

Is the BoE Outsourcing QE?

Curve control through carry, and the risk hiding behind the Bank of England's new repo regime

A Rates Trader's View | 25 September 2026

This piece started with a Bloomberg report this morning, “Banks Tap Billions in BOE Repo Cash to Profit on Bond Trades”. It reported that banks borrowed almost £129 billion through the Bank of England’s Short-Term Repo facility this week, and that bank treasurers are using that funding to buy bonds. The story was told as one of banks profiting from cheap central-bank cash. I think the more important question is what it means for the Bank itself.

There is a rather unusual trade taking place in the UK gilt market. Banks are borrowing from the Bank of England and using some of that liquidity to finance gilts yielding considerably more. The facility has been growing steadily: the Bank’s own annual review of its market operations shows outstanding drawings rising from £50.3 billion to £97.0 billion in the year to February 2026.

At first sight, this is simply a carry trade. Bank Rate is 3.75%. A 10-year gilt yields around 5.35%. Fund the bond cheaply enough and there is a substantial positive carry before hedging costs, capital charges, balance-sheet costs and, most importantly, the risk that the bond falls in price.

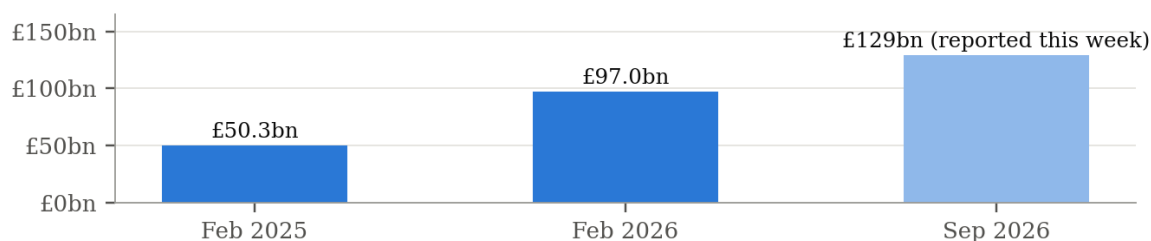
But viewed from the other side of Threadneedle Street, something more interesting is happening. The Bank of England may have created a mechanism through which the banking system does some of the bond buying for it. Not QE in the conventional sense. But perhaps something that can produce some of the same effects on the gilt curve.

From QE to repo

Under quantitative easing, the mechanism was straightforward. The Bank of England created reserves and bought gilts. Duration moved from private-sector balance sheets onto the central bank’s balance sheet. The additional demand pushed gilt yields lower. That era is ending.

The Bank has now committed to running down the remaining monetary-policy gilt portfolio to zero through a multi-year programme. At the same time, the monetary system is moving away from the huge stock of excess reserves created by QE towards what the Bank itself calls a “demand-driven, repo-led” framework, in which banks obtain reserves increasingly through Bank of England repo facilities. In the Bank’s own description, the Short-Term Repo facility supplies reserves, without limit, against the highest-quality collateral such as gilts, at Bank Rate.

Figure 1. Short-Term Repo: outstanding drawings



Source: Bank of England, Report on the Bank’s official market operations 2025–26 (end-February 2025 and February 2026); September 2026: this week’s one-week allotment, as reported by Bloomberg, 25 September 2026.

This week's numbers illustrate an intriguing consequence. The Bank supplies liquidity through repo. Banks can use that liquidity to finance gilts. The gilts remain on private balance sheets, but the financing ultimately comes from the central bank. The chain has changed:

QE: *BoE creates reserves → BoE buys gilts → yields are compressed.*

The new regime: *BoE supplies reserves through repo → banks finance gilts → private demand supports the curve.*

