

UK Rates Watch

Public Sector Finance data for September: A glimmer of light

CGNCR overshoot for FY decreases to £6.0bn in Sep

The UK's Public Sector Finance data for September released this morning showed the Central Government Net Cash Requirement (CGNCR), on which the Debt Management Office (DMO) bases its funding arithmetic, coming in at £15.9bn, £4.1bn below the Office for Budget Responsibility (OBR) forecast published in March 2025. Cumulatively, the CGNCR amounted to £89.0bn in fiscal year-to-September, an overshoot of £6.0bn versus the OBR's projection (Exhibit 1). The National Savings and Investment (NS&I) stood broadly unchanged at £3.6bn fiscal year-to-September, £8.1bn away from the fiscal year target of £11.7bn (Exhibit 2). Average monthly NS&I fluctuations since 2021/22 would now imply the NS&I raising £8.3bn by fiscal year-end, within the ±£4.0bn contribution range agreed with His Majesty's (HM) Treasury.

Economics: PSNB overshoot falls to £7.2bn in Apr-Sep

The September Public sector net borrowing (PSNB) came in at £20.2bn, close to the OBR's forecast of £20.1bn. Borrowing at £99.8bn is the second highest April-September borrowing since 1993 and is £7.2bn higher than OBR's forecast. The borrowing slippage reduced from £11.4bn in the previous release to £7.2bn, driven by newly revised higher Value Added Tax (VAT) estimates and other tax receipts. Central government receipts and spending are now more or less in line with the OBR's forecast and the overshoot was mainly driven by higher estimated borrowing by local authorities and public corporations. This reduces chances that the OBR judges this overshoot to persist in future years and impact the headroom. But the government's U-turn on spending cuts, potentially higher yields and productivity downgrades are likely to lower the headroom by £20-30bn (for more, see our report: [Autumn Budget FAQs, 9 October](#)).

Rates: guarded optimism in the face of slippage

Today's data is welcome news and we expect this CGNCR slippage to be reduced further by about £4.0bn because of lower projected capital transfers from the Treasury to the Asset Purchase Facility (APF), due to lower-than-previously-projected active Quantitative Tightening (QT) from October. The last pre-Budget set of Public Sector Finance data for October is due on 21 November. This week's 1.5% Green Gilt 2053 auction will also be the last long-end auction in 2025 and should benefit our constructive long-end stance:

- **Long 30y Gilt on ASW** (using UKT 4.375% 2054) entered on 2 May at 91bp with a target of 75bp (monitored on z-spread basis) and a stop of 100bp (for more, see our report: [Global Rates Weekly, 2 May](#)). Current: 89bp. Risk to the trade is material fiscal slippage against deficit objective.
- **Pay 10y Sonia versus long 30y Gilts** (using 30y benchmark UKT 4.375% 2054) entered on 19 September at 139bp targeting 120bp with a stop of 155bp (see our report [United Fedlines](#) for more). Current: 130.8bp. Risk to the trade is sharp curve steepening on the back of fiscal worries.

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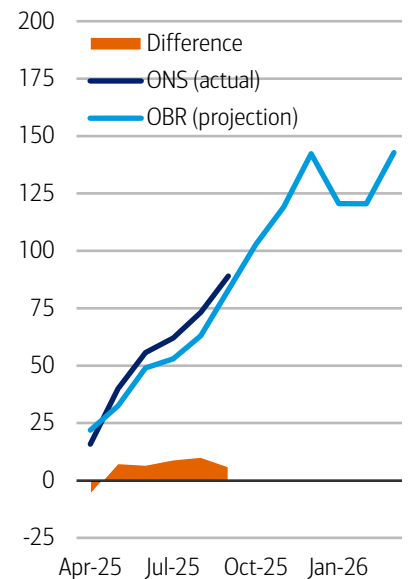
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Exhibit 1: CGNCR ex. National Rail Asset Management (NRAM) and Bradford & Bingley (B&B), Network Rail (NR), £bn

£6.0bn cumulative slippage six months into fiscal year 2025/26



Source: ONS, OBR, BofA Global Research.

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The DMO is well placed to navigate the Autumn Budget

The CGNCR outcome in September leaves the DMO well placed to navigate the Autumn Budget with the DMO likely able to cancel some, if not all, of the 1Q26 long Gilt auctions, redirecting the cash to the long Gilt syndication in 1Q26 instead (potentially a repeat syndication of the new 15y), or cancel the syndication, but keep the auctions.

