

Gilt Week Ahead

2 August 2021, Tim Davis

The upcoming week will be dominated by the Bank of England MPC meeting. Our full BOE preview will be out later this week but we note that Saunders is widely expected to vote to end gilt purchases early while there are also some expectations he could be joined by another member. So the consensus view seems to be a 7-1 vote with risks of 6-2 (note that there is still a vacant seat on the MPC as Haldane has not been replaced as Chief Economist).

In terms of the MPR forecasts, medium-term inflation forecasts are generally expected to remain around 1.9-2.0% with only marginal changes to growth forecasts outside of the immediate-term. There are also expectations from a number of analysts that with negative rates technically a viable option from the August meeting, that the Bank will use this as an opportunity to update the market on its views on sequencing for the tightening i.e. rates or QT first and any threshold for rates to reach before QT begins. On this, consensus largely expects either a threshold of Bank Rate at 0.25-0.50% or for the Bank to be more vague and not commit to a specific threshold. The last official guidance from the Bank was for QT to not begin until Bank Rate was at 1.50% but that was before the effective lower bound was moved into negative territory and has been rendered largely irrelevant from comments from many MPC members, including Governor Bailey.

Covid-19 case and hospitalisation data will continue to be watched, but the market has become much less sensitive to it given that case data remains on a positive trajectory and with hospital admissions (which had been increasing in line with the September/early October pace) now rising at a slightly slower pace. This is before the lagged effects of the fall in case numbers is fully reflected in the hospitalisation numbers.

Note that as we move into August there is another ramp up in the contribution that firms need to contribute to wages of staff on furlough. Firms must now contribute 20% of wages (up from 10% in July) and continue to pay employer NICs and pension contributions. This level will continue through the end of September when the furlough scheme is due to end.

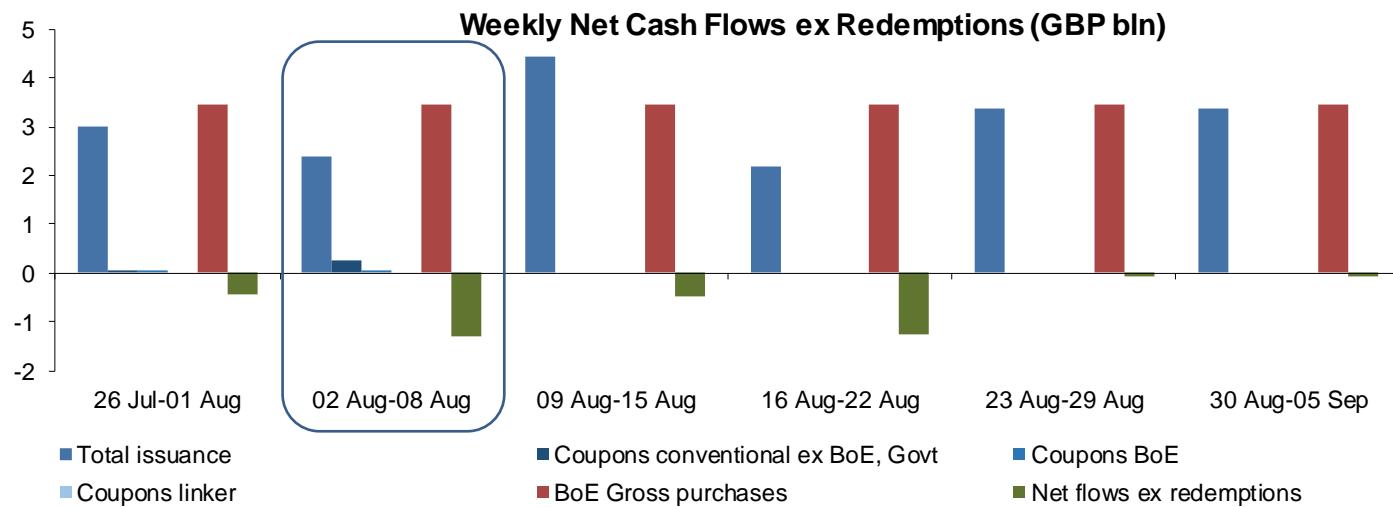
Supply Previews

1.25% Jul-51 auction

The DMO will kick off August gilt issuance on Tuesday with GBP2.0bln of the 30-year 1.25% Jul-51 gilt on offer. This will be the third issue of the gilt after it was launched via syndication in April for GBP6.0bln (books of GBP69.4bln) and reopened via auction seven weeks ago. The reopening saw a bid-to-cover of 2.24x with a tail of 0.2bp. Since the 15 June auction, the 10s30s curve has flattened by around 10bp, a bigger flattening than seen over the period in either US Treasuries or Bunds. We expect this demand for 30-year gilts to remain and for this week's auction to be successful.

Gilt Issuance, Redemption and Cash Flow Matrix**Net Cash Flow Matrix (GBP bln)**

	26 Jul-01 Aug	02 Aug-08 Aug	09 Aug-15 Aug	16 Aug-22 Aug	23 Aug-29 Aug	30 Aug-05 Sep
Issuance - conventional	3.0	2.4	3.0	2.2	3.4	3.4
Issuance - linker			1.5			
Redemptions ex BoE						
Redemptions BoE						
Redemptions linker						
Coupons - conventional ex BoE	0.0	0.2				
Coupons - conventional BoE	0.0	0.1				
Coupons - Linkers						
Gross BoE purchases	3.4	3.4	3.4	3.4	3.4	3.4
Net flow	-0.5	-1.3	1.0	-1.3	-0.1	-0.1
Net flow ex linker	-0.5	-1.3	-0.5	-1.3	-0.1	-0.1

Weekly Net Cash Flows ex Redemptions (GBP bln)**QE Tracker**