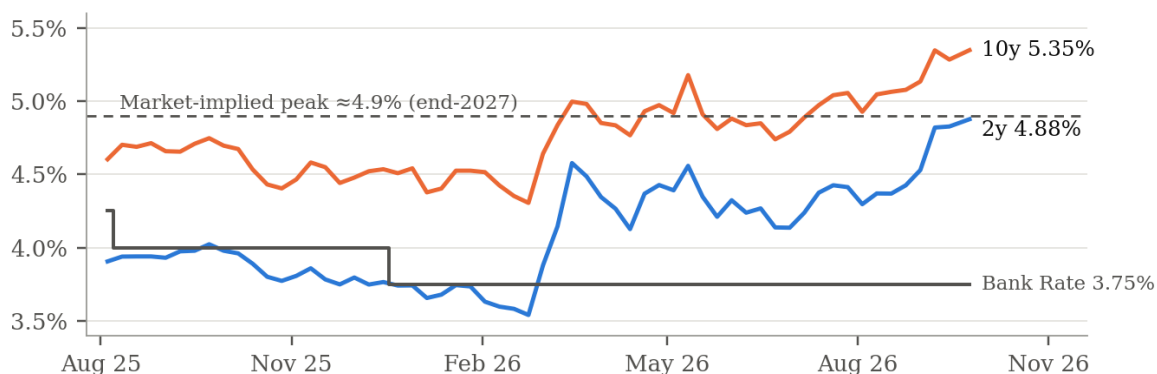
That is not QE, and the distinction matters. The commercial bank retains the duration risk, the mark-to-market risk and the balance-sheet consumption. The BoE has not taken the bond away. But from the perspective of the gilt market, there is nevertheless a new source of financed demand. And that raises a more interesting question than whether banks are making too much money from cheap central-bank funding: *has the BoE inadvertently outsourced part of the duration-absorption mechanism that previously sat on its own balance sheet?*

The spot rate and the path

This matters most at the front and intermediate parts of the curve. Bank Rate is currently 3.75%. The MPC voted 6–3 in September to leave it there, although three members wanted an immediate increase to 4%. Yet the short-term sterling curve is pricing something very different.

The Bank itself noted after the September meeting that the curve was upward sloping and peaked at around 4.9% by the end of 2027. Importantly, the Bank also judged that elevated risk premia remained “a material contributor” to that slope. So it would be wrong to interpret every basis point of the curve as a pure forecast of future Bank Rate. Still, there is a substantial gap between the spot policy rate and the rates embedded in the market. And that gap creates the trade.

Figure 2. Gilt yields against Bank Rate



Source: TradingView (UK 2- and 10-year benchmark yields, weekly closes to 24 September 2026); Bank of England (Bank Rate; curve peak from September 2026 Minutes).

The front end tells us where policy is today. The 2-to-5-year sector reflects, among other things, where the market believes short rates could travel, together with the compensation investors demand for uncertainty around that path. Eventually those two worlds have to reconcile. Either the Bank moves towards the path embedded in the curve, or the curve moves back towards what the Bank actually delivers.

For a bank buying gilts, that distinction is everything. It does not need to believe that the next move in Bank Rate is down. It simply needs to believe that the market has priced more tightening than the Bank will ultimately deliver.

The arithmetic makes the point. Short-Term Repo money costs Bank Rate and rolls weekly, so the funding is floating. What matters is not today's Bank Rate but the funding a bank should expect to pay over the life of the

trade. SONIA swaps price a hike in November and about 115bp of tightening in all, to 4.90% by late 2027. Spread that path across the MPC meetings and the picture changes:

	2-year	5-year	10-year
Gilt yield (24 Sept close)	4.88%	4.96%	5.35%
Carry at today's Bank Rate (3.75%)	+113bp	+121bp	+160bp
Expected funding, next 12 months [†]	4.40%	4.40%	4.40%
Expected funding to maturity [†]	4.65%	4.80%	4.85%
Carry on the market path, to maturity	+23bp	+16bp	+50bp
Carry if the MPC hikes three times (to 4.50%)	+51bp	+51bp	+88bp

Carry = gilt yield minus average funding at Bank Rate, per year, before haircut, capital, balance-sheet and hedging costs, and excluding roll-down. [†] Market path from SONIA OIS forwards on 24 September 2026, probability-weighted by MPC meeting: 3.98% after November, 4.14% after December, 4.34% (Feb 2027), 4.52% (Mar), 4.67% (Apr), 4.78% (Jun), 4.82% (Jul), 4.87% (Sep), 4.90% (Nov 2027), about 115bp of tightening, consistent with the Bank's own ~4.9% peak; held flat beyond late 2027 (an assumption for the 5- and 10-year). Yields: TradingView.

