THE UK DEBT MANAGEMENT OFFICE'S FINANCING REMIT 2019-20: MINUTES OF CONSULTATION MEETINGS WITH GEMMs AND INVESTORS, HELD AT HM TREASURY ON 21 JANUARY 2019

The Economic Secretary to the Treasury chaired the annual meetings with representatives of the Gilt-edged Market Makers (GEMMs) and gilt investors on 21 January 2019. Officials from HM Treasury and the UK Debt Management Office (DMO) were also present. These meetings provide gilt market participants with the opportunity to inform HM Treasury's decisions regarding the debt financing remit for 2019-20.

The gross financing requirement for 2019-20 is currently projected to be £132.7 billion as announced at Autumn Budget 2018. The DMO's financing remit for 2019-20 will be published alongside the Spring Statement 2019 (date to be confirmed).

The Economic Secretary opened both meetings by thanking attendees for their commitment to the gilt market in 2018-19. There was a general feeling at both meetings that the 2018-19 remit had so far been delivered smoothly.

The main points arising at the meetings in relation to the 2019-20 remit are summarised below.

GEMMs

A view was generally expressed that the overall structure of the remit in 2019-20 should broadly replicate that in 2018-19.

There was a widespread expectation of a further proportionate reduction in index-linked gilt issuance in 2019-20. It was suggested that any further reduction in index-linked gilt sales should be gradual, given the ongoing structural demand for these assets. However, it was also noted that the focus of index-linked demand had recently moved from the ultra-long sector to the 20- to 30-year area of the curve, and this shift is currently expected to persist into 2019-20.

Attendees that gave a view advocated a broadly balanced split of conventional issuance across maturities. However, some attendees noted that, given the forecast increase in the financing requirement in 2019-20, the absolute size of the short and medium programmes should be increased relatively more than the long conventional programme.

There was widespread support for the proposition that auction sizes could be increased somewhat and that, given the forecast increase in the financing requirement, more auctions would be needed. It was noted that this might better spread liquidity events across the year. An ongoing role for the syndication programme was foreseen, with some scope suggested for greater flexibility around choices over sizes and the types of stock to be issued.

Attendees noted that, in the current market environment, retaining an element of flexibility in the remit around the split of issuance was appropriate. Many attendees noted the utility of the unallocated portion of issuance, which they recommended should be continued in 2019-20.

In the context of the recent report by the House of Lords Economic Affairs Committee on ‘Measuring Inflation’, the importance of clarity around the government’s preferred measure of inflation was mentioned by a number of attendees. It was suggested by some that clarity over the preferred index should precede any decision on launching gilts linked to a different measure of inflation, and any such launch should likely follow further consultation.

Investors

There was a discussion about the appropriate mix between auctions and syndications, with a number of investors recommending more frequent and larger auctions to spread liquidity events across the year. As a consequence, some felt that the syndication programme need not be as large as in 2018-19. Others, however, noted the expected increase in the financing requirement, and commented that syndications remain a valuable tool for clients in creating specific liquidity events for the market.

Where views were expressed, it was suggested that demand in the 7- to 15- and 20-year areas of the conventional curve was likely to be relatively stronger than in the ultra-long sector in 2019-20, although it was noted by some that ultra-long issuance should not be neglected.

Some attendees noted that demand for index-linked gilts remained strong, albeit at shorter maturities than in the recent past. Some caution was expressed about the prospect of a significant proportionate reduction in index-linked gilt issuance in 2019-20.

There were some references to the market's preference for clarity on the government's preferred measure of inflation.