Daily Dose of Macro & Markets 10th September 2025: "UK Fiscal Fears: Overstated"

The 'Daily Dose of Macro & Markets' is our new publication designed to speak to the key global macro debates that matter for markets (with 1 - 3 charts and two paragraphs). This product will be published every Tuesday, Wednesday and Thursday morning (early London time).

Key Quote:

"Reeves has driven Britain to the brink. Full-blown crisis will soon be upon us"

Source: Daily Telegraph, 6th August 2025 **https://www.telegraph.co.uk/news/2025/08/06/reeves-has-driven-britain-to-the-brink-full-blown-crisis/**

UK Fiscal Fears: Overstated

Fiscal crises are front and centre of investors' minds, at the moment. On Monday French Prime Minister Bayrou lost his job (having failed to win a 'no confidence' vote). In the UK, newspaper headlines repeatedly lambast the Labour government and accuse the Chancellor of driving 'Britain to the Brink' (see quote above). While in the US, the BAML FMS highlights that one of the key 'tail risks' is a 'disorderly rise in bond yields'.

Rarely, though, do markets do what the majority expect, while the media's track record for forecasting events is not strong. Indeed, if everyone expects something to happen, they generally position for it (i.e. hedge against it). Markets, therefore, are usually **disrupted by the unexpected** (not 'widely predicted' events).

Undoubtedly, though, the UK (& French) fiscal position is weak.

UK net government debt to GDP is high, at 96.1% (July 2025), although is expected to stabilise over this Parliament; the UK's fiscal deficit was ~5.1% (in fiscal year ending March 2025) and is expected to be 3.9% of GDP next fiscal year (i.e. ending March 2026); while various forecasters have highlighted that there is a £55 billion black hole that needs to be filled by Chancellor Reeves at the next budget (now set for 26th November). In France, the situation is similar (even slightly worse). French government net debt to GDP is 108% of GDP (2025, IMF forecast) and is expected to reach 120% by 2030.

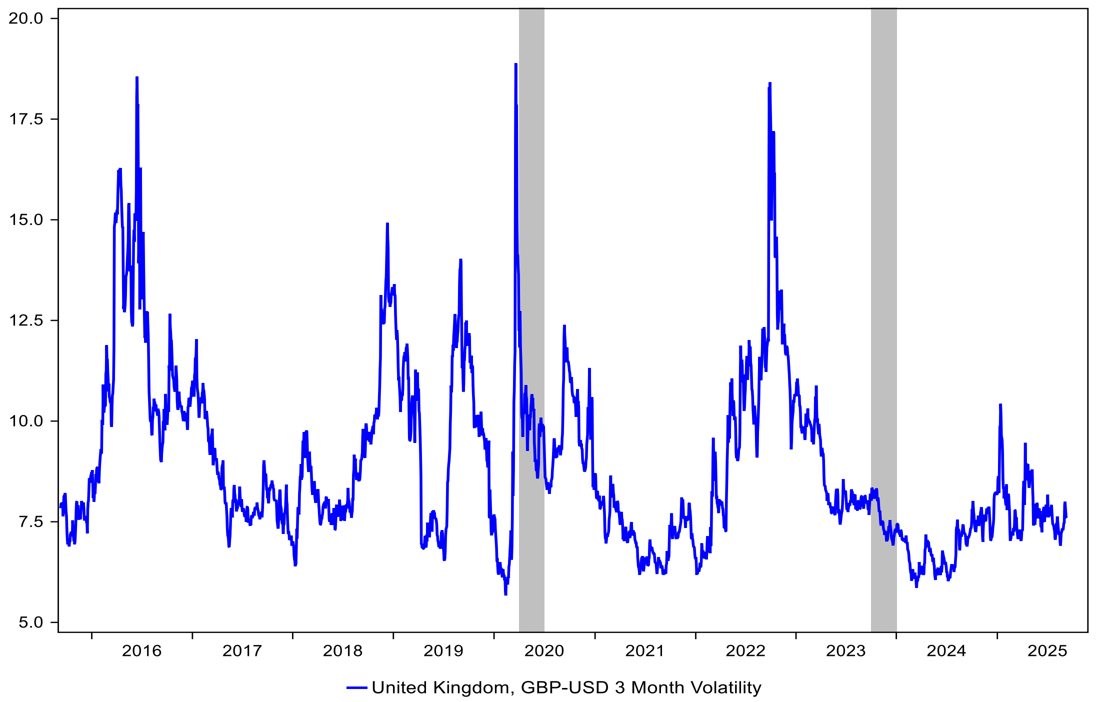
However, while UK bond yields (as well as French) have recently backed up, it's peculiar (if the 'fiscal doomsters' are correct) that various measures of UK bond and currency risk have not risen (meaningfully). UK 10-year CDS prices, for example, are trading towards the bottom end of their 15-year range, while GBP-USD 3-month implied option volatility is also at reasonably low levels (FIG 1). Added to which, the currency has been trading in an orderly manner (i.e. in line with BUY and SELL signals on our short-term market timing model, FIG 2).