Priced off today's 3.75%, the carry looks generous. Priced off the market's own path, most of it disappears: around 20bp a year on the 2-year and 5-year and 50bp on the 10-year, before haircuts, capital and balance-sheet costs. On the market's path the trade barely pays. It works only if the MPC delivers less than is priced: three hikes, to 4.50%, more than doubles the 2-year's carry and takes the 10-year's close to 90bp. That is the real bet. A bank buying gilts on repo is not harvesting free carry. It is betting that the market has priced more tightening than the MPC will deliver, and the Bank of England is providing the liquidity with which it can place that bet.

Curve control through carry

This creates an unusual feedback mechanism. The market becomes concerned about inflation and prices a more aggressive Bank Rate path. Gilt yields rise. Higher yields increase the potential carry available to banks able to finance those gilts through the BoE's repo facilities. Banks buy. Their purchases create demand for the very bonds whose yields have risen because of expectations of tighter Bank of England policy. In simplified form:

Market prices more hikes → gilt yields rise → carry becomes more attractive → banks buy gilts → BoE repo finances the inventory → bank buying restrains gilt yields.

The further the curve moves away from the rate path banks themselves believe the MPC will deliver, the more attractive the trade potentially becomes. That looks less like conventional QE than something I would call curve control through carry.

There is no announced yield target. There is no yield-curve-control programme. There is no instruction from the Bank telling commercial banks to buy gilts. The incentive does the work. If the market pushes yields sufficiently far above banks' expectations of future funding costs, private balance sheets naturally step in. The Bank provides the liquidity. The market provides the trade.

QT on one side, liquidity on the other

There is another apparent contradiction. The Bank is simultaneously conducting quantitative tightening. Its remaining £368 billion monetary-policy gilt portfolio is being wound down by the end of 2034, at an average pace of around £46 billion a year, including £20 billion a year of sales. Separately, £120 billion of the longest-dated gilts will be kept to back banknotes, and sales auctions are paused while the Bank works out with HM Treasury and the Debt Management Office whether to sell to the Government directly. The choice is telling: the longest gilts will not be sold at all, so that duration stays where it is. It is hard not to read that as a Bank that cares about the shape of the curve, not only its level.

QT withdraws reserves from the system. Repo puts reserves back when banks demand them. This is not inconsistent. It is precisely how the Bank intends its new operating framework to function. The permanent abundance of reserves created by QE is gradually being replaced by reserves supplied against collateral when the banking system requires them.

But it produces a curious market outcome. The Bank can shrink its gilt portfolio while simultaneously providing the financing that enables commercial banks to hold more gilts themselves. Duration leaves the central-bank balance sheet, while liquidity supplied by the central bank can help private balance sheets absorb it. Seen that way, QT and rising repo usage are not opposites. They are two sides of the same transition.

Scale matters here. At its peak in December 2021 the Bank held £875 billion of gilts bought under QE, and each round was bought at a pace of well over £100 billion a year; in spring 2020 it was buying £13.5 billion a week.

Against that, Short-Term Repo borrowing has risen by roughly £79 billion in nineteen months, about £50 billion a year. And that is an upper bound on the carry trade: much of the borrowing simply replaces reserves that QT is draining.

