer period, Figure 5 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 6 zooms-in on how OIS curves and Bank Rate have evolved over the past year. [check this chart]

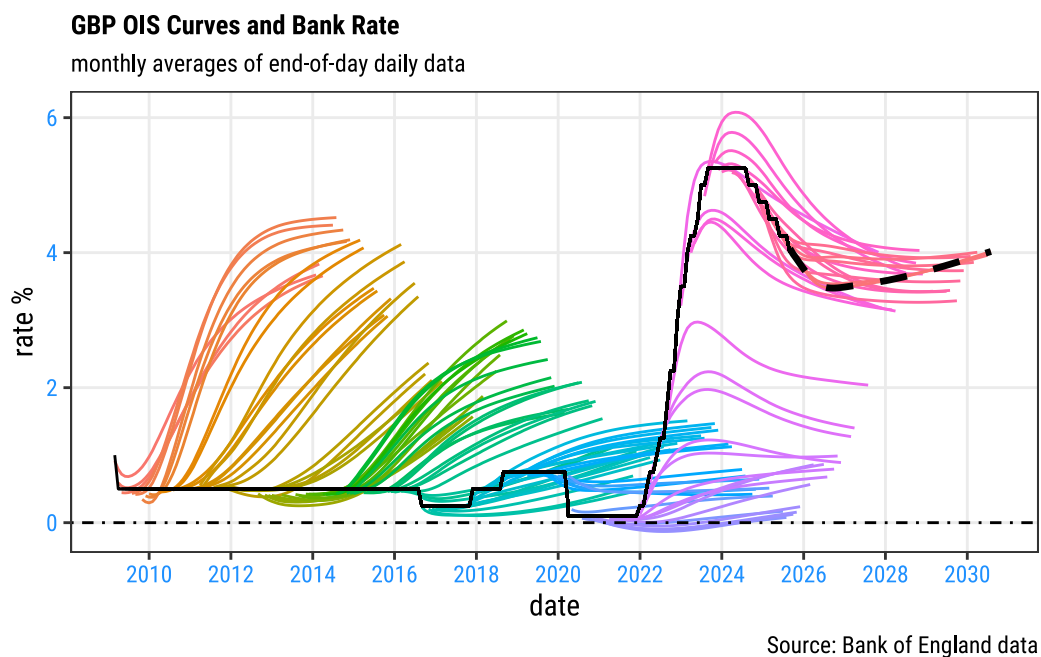


Figure 5: Evolution of GBP OIS curves

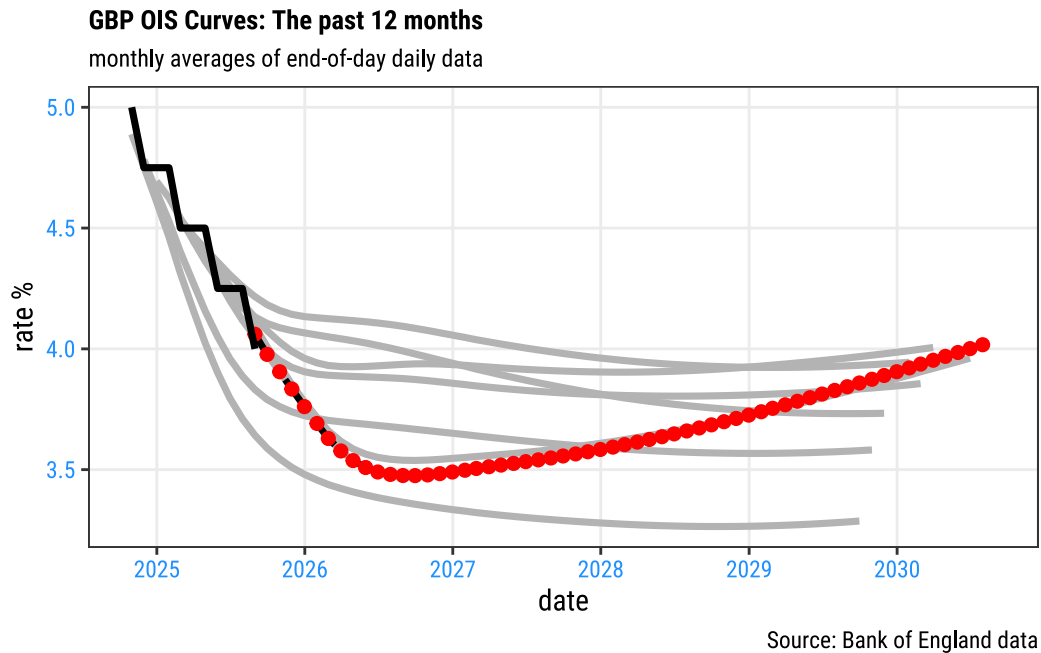
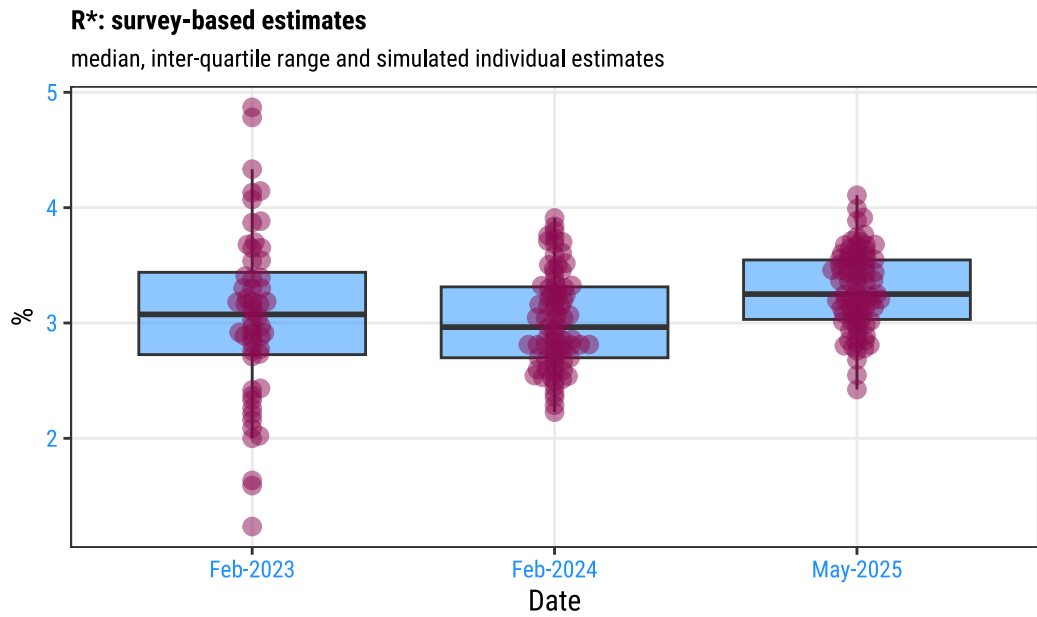


Figure 6: More Recent Evolution of GBP OIS curves

Neutral rates We limit our discussion of neutral rates. Figure 7 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).

