Rates Spark: Sterling rates and US TIC data

Better UK growth signals are pushing sterling rates higher and next week's inflation numbers could push up even more. We see the broader trend, however, as one where rates drift lower. US Treasuries remain caught in the cross winds of conflicting information, but in the meantime continue to see reasonable foreign interest (latest TIC data show)

Sterling rates reflecting growth optimism, but trend still lower

Whilst sterling rates have come down significantly over the past month, a rethink of the economic outlook could offset some of these gains. We still see further weakness in the jobs market, but Thursday's monthly GDP numbers did bring some optimism. When you see 5Y rates underperform the rest of the curve, markets are signalling a more positive take on the business cycle. In effect, this also pushes back the Bank of England's easing expectations. And indeed, the probability of a rate cut in March is gradually falling, with now just 9bp priced in.

Next week will be important for GBP rates as we get more inflation and jobs data. We may get a hawkish aftertaste if services inflation rises from a still hot 4.4% to 4.6% and the unemployment rate nudges lower. In that case, markets will likely move the expectation of a March rate cut to April. The reaction should not, however, change the broader picture of inflation trending lower and growth still muted. By the end of this year, we therefore still think the 10Y gilt yield has room to move lower.

Latest US TIC data show that net buying of securities for November

US Treasury International Capital (TIC) data show robust inflows into the US for November. The total net inflows were $220bn. Of this overall net flow (which includes banking flows), bond flows show that foreigners bought a net $112bn in November. Canada, Norway, Saudi Arabia were the biggest buyers, followed by the custodial centres. The biggest net sellers were the UEA, China, Germany, India, Mexico and Thailand.

For 2025 YTD, the biggest buyers were the UK, Japan and Canada, while the biggest sellers included China, India and Brazil. In total, net bond buying by foreigners cumulated to $740bn from January 2025 to November 2025.

Big picture, Japan remains the biggest foreign holder of Treasuries, at about $1.2tr, followed by the UK at a tad under $890bn and China at just under $690bn. The wider picture shows China as an ongoing large net seller, liquidating a net $350bn since 2022.

Overall, foreigners hold 33% of US Treasuries, with US domestics holding 52% (the Federal Reserve holds the rest).

Friday's events and market views

No notable data from Europe. From the US we will be looking at industrial production and capacity utilisation data for December. The Fed's Bowman and Jefferson will speak about the economic outlook, which will be the last external communication before the Fed blackout period.

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