Programme	Size	Period	Annualised pace
QE 2009	£200bn	Mar 2009 – early 2010	≈ £240bn a year
QE 2011–12	£175bn	Oct 2011 – Nov 2012	≈ £160bn a year
QE 2016	£60bn	Aug 2016 – early 2017	≈ £120bn a year
QE 2020–21	£440bn	Mar 2020 – Dec 2021	≈ £250bn a year*
Short-Term Repo (rise in drawings)	≈ £79bn	Feb 2025 – Sep 2026	≈ £50bn a year
QT (current plan)	– £368bn	to end-2034	≈ – £46bn a year

* £13.5bn a week at the peak in spring 2020. Gilt purchases only; QE stock peaked at £875bn in December 2021. Sources: Bank of England (APF quarterly reports; Quarterly Bulletin 2022 Q1; September 2026 Minutes; market operations report 2025–26); September 2026 repo figure as reported by Bloomberg.

The mechanism matters not because of its size today but because of its nature. QE parked the duration on the Bank's own balance sheet. Repo-funded demand rolls every week.

The Bank may not need to buy the bond

This matters because monetary policy is transmitted through the entire curve, not simply through today's Bank Rate. If the market pushes two, five and ten-year yields sharply higher, borrowing costs for households, companies and the government rise even if the MPC has done nothing. Indeed, the Bank explicitly noted in September that UK financial conditions had tightened as short-term OIS rates increased.

Normally we think about the central bank facing a binary choice: either accept those tighter financial conditions or respond through monetary policy. But the repo mechanism introduces another possibility. If banks believe the market has gone too far, the carry trade itself creates the counterweight. The Bank does not have to announce a purchase programme. It does not have to defend a particular yield. It does not even have to believe the bond is cheap. Private banks make that judgement. The central bank merely ensures that liquidity is available against collateral.

That distinction is subtle, but important. The BoE controls the price of overnight money. The market prices the expected path. Banks arbitrage the gap between the two.

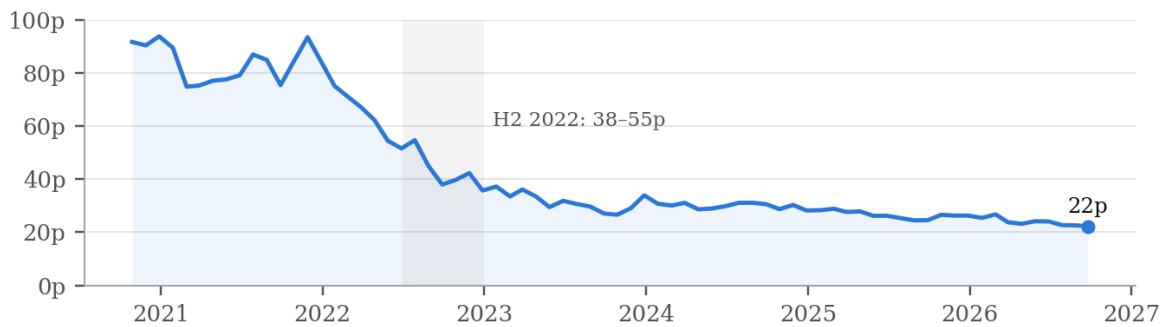
One qualification matters. Much of this buying will be hedged. A bank treasury holding gilts in its liquidity buffer typically swaps out the rate risk, and a hedged bank is not taking a view on the Bank Rate path at all: it is earning the spread between the gilt and SONIA swaps. Its buying compresses that spread more than it restrains outright yields. The curve-control effect comes from the unhedged part of the book, and that is precisely the part that would be cut if the MPC starts to hike.

There is another buyer

Banks are not the only source of demand. At the short end, UK private investors have become a buyer in their own right, and they have learned an expensive lesson on the way.

For years the favourite was the 0½% Treasury Gilt 2061. The logic looked impeccable: almost no taxable coupon, a deep discount to par, and a pull to par free of capital gains tax, since gains on gilts are exempt under section 115 of the Taxation of Chargeable Gains Act 1992. The flaw was duration. With a modified duration of around 26 years, the bond behaves less like a savings product than a leveraged bet on long-dated yields. Bought in the 40s during the 2022 selloff, it now trades at around 22 pence: half the money gone, with par still 35 years away.