International spillovers in sovereign bond markets

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.



Source: BoE Market Participants Survey

Figure 7: Market Participants Survey: Neutral rate estimates

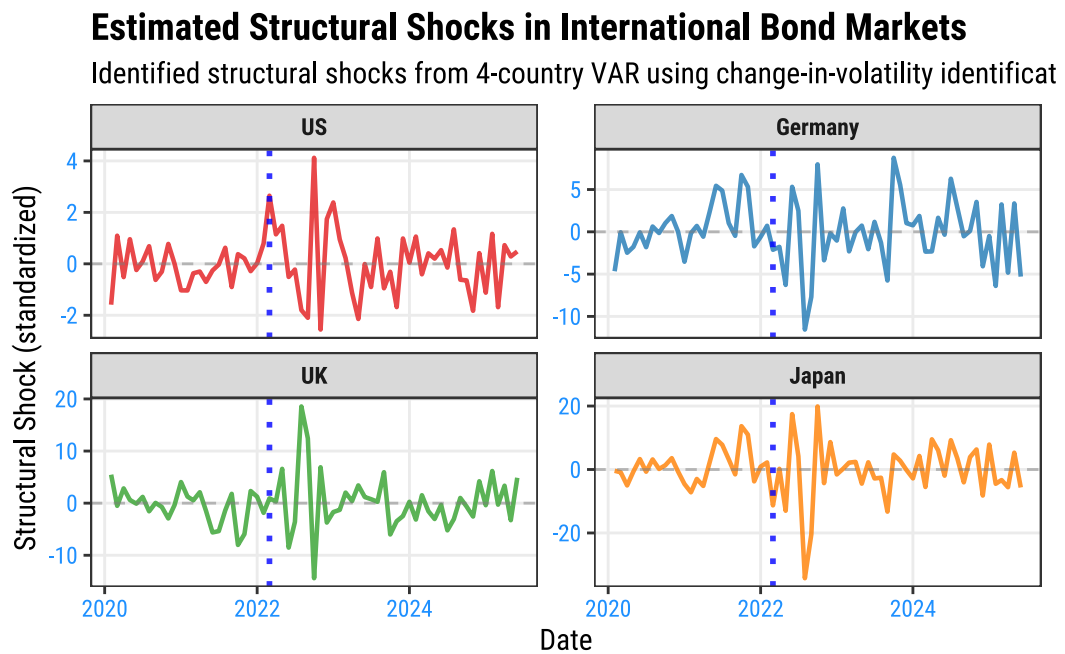


Figure 8: International spillovers

Fiscal risks

The (international) risk of fiscal fatigue

Required fiscal effort and how UK compares.

