

Monthly Cash Review – GBP

State Street · 2026-10-01 · English original

Persistent inflation, Bank of England policy uncertainty and attractive short-dated yields continue to shape opportunities for Sterling cash investors.

September finally advanced The Great British Waiting Game, although only in the way central banks advance anything: cautiously, conditionally and with several paragraphs explaining why nothing has technically happened. On 17 September, the Bank of England kept Bank Rate at 3.75% by a 6–3 vote, with Huw Pill, Megan Greene and Catherine Mann again favouring an immediate increase to 4.00%. The rate did not move, but the message did. Several members who voted to hold indicated that the case for tightening was building as elevated energy prices increased the risk of broader inflation pressures. The Bank held rates—and raised its voice.

The critical change was in the reaction function. The MPC is no longer simply waiting for clear evidence that higher energy costs have spread into wages and prices; it is increasingly concerned that waiting for definitive proof may mean waiting too long. The Bank now expects inflation to reach approximately 3.75% in the fourth quarter and slightly exceed 4% in early 2027, with almost all the deterioration since July attributable to oil, gas and refined-product prices. This is not a conventional demand-driven inflation problem. It is an imported energy shock knocking at the front door while the Bank debates whether to answer with an interest-rate increase.

August CPI, released during September, increased to 3.1%, from 2.9%, led principally by motor fuels. Yet core CPI remained at 2.6% and services inflation held at 3.4%, reinforcing the distinction between rising headline inflation and still-moderating domestic pressure. In other words, inflation became louder without becoming substantially broader—so far. The phrase “so far” is currently doing a heroic amount of work in Threadneedle Street.

The labour market continued to provide the strongest argument for patience. Payrolled employment fell by 26,000 in August, vacancies declined to 702,000 and unemployment remained at 4.9%. Regular pay growth held at 3.5%, while total pay growth slowed to 3.9%; private-sector regular earnings grew by a more subdued 2.9%. These figures hardly describe an economy preparing to generate an enthusiastic wage-price spiral. They do, however, leave the MPC balancing softer employment against the possibility that energy costs eventually escape firms’ hedges and margins. Monetary policy increasingly resembles checking the smoke alarm while hoping the toast is merely overdone.

Growth data were similarly unhelpful to anyone seeking a tidy narrative. September’s composite PMI eased to 51.7 from 52.5, suggesting activity remained positive but was losing momentum. At the same time, survey measures of both input and selling prices increased as energy costs filtered through business supply chains. The economy was therefore slowing just enough to discourage aggressive tightening, while inflation pressures were rising just enough to prevent complacency. Britain continues to specialise in economic compromises that satisfy nobody.

Markets reacted with rather less patience. By September 29, two-year gilt yields had risen to 4.86% from 4.41% one month earlier, while ten-year yields increased to 5.35% from 5.06%. SONIA itself remained anchored at 3.73%, but three-month OIS rose to 3.90% from 3.81% and three-month Treasury bill yields

increased to 4.01% from 3.89%. The front end was repricing the prospect of near-term Bank action; further out, inflation compensation, global duration pressure, fiscal concerns and gilt supply all demanded additional attention—and, naturally, additional yield.

The Bank also placed quantitative tightening on a more predictable track. The remaining £368 billion of gilts held for monetary policy purposes will be unwound at an average pace of £46 billion annually through 2034, including £20 billion of yearly sales, while £120 billion of long-dated gilts will remain to support banknote issuance. Greater predictability should reduce annual uncertainty over QT, although it does not remove the broader financing burden facing the gilt market. The machinery may now be clearer; the bill has not disappeared.

That matters ahead of the 28 October Budget. Borrowing during the first five months of the fiscal year was £8.1 billion above the Office for Budget Responsibility's March profile, driven primarily by higher spending, including debt-interest costs. Investors will therefore focus on whether the Budget restores fiscal headroom, how new commitments are funded and whether the financing remit adds pressure to an already demanding gilt calendar. The Treasury is being asked to provide cost-of-living support, stronger growth and fiscal credibility from the same finite pot. Even British baking programmes normally allow more ingredients.

For Sterling cash investors, the underlying environment remains constructive but less forgiving. Overnight markets are orderly; SONIA remains firmly anchored and short-dated yields offer attractive income. At the same time, the sharp repricing in gilts and OIS reinforces the value of liquidity, disciplined maturity ladders and selective extension when term compensation improves—without building portfolios around one assured Bank Rate path. September's lesson is simple: the overnight rate may have stayed put, but the policy conversation certainly did not. Remaining flexible while the Bank, the energy market and the Treasury compare uncomfortable options is not indecision. It is optionality with better manners.

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