

RECORD OF THE DMO CONSULTATION MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE APRIL-JUNE 2017 GILT MARKET OPERATIONS CALENDAR

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 20 March 2017. The meetings were primarily intended to inform the choice of gilts to be sold via auction, syndication and gilt tender in the first quarter of 2017-18.

11 gilt auctions are scheduled in April-June 2017: eight of conventional gilts and three of index-linked gilts. In addition to views on choices of gilts for issuance via auctions, feedback was sought on the choice of gilt for issuance via a syndicated offering (either a long conventional or an index-linked gilt) and via gilt tenders, as well as the timing of any such operations. In discussion, the following main points emerged:

A. GEMMs

Syndication:

Most attendees expressed a preference for a long conventional transaction in Q1, on the basis of recent market movements, with a re-opening of 1¾% 2057 or 2½% 2065 most often mentioned, alongside isolated calls for a new gilt with a maturity in excess of 40 or 50 years. Views were mixed regarding timing; although a syndication in May was the most popular choice, there were a number of recommendations to hold the transaction in June and isolated calls for scheduling it in April.

Conventional auctions:

Short (3 auctions):

There was very strong support for two re-openings of 0½% 2022 in Q1 with a number of calls for it to be re-opened three times. There were, however, also some recommendations for ultra-short issuance to address prevailing demand at that part of the curve, with 1¾% 2019 most often mentioned as a candidate, alongside isolated calls for 3¾% 2020 or 1½% 2021. Others suggested that, taking into account existing redemption totals in the next three years, demand could be satisfactorily alleviated through issuance via a gilt tender. A few recommendations were also received for the launch of a new 2023 maturity gilt by auction in June.

Medium (2 auctions):

Two re-openings of the new 1¼% 2027 were unanimously recommended.

Long (3 auctions):

The gilts most often recommended for re-opening were 1¾% 2037 and 1½% 2047, with a number of calls for the latter gilt to be re-opened twice. There were also several calls for an auction of 2½% 2065, with isolated calls for re-openings of 1¾% 2057 and 3½% 2068, contingent on other choices for syndication.

Index-linked (3 auctions):

A wide range of maturities from 2026 to 2068 were mentioned with IL 2026, IL 2036 and IL 2046 the most often recommended, with IL 2042 and IL 2050 also cited as potential candidates.

B. Investors

Syndication:

Although there were some proposals for an index-linked syndication, investors generally expressed a preference for a long conventional transaction in Q1, with views on maturity mixed between those recommending a re-opening of either 1¾% 2057 (to boost its size and liquidity) or 2½% 2065; there were also some who wished to see the curve extended with a new gilt issued maturing in 2070 or 2072. On the timing of the transaction, views were broadly split between holding the transaction in May or June.

Conventional auctions:

Short (3 auctions):

Where views were expressed, there was clear support for two or even three re-openings of 0½% 2022 in Q1. There were also isolated calls for issuance in the ultra-short area to address current demand at maturities of less than 3 years. 1¾% 2019, 3¾% 2019 and 3¾% 2020 were all suggested as candidates for re-openings, although the redemption profile in the next three years was acknowledged as representing a potential constraint on further issuance of these shorter gilts.

Medium (2 auctions):

Amongst those attendees who expressed a view about medium issuance, two re-openings of 1¾% 2027 were strongly supported.

Long (3 auctions):

Significant support was expressed for auctions of 1¾% 2037 and 1½% 2047. Amongst those recommending a new ultra-long gilt via syndication in Q1, there was also some interest in issuance of 1¾% 2057 via auction. There were isolated calls for a re-opening of 3½% 2068.

Index-linked (3 auctions):

A general preference was expressed for issuance along the curve with the IL 2026, IL 2036 and IL 2046 maturities most often recommended. However, some attendees suggested that, if ultra-long index-linked gilts were not to be supplied via syndication in Q1, then IL 2065 should be auctioned.

Timetable

The gilt operations calendar for April-June 2017 will be announced by the DMO at 3.30pm on Friday 24 March 2017.

The next quarterly consultation meetings to discuss gilt issuance in July-September 2017 are scheduled to be held at the DMO's offices on Monday 22 May 2017.