So, whilst the fiscal position is troubling, and the risk of further taxes impacting growth is a concern, measures of market risk are not currently rising. Indeed, given: i) the Bank of England would likely intervene if there was any disorderly bond behaviour (as they did during the Truss blow-up); & ii) a credit and growth boom is brewing in the

UK (as the BoE cuts rates – see HERE), then arguably the steepening of the yield curve is simply foretelling of an economic acceleration over coming years (and not warning of a fiscal crisis).

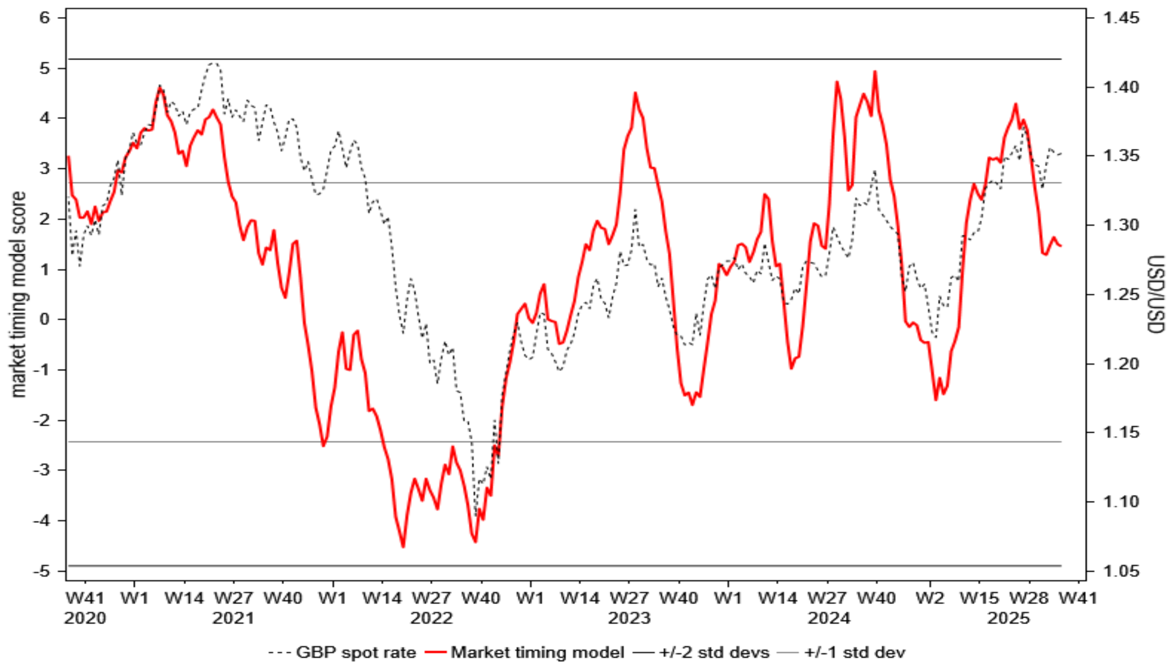
To read more on this topic, see last week's Longview on Friday publication ('UK Debt Dynamics: Vicious Circle?').

FIG 1: UK GBP-USD 3 month implied volatility



Source: Longview Economics, Macrobond

FIG 2: GBP market timing model vs. GBP-USD



Source: Longview Economics, Macrobond