Fiscal events

A fiscal downgrade of 30bn would, based on this relationship, point to tightening of A key issue in the Budget will be how front-loaded is that tightening.

Market reactions and macro news at recent BoE policy events

Analysing monetary policy shocks

We now review how financial markets – OIS, Gilts, Foreign exchange and Equities – reacted to news at BoE policy events. These reactions are summarised in Figure 9.

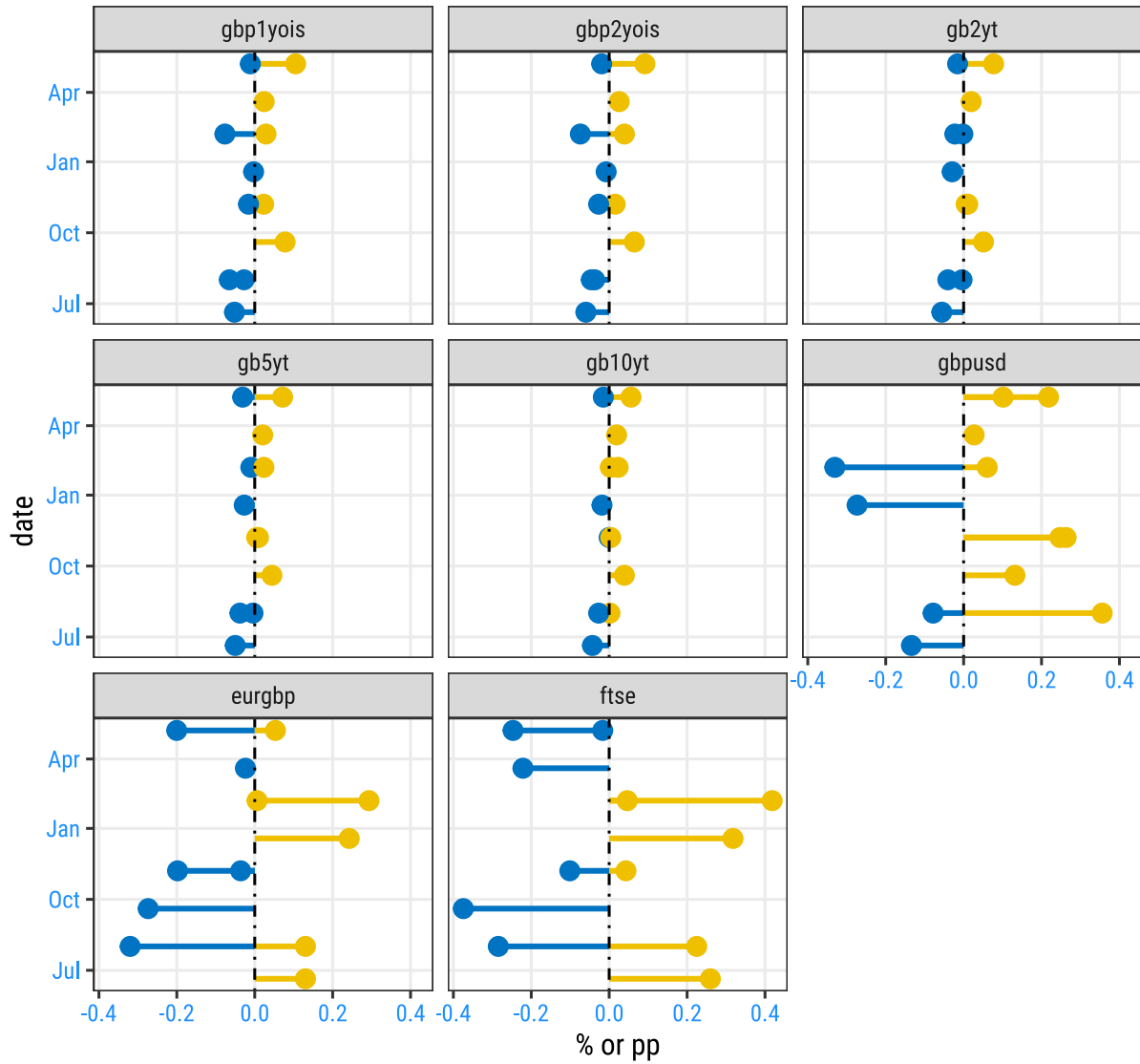
Evolving macro forecasts and macro news

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.

