

## GBP Money Markets: Stable liquidity conditions in 2026

Reserves in the system have held steady in the past few months, supported by a strong increase in the Bank of England's liquidity facilities. Stabilising bank reserves should help prevent a material drift higher in short-term funding spreads. Treasury bill spreads are still trading range-bound and most recently look to be at the lower end of the range



The increase in bank reserves can be attributed to a strong pickup in the BoE's liquidity facilities

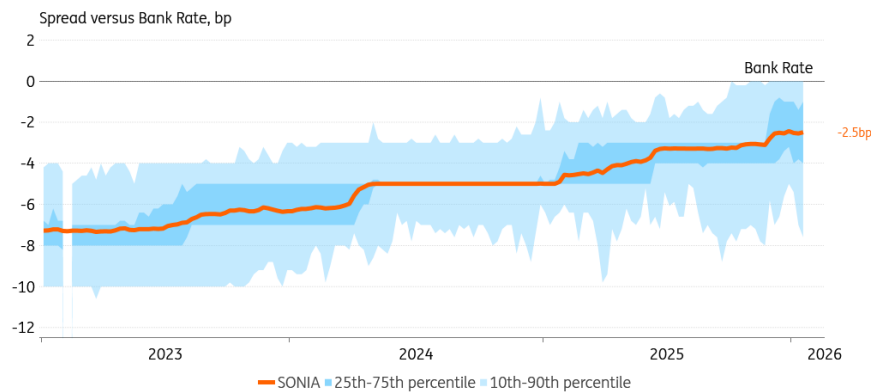
### Bank reserves remain ample but overnight deposit costs continue to increase

The continuous quantitative tightening (QT) by the Bank of England (BoE) has pushed deposit rates relatively higher over the past years, but the impact may be more limited this year. When we look at the Sterling Overnight Index Average (SONIA) rate, we see a slight increase in the relative costs for banks attracting overnight funding over the past few months. In December, the spread between SONIA and the Bank Rate jumped by around 0.5bp, but has now settled around 2.5bp below the Bank Rate.

A significant number of banks pay close to the Bank Rate for overnight deposits, suggesting the

competition for liquidity has increased. The 90th percentile of transactions is now even on the Bank Rate. Aggregate bank reserves are still around £650bn, well above the £460bn in 2020 before the restart of the BoE's bond purchasing programme. But with stricter liquidity regulation in place, we expect the demand for bank reserves to remain structurally higher. As such, the preferred amount of reserves in the system to maintain healthy liquidity could be much higher than pre-Covid.

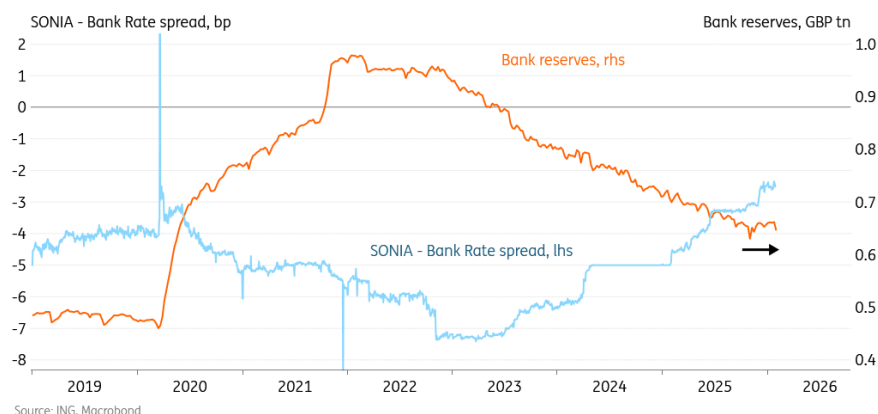
## SONIA close to the Bank Rate, with some banks already paying the Bank Rate



Source: ING, Macrobond

Despite the continued unwinding of the BoE's balance sheet, we find that bank reserves have increased since October last year. The increase in bank reserves improves liquidity conditions and should help keep short-term funding rates range-bound. That also means that we might not see a material increase in SONIA this year. A side note hereby is that liquidity is not evenly balanced throughout the system, and some borrowers may still have to start paying more to attract short-term funding.

