

RECORD OF THE DMO CONSULTATION CONFERENCE CALLS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE APRIL-JUNE 2021 GILT OPERATIONS CALENDAR

The DMO held conference calls with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on Monday 8 March 2021. The calls were primarily intended to inform the choice of gilts to be sold via auction and syndication in the first quarter of the financial year 2021-22.

24 gilt auctions are scheduled to be held in April-June 2021: 20 of conventional gilts and four 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 sale via syndication. The DMO currently plans to schedule at least two such operations in April-June 2021. In discussion, the following main points emerged.

GEMMs

Syndications

Conventional: A new 2051 maturity was strongly advocated for launch via syndication in mid- or late April, with views mixed about whether the new gilt should mature in July or October. There were also isolated calls for the launch of a new gilt maturing in January 2052.

Index-linked: Most recommendations were for the launch in May of a new index-linked gilt maturing in either 2043 or 2045, although there were some calls for a new bond with a slightly shorter maturity (e.g. one maturing in 2038 or 2039) and some attendees suggested that the DMO retains some flexibility on choice of maturity for now. There was one suggestion for the launch of a new IL 2061 and another call for a re-opening of IL 2051.

Conventional auctions (20)

Short (6)

Significant support was expressed for up to three auctions of 0 $\frac{3}{8}$ % 2026 and at least two auctions of 0 $\frac{1}{8}$ % 2024, with a number of recommendations also made for a re-opening of 0 $\frac{5}{8}$ % 2025. Also mentioned as potential auction candidates by some attendees were 0 $\frac{1}{8}$ % 2026 and 0 $\frac{1}{8}$ % 2028, with only isolated calls for issuance of other short gilts.

Medium (6)

Two or more re-openings of both 0 $\frac{1}{4}$ % 2031 and 0 $\frac{5}{8}$ % 2035 were widely recommended with calls for a re-opening of 4 $\frac{3}{4}$ % 2030. There were some calls for issuance at other maturities, including the launch of a new gilt maturing in early 2029.

Long (8)

There was widespread support expressed for up to three auctions of 0 $\frac{7}{8}$ % 2046, as well as a number of recommendations for re-openings by auction of the new 30-year gilt (assumed to be launched via syndication in April). Strong demand was cited as a reason why ultra-long issuance should take place in Q1 2021-22; in particular auctions of 0 $\frac{1}{2}$ % 2061 and 1 $\frac{5}{8}$ % 2071 were recommended. Mixed views on the value of re-openings of 1 $\frac{1}{4}$ % 2041 and 1 $\frac{5}{8}$ % 2054 in Q1 2021-22 were expressed, with some preferring to re-open 4 $\frac{3}{4}$ % 2038 or other long maturity gilts in the coming quarter.

Index-linked auctions (4)

IL 2031 and IL 2051 were the most frequently recommended gilts for auction, with a number of calls for IL 2065 and IL 2068 to provide some sought-after duration. Among the candidates proposed at other maturities was the suggestion that a new IL 2039 be launched by auction in Q1 2021-22.

Investors

Syndications

Conventional: General support was expressed for the prospect of launching a new 2051 maturity via syndication in April, and for this new gilt to be re-opened subsequently via auction in the quarter. There was, however, also a call for the recently-issued 0 $\frac{7}{8}$ % 2046 to be re-opened, leaving a new 30-year maturity to be issued via auction at a later date.

Index-linked: Those attendees who expressed a view suggested the launch of a new index-linked gilt via syndication in May at a range of different maturities from 2039 to 2045 or 2046.

Conventional auctions (20)

Short (6)

Investors generally supported the strategy of actively building up 0 $\frac{1}{8}$ % 2024 and 0 $\frac{3}{8}$ % 2026, with a number suggesting up to three auctions of each gilt in Q1 2021-22. Other short gilts advocated for auction, alongside the current “on-the-run” bonds, were 1% 2024, 0 $\frac{1}{8}$ % 2026 and 0 $\frac{1}{8}$ % 2028.

Medium (6)

There was general support for repeated re-openings of 0 $\frac{1}{4}$ % 2031 and 0 $\frac{5}{8}$ % 2035, with some calls for three auctions of each of these gilts in Q1 2021-22. There were also some calls for re-openings of other bonds, including 4 $\frac{1}{4}$ % 2032.

Long (8)

A range of maturities were recommended for auction, including 0 $\frac{7}{8}$ % 2046 and re-openings via auction of the new 30-year gilt, assumed to be launched via syndication in April. There were also frequent calls for ultra-long issuance in Q1 2021-22 with a preference for auctions of 0 $\frac{1}{2}$ % 2061 and 1 $\frac{5}{8}$ % 2071 most often cited. Other long gilts mentioned as auction candidates included 1 $\frac{3}{4}$ % 2037, 1 $\frac{1}{4}$ % 2041 and 1 $\frac{5}{8}$ % 2054.

Index-linked auctions (4)

Where views were expressed, attendees recommended re-openings of IL 2031 and IL 2051, with interest also expressed in ultra-long issuance via re-openings of IL 2056, IL 2065 or IL 2068.

Timetable

The DMO will announce details of the gilt operations calendar for April-June 2021 at 7.30am on Friday 12 March 2021.

The next consultations to discuss gilt issuance in July-September 2021 are currently scheduled to be held at 3.30pm (investors) and 5.00pm (GEMMs) on Monday 17 May 2021.