Asset price reactions at MPC meetings



Sources: Braun et al (2025) and own calculations

Figure 9: Asset price reactions at MPC announcements

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

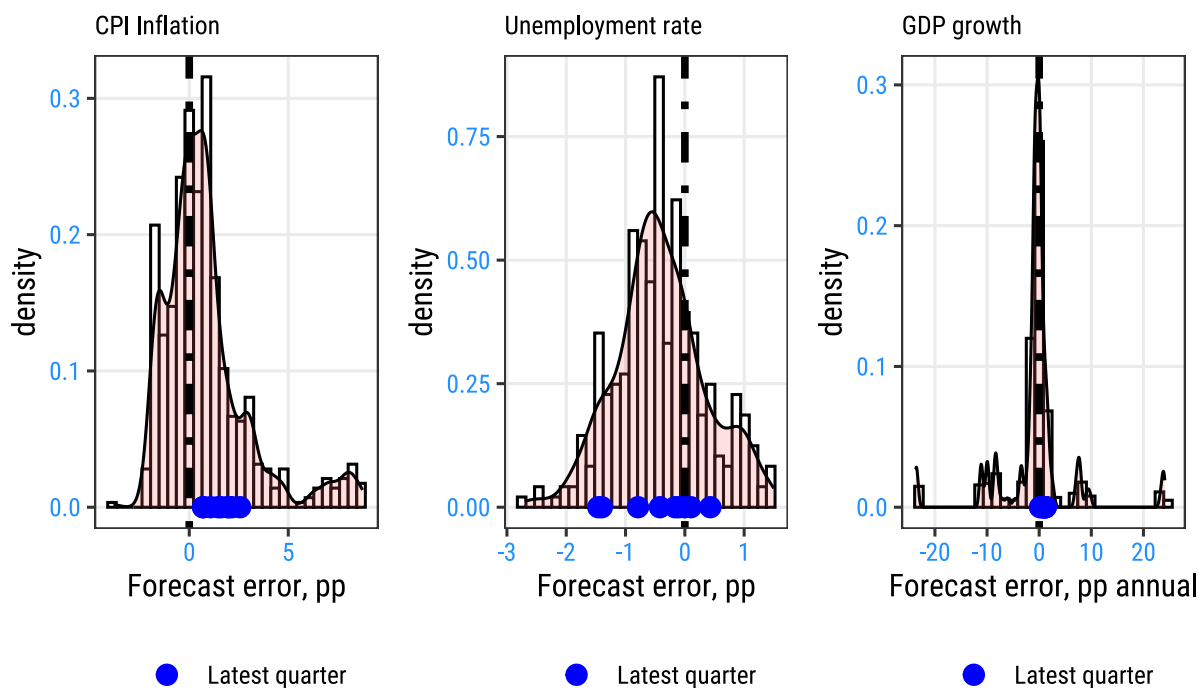


Figure 10: Distribution of BoE Forecast errors

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.