Figure 3. The 0½% Treasury Gilt 2061: price



Clean price derived from TradingView month-end yields (LSE: TG61), October 2020 to 24 September 2026; author's calculation.

The lesson has been learned, and the demand has moved to the front. Bloomberg reported this week that the 0¼% Treasury Gilt 31 January 2028 was retail investors' most popular gilt purchase in August, with City bankers buying it in their own accounts. The appeal is the same tax treatment with a fraction of the risk: a duration of about 1.3 years, and a pull to par of around 5½ points over sixteen months, almost all of it tax-free.

The buying shows in the price. On 24 September the 2028 yielded 4.36%, against 4.62% on the ¼% December 2027 and 4.80% on the ½% June 2028 either side of it: around 30bp through the interpolated curve, and more than 40bp through the 0½% January 2029, itself a low-coupon bond. Bloomberg's own measure of the premium to its closest peers is wider, at 68bp. The after-tax arithmetic explains most of it:

Gilt	Yield	Price	Duration	After-tax yield†	Gross equivalent‡
¼% 7 Dec 2027	4.62%	99.6	1.2	2.70%	4.9%
0¼% 31 Jan 2028	4.36%	94.5	1.3	4.30%	7.8%
½% 7 Jun 2028	4.80%	99.5	1.6	2.77%	5.0%
1½% 22 Oct 2028	4.75%	93.9	2.0	3.99%	7.3%
0½% 31 Jan 2029	4.79%	90.6	2.3	4.54%	8.3%
0½% 22 Oct 2061	5.57%	22.2	26.5	5.00%	9.1%

Yields: TradingView LSE closes, 24 September 2026; clean prices and modified durations are the author's calculation. † Redemption yield for a 45% taxpayer, with coupons taxed (net of accrued interest bought) and the pull to par exempt from capital gains tax. ‡ The fully taxed yield a 45% taxpayer would need to match it (after-tax yield ÷ 0.55). Illustrative; ignores fees and individual circumstances.

Two things stand out. For an additional-rate taxpayer the 2028 is worth close to 8% gross, against about 5% on its conventional neighbours, so giving up 30–40bp of yield is cheap. But the 0½% 2029 and the 2061 both pay more after tax, so the premium on the 2028 is not only about tax. It is about maturity. Investors want the shortest low-coupon line, and they are rolling cash from low-coupon gilts that have just matured or are about to. The 2061 buyer and the 2028 buyer are after the same tax-free pull to par. One pays for it with 26 years of duration, the other with 30–40bp of yield.

The motivations are completely different. Banks are interested in carry, relative value and funding. Retail investors are attracted by tax-efficient yield. Pension investors want duration. Foreign investors may be trading outright yield or cross-market value. Yet all can end up doing the same thing: absorbing gilt supply. That matters when assessing how much pressure apparently restrictive monetary conditions are actually placing on the government bond market.

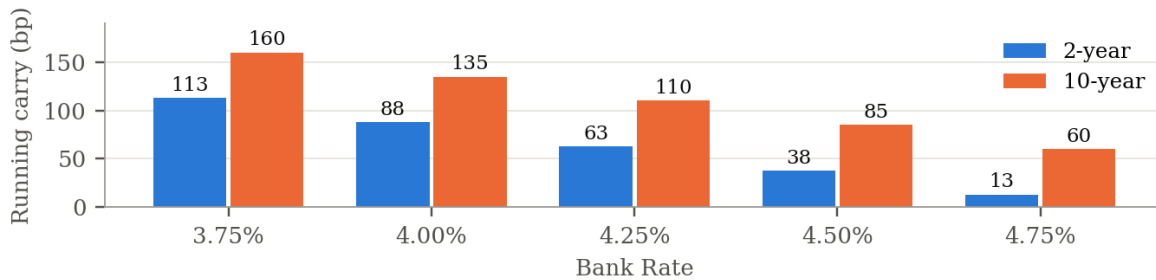
But who is right?

