

UK Rates Watch

Gilt buying in September: Foreigners rebuild their Gilt holdings

Foreigners rebuild Gilt holdings in September

Today's BoE Bankstats report for September showed foreign investors increasing their Gilt holdings by £7.6bn, having shed £5.8bn in August (Exhibit 1). Year-to-September, foreign investors' holdings are up by £17.3bn, a relatively small increase compared to the same period in prior years. But the £24.4bn increase in 3Q is a comparable outcome (Exhibit 2). Domestic banks increased their Gilt holdings by £3.3bn in September. UK bank holdings have risen steadily every month since July 2024 - the last time that they decreased on the month - with £6.8bn per month of net purchases on average. Year-to-September, UK bank holdings have risen by £54.1bn, exceeding the 2024 total of £49.6bn. Domestic non-banks remain the main buyers of Gilts year-to-September, having acquired £132.2bn net. In September, they bought a net £14.1bn, after a £19.4bn increase in August.

Rates: Expect broad-based rise in Gilt holdings in October

October's sharp reversal in investors' attitudes towards UK rates took Sonia yields 25bp lower, nearly uniformly across the curve (with the Gilt 2s30s curve 11bp flatter), a 20bp outperformance versus USTs on average (Exhibit 3). Some of the factors contributing to this repricing were encouraging messaging on the 26 November Budget, sharp front-end Sonia repricing after key macro data releases, and positive news on the public sector finance data front (for more, see [A glimmer of light](#), 21 October). For overseas' investors, October's trade-weighted GBP cheapness might have contributed to improved sentiment in combination with the encouraging messaging on the Budget front. And we continue to expect domestic Banks to be tempted by Gilt carry and roll in the 10y area. Finally, the UKT 3.5% 2025 redemption was likely distributed broadly across investor types, possibly including retail. With no BoE ownership of the bond, returned cash could have been reinvested back into the Gilt market, including the nearby low coupon Gilts.

FX: Flow of funds supportive

GBP price action through September does not immediately suggest that the pound benefited from foreign buying of Gilts. However, we think the flow of funds set-up continues to look favourable for the medium-term outlook. Indeed, judging by Gilt price action in October, we suspect that the foreign bid continued as we enter the strongest quarter for overseas demand for Gilts. For now, none of this seems to matter as GBP is buffeted by a number of (mainly domestic) crosscurrents, and the proximity of the Budget in particular. Monthly rebalancing (for more, see [October FX rebalancing – marginal GBP outflows vs JPY inflows](#)) and repricing of the front-end Sonia curve have also been contributing factors, but we believe that this is causing divergences. These are particularly pronounced vs. term premium and are setting up for GBP appreciation, providing the Budget passes smoothly. Overlaying this with inflows into the UK, current GBP levels look attractive for hedging with the benefit of positive carry.

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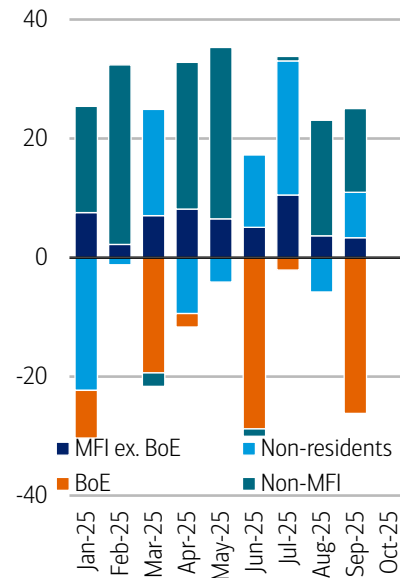
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Exhibit 1: Foreigners rebuild their Gilt holdings by £7.6bn in September, while domestic banks & non-banks increased theirs by £3.3bn & £14.1bn, respectively

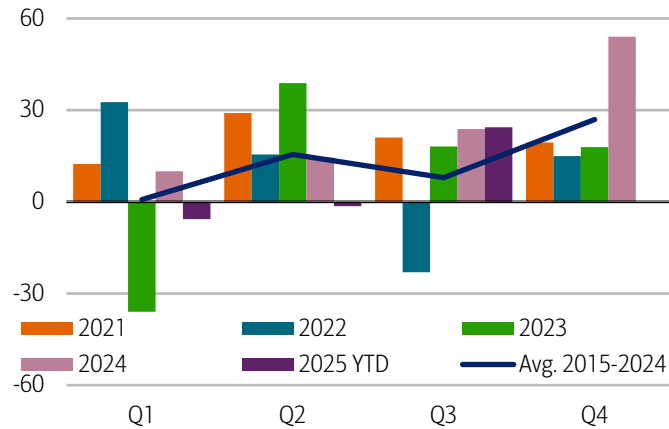
Monthly net holding of Gilts changes by investor type, £bn



Source: Bank of England, BofA Global Research
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Exhibit 2: Year-to-September, foreign investors' holdings are up by £17.3bn, a relatively small increase compared to the same period in prior years. But £24.4bn increase in 3Q is a comparable outcome.

Quarterly non-residents' net buying of Gilts, £bn

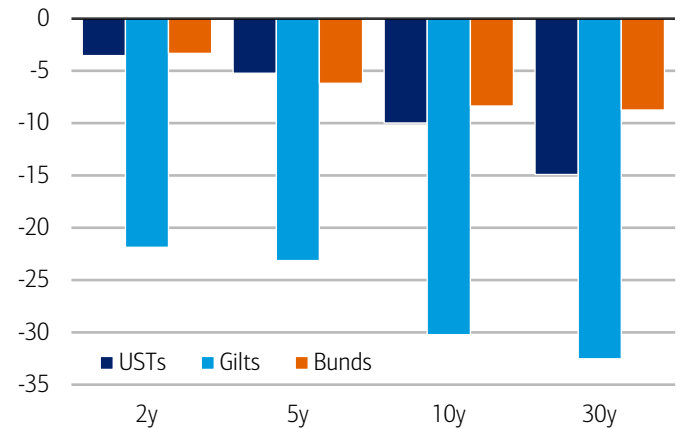


Source: Bank of England, BofA Global Research

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Exhibit 3: October's sharp reversal in investors' attitudes towards UK rates resulted in Sonia yields 25bp down nearly uniformly across the curve, with the Gilt 2s30s curve 11bp flatter

UST, Gilt and Bund yield changes since 1 October, bp



Source: Bloomberg, BofA Global Research

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