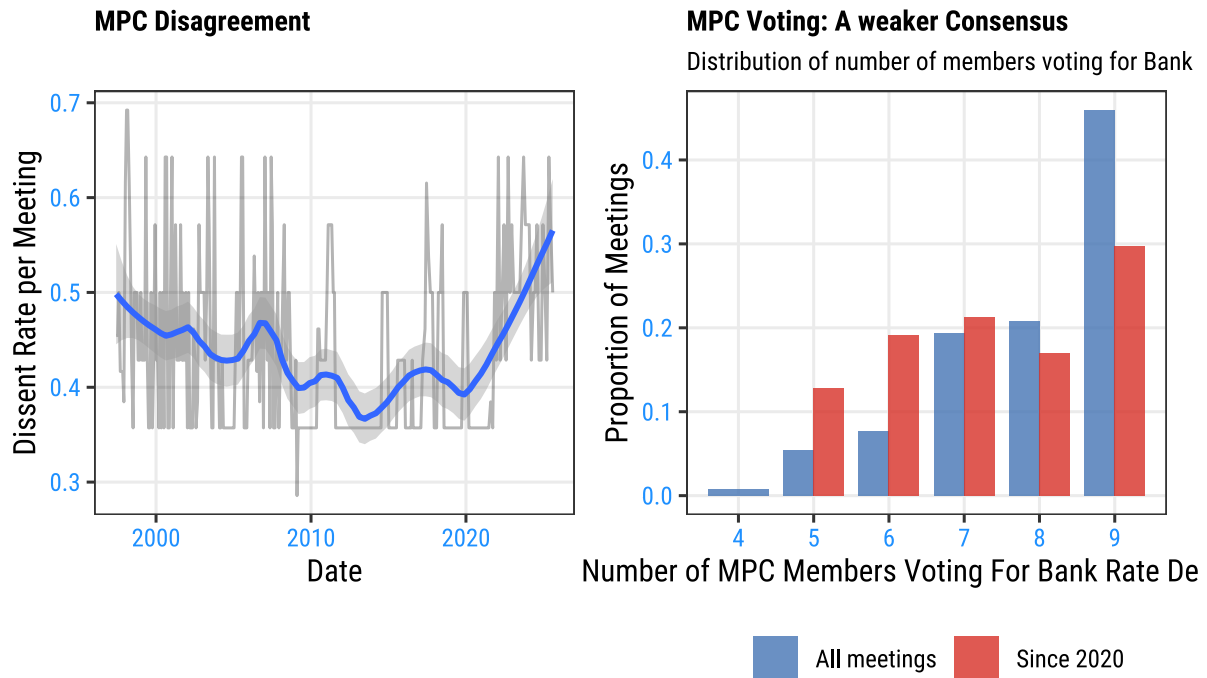


Figure 11: A weaker Consensus in MPC rate decisions

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.

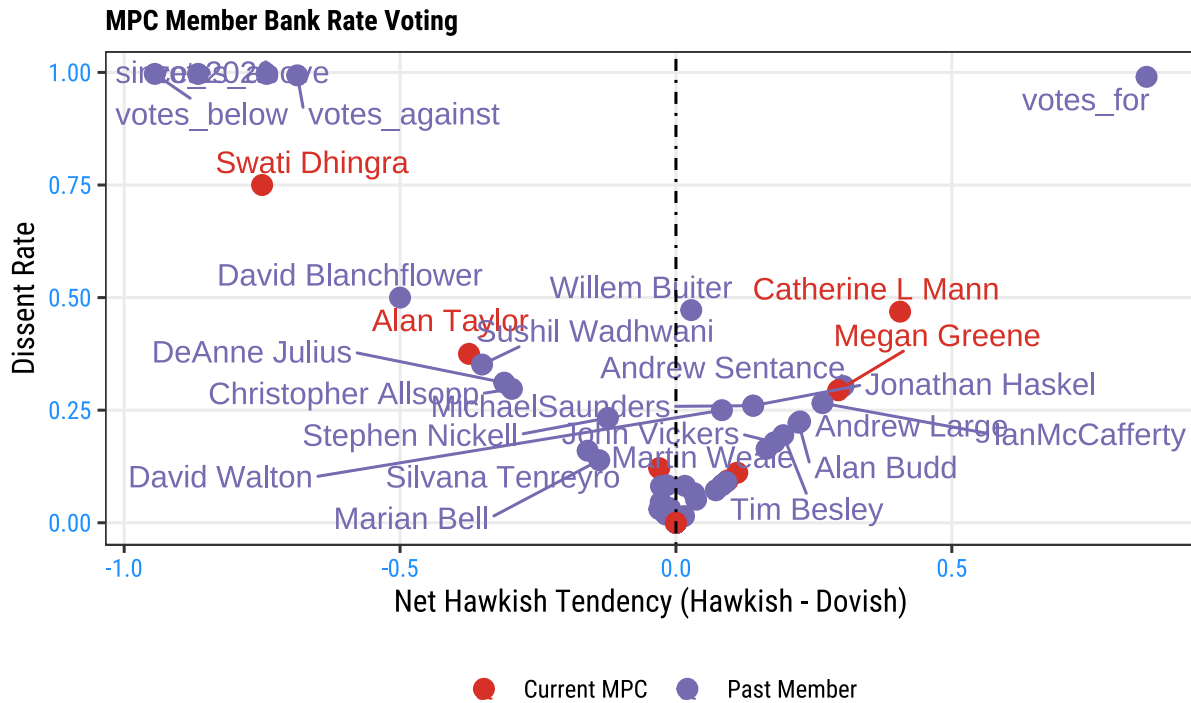


Figure 12: MPC disagreement and preferences

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.