UK Money Markets: More value further out the curve

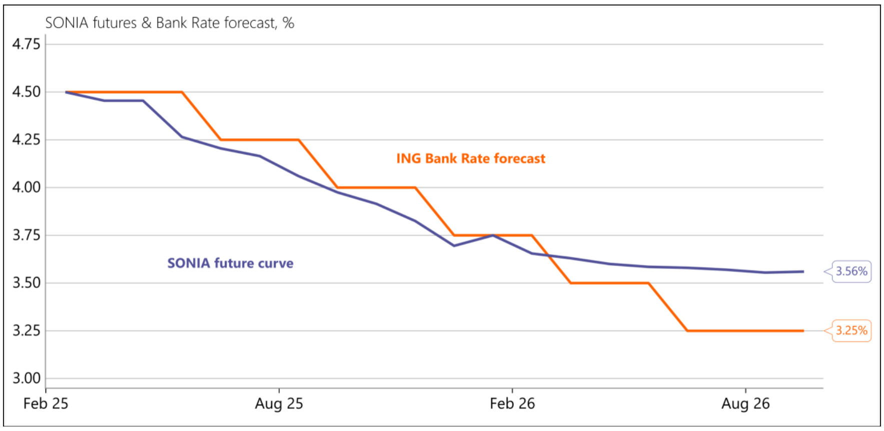
We continue to see more value at longer tenors on the money market curve. Auction results show 6-month and 3-month T-bills have relatively wide spreads versus OIS compared to 1-month T-bills. Part of the wider spreads can be attributed to seasonality effects

Bank of England could still cut faster than priced in

The sterling money market curve flattened significantly with the deterioration of global sentiment in the wake of 'Liberation Day', but that impact mostly reverted with the announcement of a trade deal. Markets now see the Bank of England going down to a policy rate of around 3.5%, reaching the bottom in the second half of 2026. We still think the neutral rate lies around 3.25%, suggesting more value at longer tenors.

We maintain the view that the BoE will stick to one 25bp cut per quarter, but the balance of risk seems to tilt towards an accelerated pace. Too little data is available to assess the full impact of President Trump's volatile approach to trade policies, but downside surprises could still hit global risk sentiment. Also, regarding inflation, we see the picture possibly turning more benign than markets expect.

Market pricing broadly in line with our forecast, but we see downside risks



Source: ING, ICE, Macrobond

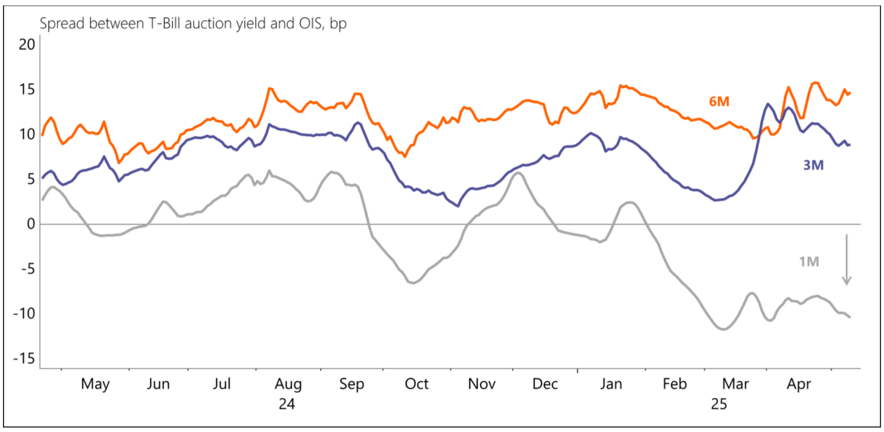
T-bill auctions show increased demand for shortest tenors

Since the beginning of February, the demand for short-term liquidity seems to have increased. The 1-month T-bill auction results point to yields significantly below the SONIA swap rate, as you can see in the chart below. This is not the case for the 3-month and 6-month auctions.

