GBP Money Markets: Liquidity holding amid turmoil

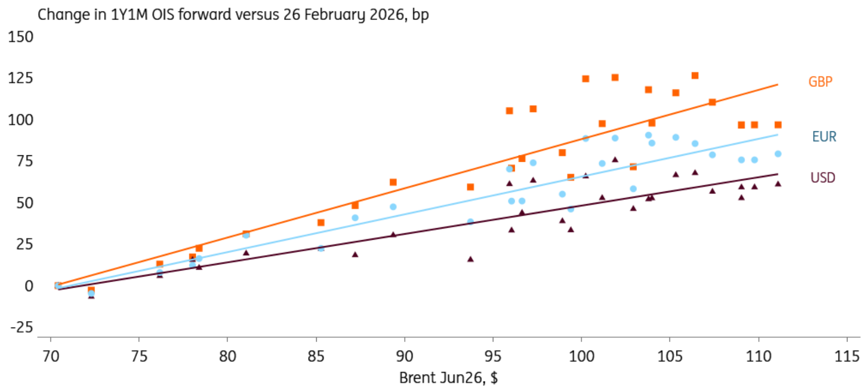
Higher oil prices led to a significant repricing of money market curves, but whilst money market spreads have shown some movement since the start of the Iran conflict, the overall picture looks benign. A stable SONIA and no increase in the uptake of central bank liquidity suggest still ample reserves to satisfy demand

With oil prices in the driver seat, it can be seen in money market spreads, but the impact remains well contained overall

Oil in the driver seat brings great uncertainty

Markets have been driven almost entirely by the rising energy prices stemming from the Middle East conflict, and GBP money markets are no exception. Whilst two rate cuts were priced in at the end of February, the current curve implies around 30bp of hikes before the end of this year. The Bank of England (BoE) repricing has been relatively more hawkish than the Federal Reserve and the European Central Bank, but we think markets are running a bit ahead of themselves. And the BoE seems to agree with us, as its communication is pushing against a steep hiking cycle. Having said that, the narrative continues to be written by the oil price, which implies we still have plenty of uncertainty ahead.

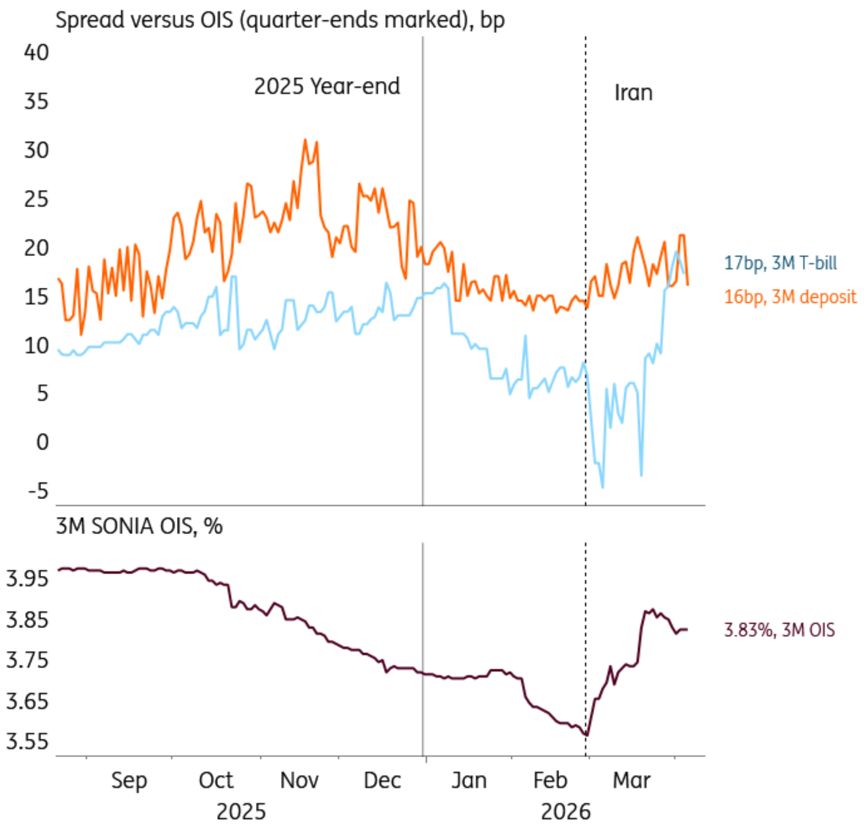
GBP rates markets are more sensitive to oil than peers