There is, however, a dangerous assumption buried inside the carry trade. It assumes, explicitly or implicitly, that the yield at which the bond is purchased adequately compensates the investor for the future path of funding rates and duration risk. And the Bank of England does not know that future path either.

That is particularly important today. The MPC is explicitly data-dependent. Inflation was 3.1% in August, and the Bank expects it to rise to around 3¾% in the fourth quarter and slightly above 4% early next year. Three members already wanted to increase Bank Rate to 4%. The majority preferred to wait for more evidence about how the energy shock feeds into wages, prices and inflation expectations. The market could be overpricing the tightening cycle. But it could also be right.

Imagine banks increasingly conclude that a Bank Rate approaching 5% will never be delivered. They accumulate gilts because the carry looks compelling. Then inflation proves more persistent. The MPC moves: 3.75% → 4.00% → 4.25% → 4.50% → 4.75%.

Figure 4. What a hiking cycle does to the carry



*Running carry = gilt yield (24 September close) minus Bank Rate, holding yields constant. Before costs; in practice bond prices would also fall.
Source: TradingView; author's calculation.*

Suddenly the convergence trade works in the opposite direction. It is not the gilt curve moving back towards today's Bank Rate. It is Bank Rate moving towards the gilt curve. Funding becomes more expensive. Carry compresses. Bond prices can fall further. VaR rises. Balance-sheet consumption becomes less attractive. And some of the institutions that provided the stabilising bid have an incentive to reduce their positions.

Remember the LDI lesson

This is not another LDI trade. The investors are different. The leverage is different. The collateral mechanics are different. The regulatory framework is different. But 2022, when the Bank had to step in with temporary purchases of long-dated gilts, left the market with a broader lesson that should not be forgotten: it is not enough to know who is buying duration. You also need to know what would make them sell it.

A repo-financed position can look stabilising while the underlying assumptions remain intact. If many investors hold the same position for the same reason, however, a change in those assumptions can turn a stabilising flow into a destabilising one. That is why the size of this trade matters.

If repo-funded gilt positions continue to grow, the Bank should be interested not merely because commercial banks are earning a spread on central-bank liquidity. It should be interested because the banking system may increasingly be expressing a macroeconomic view through its balance sheet: that the market is pricing more tightening than the Bank will ultimately deliver. Perhaps that view will prove correct. But if it does not, the exit matters.

The paradox

The Bank of England's new monetary framework may therefore contain an elegant stabilising mechanism. As QE reserves disappear, banks obtain liquidity through repo. When gilt yields become sufficiently attractive relative to expected funding costs, banks have an incentive to own them. Their buying supports the curve. The more aggressively the market prices future tightening relative to what banks believe the MPC will actually deliver, the stronger that incentive can become.

No QE announcement is required. No yield target is required. No central-bank trader needs to buy the bond. Carry does the work.

But there is a crucial difference from QE. Under QE, the duration ended up on the Bank of England's balance sheet. Under this system, it remains in private hands. And private hands can sell.

The BoE therefore needs to be careful about allowing the trade to become too large if it is not confident that the future Bank Rate path will undershoot the one currently embedded in markets. That is particularly difficult because the Bank cannot be confident. Monetary policy is deliberately data-dependent. The information that determines the eventual path has not yet arrived.

Today's buyers may be providing exactly the stabilising demand the gilt market needs. But the larger the position becomes, the more important the question of what happens if their belief changes. The experience of 2022 should make policymakers particularly sensitive to that asymmetry. **The Bank controls the liquidity. It does not control the position.**

And perhaps that is the best way to think about the strange new world of UK monetary policy. It is not QE. It is not yield-curve control. But when central-bank liquidity finances private-sector demand for government bonds,

the distinction between monetary plumbing and monetary transmission becomes increasingly difficult to ignore. Call it curve control through carry.

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