

RECORD OF THE DMO CONSULTATION CONFERENCE CALLS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE SEPTEMBER-NOVEMBER 2020 GILT MARKET OPERATIONS CALENDAR

The DMO held conference calls with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on Monday 27 July 2020. The meetings were primarily intended to inform the choice of gilts to be sold via auction and syndication in the period September-November 2020.

38 gilt auctions are scheduled to be held in September-November 2020: 32 of conventional gilts and six of index-linked gilts. In addition to views on the choices of gilts for sale via auction, feedback was also sought on the choice of gilts for at least two syndications to be scheduled in the period. The DMO also welcomed views from the market on issuance via gilt tender. In discussion, the following main points emerged.

GEMMs

Syndication programme

Attendees generally expressed support for the launch of a new gilt in the 15-year area of the curve in the first half of September, although there was a mix of views on the recommended maturity year (2035 or 2036) and redemption month. Similarly, there was also some support for the syndication of a long-dated conventional gilt later in September, with a re-opening of 0½% 2061 most frequently recommended.

A number of GEMMs, however, recommended holding only one syndication in September, with November preferred by most of these as the month for a second transaction. There were also some calls for three syndications to be held in the period, including the possibility of an index-linked syndication, perhaps in November, subject to clarity on the outcome of the RPI consultation.

Conventional auctions (32)

Short (10)

Further re-openings of 0½% 2023 and 0½% 2026 were advocated. There was also support for the launch of a new 3-year maturity, with a January 2024 redemption date, later in the period. Other gilts which received a number of recommendations for auction were 1¼% 2027, 0½% 2025 and 1% 2024, with isolated calls for other bonds.

Medium (10)

Support was expressed for further regular re-openings of 0½% 2028 and 0¾% 2030 and also for auctions of a new 15-year maturity area gilt (if it were to qualify as a medium maturity). There were also a number of calls for the launch and re-opening of a new 10-year maturity in due course, for re-openings of 0¾% 2029 and for an auction of 4¾% 2030. There were isolated calls for other maturities.

Long (12)

Clear support was expressed for three re-openings each of 1¼% 2041 and 0½% 2050. A range of other gilts was also recommended with 1¾% 2049, 1½% 2054, 1¾% 2057 and 1½% 2071 most often mentioned. There were also a number of calls for issuance via auction

of a new 15-year maturity area gilt (where issued as a long maturity). There were isolated calls for auctions of other maturities.

Index-linked auctions (6)

A wide range of maturities were recommended for auction with IL 2028, IL 2032, IL 2036, IL 2037, IL 2041 and IL 2048 the most frequently mentioned, along with isolated calls for other maturities out to 2068. There were also a few recommendations for the launch and subsequent re-opening of a new 2031 maturity.

Investors

Syndication programme

Mixed views were received about the need for a 15-year area syndication in September. Of those investors who expressed an opinion, views also varied on the preferred initial maturity (i.e. over or under 15 years). A syndication of 0½% 2061 was advocated by a number of attendees, and it was suggested that this could be scheduled in either September or October. There were also a few mentions of the possibility of an index-linked syndication later in the quarter, subject to clarity on the outcome of the RPI consultation.

Conventional auctions (32)

Short (10)

Of those who expressed a view, the approach of building up current benchmark maturities (e.g. 0½% 2023 and 0½% 2026) was supported and some attendees suggested the launch of a new January 2024 maturity later in the period. There were also a few comments that it could make sense to auction some off-the-run gilts which are currently trading rich or expensively in the repo market.

Medium (10)

Again, where attendees expressed a view, the practice of continuing to build up current benchmark maturities, such as 0½% 2028 and 0¾% 2030, in the September-November period was seen as appropriate. There were isolated calls for the launch of a new 10-year, with a 2031 maturity, later in the period. Again some attendees advised re-opening off-the-run maturities alongside benchmarks,

Long (12)

Further multiple auctions of the current benchmarks 1¼% 2041 and 0⅝% 2050 were expected, along with recommendations for longer-dated gilts including 1⅝% 2054, 1¼% 2057 and 1⅝% 2071, as well as other older issues.

Index-linked auctions (6)

A wide range of maturities was suggested for auction by those who expressed a view, including re-openings of IL 2028, IL 2029, IL 2036, IL 2041, IL 2048, IL 2050, IL 2056 and IL 2068. There were also some calls for issuance of a new 10-year (2031) maturity. It was further suggested that the index-linked auction, scheduled for 2 September 2020, should be for a longer-dated maturity to provide additional duration to the market.

Timetable

Details of the gilt operations calendar for September-November 2020 will be published by the DMO at 7.30am on Friday 31 July 2020.

The next consultations to discuss gilt issuance in the period December 2020 to end-March 2021 are currently scheduled to be held at 3.30pm (end-investors) and 5.00pm (GEMMs) on Monday 23 November 2020. As always at this time of year, the consultation meetings are subject to confirmation pending the Chancellor's decision on the timing of the Autumn Budget.