Source: ING, Macrobond

The market shock since the start of the Iran conflict is evident in money-market spreads, but the impact remains well contained overall. The 3-month spread between SONIA OIS and bank deposits rose by a few basis points during March, but remained much tighter than most of 2025. The widening might be attributed to increased demand for liquidity from banks, but given the relatively benign moves, we don't deem this disconcerting. The sharp moves in 3-month Treasury bill spreads can be explained by the volatility in swap rates, and the general picture does not raise alarm bells.

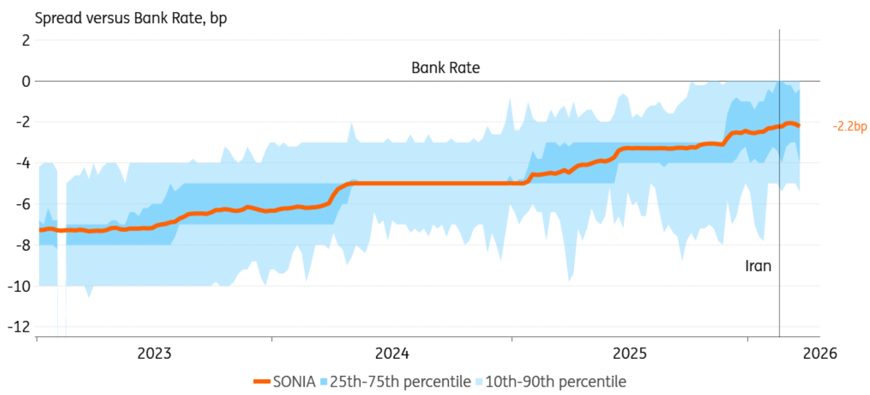
The Iran conflict is triggering some volatility, but nothing concerning



Source: ING, Macrobond

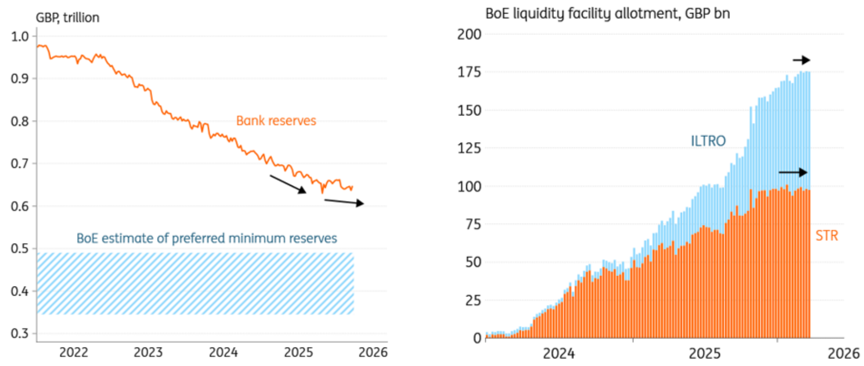
When looking at alternative indicators for liquidity in the financial sector, we also don't find signs of significant market stress. SONIA, for instance, still trades at around 2bp below the Bank Rate, which means banks' demand for reserves has not risen materially. This is also consistent with the relatively muted uptake of the BoE's liquidity facilities. Both the Short-Term Repo (STR) and Indexed Long-Term Repo (ILTR) saw a stable uptake throughout March.

SONIA continues to trade around 2bp below the Bank Rate



Source: ING, Macrobond

Banks did not increase uptake of central bank liquidity



Source: ING, Macrobond

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