## Bank reserves have increased since October

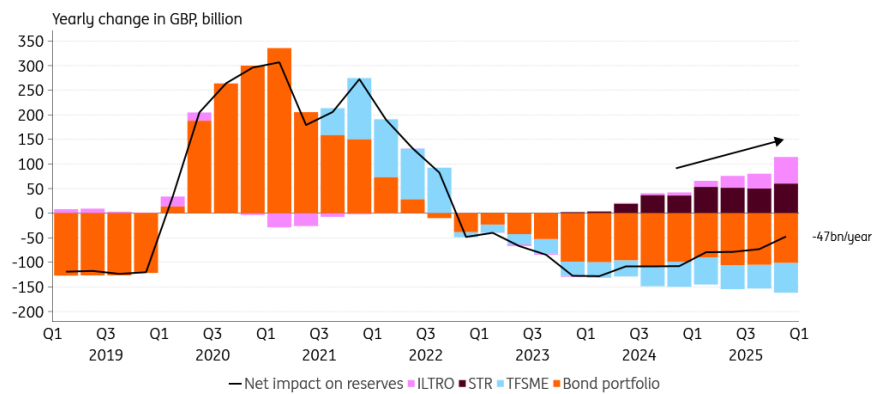


Source: ING, Macrobond

The increase in bank reserves can be attributed to a strong pickup in the BoE's liquidity facilities, which is designed to keep liquidity ample. The short-term repo (STR) facility has now passed the £100bn mark and the long-term repo (ILTRO) facility is now above £70bn. Together they added

£110bn of bank reserves in 2026, which is more than the reserves withdrawn because of QT. These facilities also help prevent sudden liquidity shocks as they are readily available against a range of collateral.

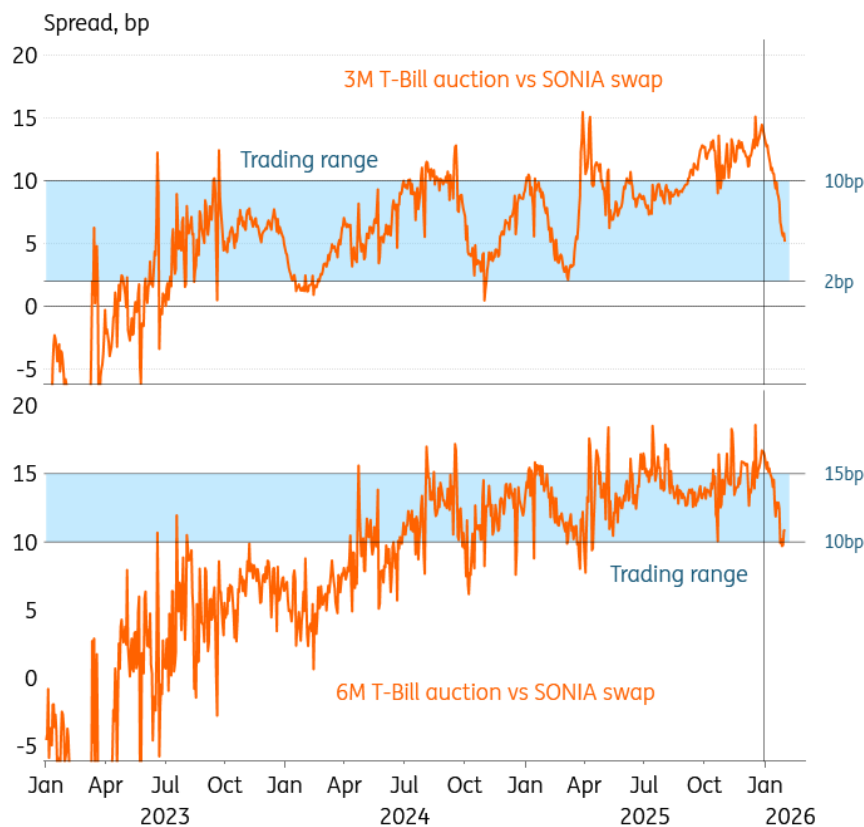
## The BoE's liquidity facilities are offsetting the reserve drain from QT



Source: ING, Macrobond

With bank reserves stabilising, or at least falling less quickly, we can expect other money market rates to see more range-bound trading, too. When looking at Treasury bills, we can identify ranges that capture most of the spread pickup versus SONIA swaps. After the year-end, we see that spreads on 3M and 6M T-bills have come down somewhat, back to their trading ranges from most of 2024 and 2025. Being closer to the lower bounds, we do expect to see a bit of a rebound higher in spreads, especially for the 6M tenor.

## Money market rates are settling in trading ranges



Source: ING, Macrobond

### Author

**Michiel Tukker**

Senior UK & Eurozone Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by

the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).