We see two reasons for increased demand in shorter tenors. Firstly, since Trump's inauguration, uncertainty and volatility in financial markets rose, supporting a shift towards the most liquid instruments. Secondly, the flattening of the money market curve reduced the relative yield benefit of going further out the curve.

We still see value in allocating further out the curve if liquidity permits, also because the spread above SONIA offers an attractive premium. An economic slowdown on the back of global policy uncertainty could help flatten the curve further and compress the T-bill spreads.

The 1-month T-bill has auctioned significantly below the OIS curve



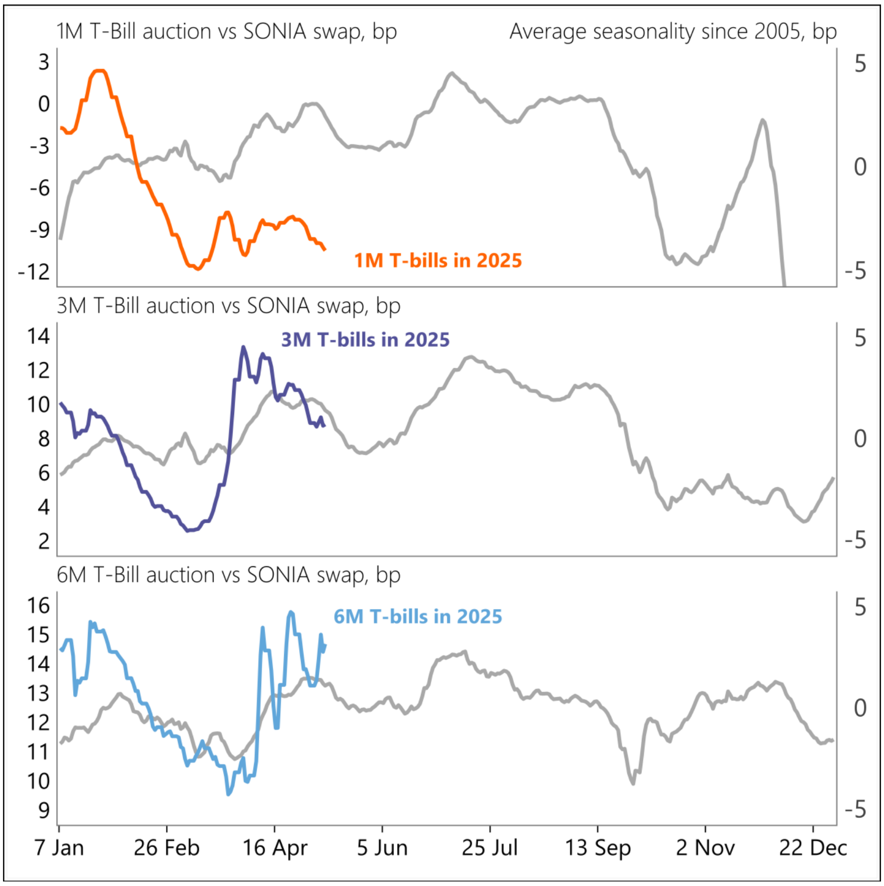
Source: ING, Bank of England, Macrobond

Seasonality explains the recent widening of 3M and 6M T-bill spreads

The relatively higher yields for longer T-bills can be explained by the seasonality inherent in this market. When we look at the average patterns since 2005 - again, you can see that in the charts below - we see that yields tend to increase around the beginning of April. Drivers of such seasonal liquidity effects can relate to window dressing, reporting periods, tax payments, and so on.

Also, from this perspective, we see most value in longer tenors. The seasonality pattern suggests that the spread between T-bills and swaps for 3M and 6M tenors can tighten slightly at the end of May. A much larger move is expected only towards September.

3M and 6M T-bills spreads are following seasonal patterns



Source: ING, Bank of England, Macrobond

Author

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

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