Minutes of the DMO’s meeting with gilt investors in Scotland on 25 January 2019

Officials from the UK Debt Management Office (DMO) met representatives of Scottish-based gilt investors in Edinburgh on 25 January 2019. The meeting complemented those held at HM Treasury, in London, on 21 January 2019, and was held primarily to allow investors based in Scotland to present their views on the structure of the DMO’s financing remit for 2019-20.

At Autumn Budget 2018 the gross financing requirement for 2019-20 was forecast to be £132.7 billion. The DMO’s financing remit for 2019-20 will be published alongside Spring Statement 2019 (date to be confirmed).

The main points relating to the remit for 2019-20 discussed at the meeting are summarised below.

The overall structure and composition of the remit in 2018-19 was seen as broadly appropriate for the 2019-20 remit. It was felt, however, that the modest proportionate reduction in index-linked gilt issuance should continue and that the proportion of long conventional issuance should also be reduced somewhat in 2019-20.

The shortening of demand for duration by pension funds and, in particular, LDI accounts was cited. It was also thought by some that the period of peak LDI purchases may have passed.

It was suggested that any reduction in long conventional and index-linked supply could be offset by increases in short and medium conventional gilts. The potential impact of the forthcoming APF purchases by the Bank of England was noted in this context.

There was a discussion about the relative merits of gilt auctions and syndications. While the efficacy of syndications in providing larger supply events of more risky instruments than would be feasible by auctions alone was acknowledged, it was also suggested that the mechanics of the transactions should be kept under review. In particular, it was felt that the period between allocation and pricing should be shortened as much as practicable.

The recent Report by the House of Lords Economic Affairs Committee (‘Measuring Inflation’) was noted. The view was expressed that it might be unrealistic to see the launch of CPI-linked gilts in the near future on the basis of a prospectus that provided for a future transfer to an as yet unspecified successor index.

28 January 2019