In either scenario, communication on the long-end “bucket” weighted average maturity (WAM) target - a strong signal of the DMO’s commitment to managing down the Gilt supply WAM – would be market-positive.

We also remain of the view that T-bills are an efficient way to accommodate in-year Remit changes and could at least partially alleviate the CGNCR spillover so late in the financial year. Any communication on T-bill market development would also be well received by the market, we think.

FX: Comfortably agnostic

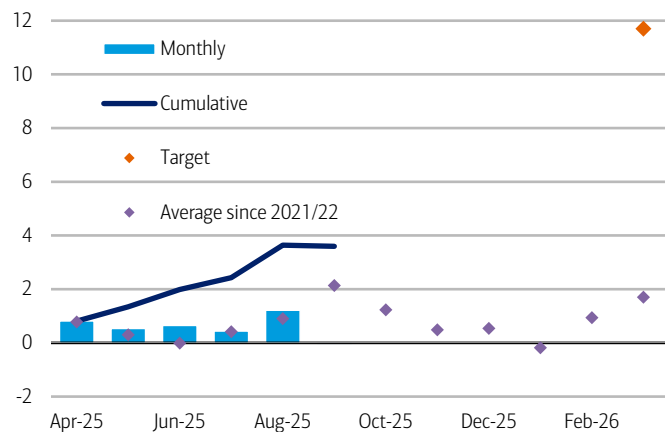
If any data release was likely to have an impact on GBP, one would assume that Public Finances would have shifted the dial. Unfortunately, this has proved wishful thinking, and GBP was barely changed following the release. This is not to say that markets now think that the Budget will likely be a non-event – there remains a noticeable kink in the GBP/USD term structure over the 26 November date and the large inventory/strike build around this date is perhaps the reason why GBP view remained well anchored.

Indeed, EUR/GBP has fluctuated in tight ranges around the 0.87 level and skew remains heavily biased for GBP puts. However, as we discussed in a recent report (see: [Liquid Insight: The Moody Blues, 20 October](#)), the early September spike in GBP vol could prove to be the high point and it is worthy of note that longer term GBP risk premium has recently declined. Given ongoing concerns about the USD, this has pushed the focus onto GBP crosses and EUR/GBP where we think a clearer picture emerges.

We are reassured that by several risk metrics that suggest some normality will return to the UK markets – notably the decline in risk premium. It perhaps suggests that GBP can escape from the doom-loop of obsession on the fiscal outlook. Our analysis points to early September as the high-water mark in market concerns. Much still depends on Budget day, but with UK term premium receding and the mood music improving on the contours, GBP could benefit from the release valve as event risk fades (Exhibit 3).

Exhibit 2: NS&I monthly and cumulative flows, £bn

At £3.6bn as of September, £8.1bn away from the £11.7bn target

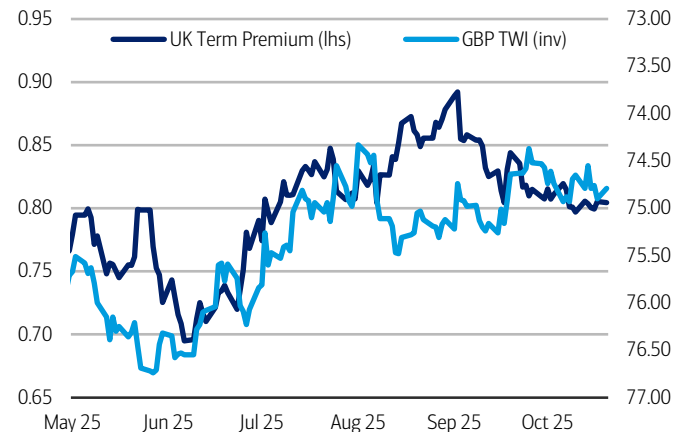


Source: ONS, BofA Global Research

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Exhibit 3: GBP TWI vs UK Term Premium

Term premium has eased since the peak in early September



Source: BofA Global Research, Bloomberg

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Economics: PSNB overshoot falls, reducing risks of this affecting the headroom

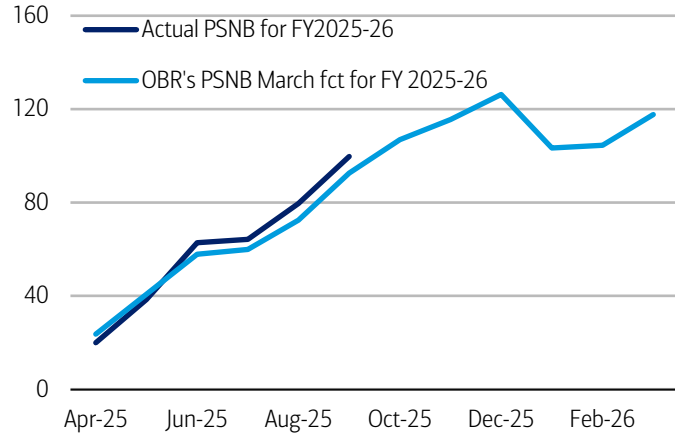
The September PSNB came in at £20.2bn, close to the OBR forecast of £20.1bn. Borrowing at £99.8bn is the second highest Apr-Sept borrowing since 1993 and is £7.2bn higher than the OBR’s forecast (Exhibit 4). The borrowing slippage has reduced from £11.4bn in the previous release to £7.2bn driven by newly revised higher VAT estimates and other tax receipts. The current budget is running at £71.8bn, £13.0bn higher than the OBR’s forecast.

The overshoot vs OBR’s forecast was driven by higher estimated borrowing by local authorities and public corporations (Exhibit 5). Central government receipts and spending are now both close to the forecast profile. Receipts are £1.3bn below forecast, which is better than the £6.1bn shortfall we saw last month driven by a correction to the VAT receipts and stronger than expected September HMRC cash receipts.

This overshoot implies that risks have risen and that borrowing is higher for FY 2025-26 than the OBR expected. But the effect on the fiscal headroom will likely depend on how much of the overshoot in current year’s borrowing/ current budget the OBR expects to persist in future years. The fact that the overshoot was driven by higher local authorities/public corporation borrowing reduces chances that the OBR judges this overshoot to persist in future years and impact the headroom. Having said that it is possible that it carries the £1.3bn undershoot in taxes through to future years, if it judges the shortfall to be permanent. Nonetheless the government’s U turn on spending cuts, potentially higher yields and growth/productivity downgrades is likely to lower the headroom by £20-30bn.

Exhibit 4: Borrowing in FY 2025-26 has so far been running ~£7.2bn higher than OBR’s March forecast until Sept 2025

Borrowing outturns vs OBR’s March forecast (£bn)

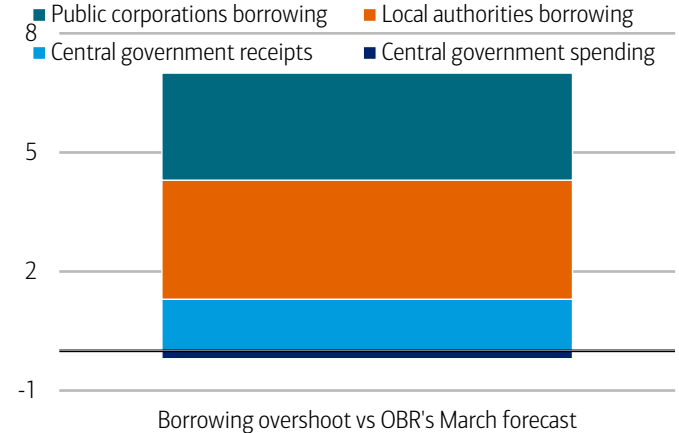


Source: OBR, BofA Global Research

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Exhibit 5: The overshoot vs OBR’s forecast was driven by higher estimated borrowing by local authorities and public corporations

Borrowing overshoot vs OBR’s March forecast (£bn)



Source: OBR, BofA Global Research

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We went through different scenarios for the Autumn Budget in our note: [UK Viewpoint: Autumn Budget FAQs 09 October](#). We noted that our base case is a muddle-through scenario whereby Chancellor just about restores her headroom to current levels by imposing £20-30bn of small non-inflationary tax rises (which don’t break the manifesto promises). But media reports suggest that the Chancellor could be looking to raise her headroom and chances of this outcome are rising. If this materializes, it is likely to be a market-favorable outcome, especially if it is done via a mix of spending cuts and non-inflationary tax rises. A higher headroom will reduce the need to repeatedly change fiscal policy if forecasts change, provide more buffer and reduce focus on UK’s fiscal position.



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