

RECORD OF THE DMO CONSULTATION MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE JANUARY-MARCH 2018 GILT MARKET OPERATIONS CALENDAR

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 27 November 2017. The meetings were primarily intended to inform the choice of gilts to be sold via auction and syndication in the final quarter of 2017-18.

Ten auctions are scheduled in January-March 2018: seven of conventional gilts and three of index-linked gilts. In addition to views on choices of gilts for sale via auction, feedback was sought on the choice of the index-linked gilt to be sold via syndication, as well as the timing of that transaction. Views were also sought on demand for any gilt tenders in the period. In discussion, the following main points emerged.

A. GEMMs

Syndication

A re-opening of IL 2048 was the most widely supported choice for issuance via syndication, with isolated calls for a sale of IL 2056 or IL 2065. February 2018 was the most often recommended month for the transaction, with a few attendees suggesting, at this stage, to keep open the option to hold the transaction in either January or February.

Conventional auctions

Short (two auctions)

Two re-openings of 0¾% 2023 were unanimously recommended.

Medium (two auctions)

A re-opening of 1¼% 2027 was strongly supported for the auction scheduled for 9 January, along with marginal support for 1½% 2026 as well as a suggestion for the launch of a new 10-year gilt on that date. For the auction scheduled for 15 March views were more broadly split between those recommending a further re-opening of 1¼% 2027 and those recommending the launch of a new gilt maturing in 2028, albeit with a slim majority favouring a new gilt. July 2028 was the most favoured maturity month for a new medium gilt amongst those expressing a view, but other months put forward were June, August and September.

Long (three auctions)

A range of gilts were recommended for re-opening by auction, with the 2037, 2047 and 2057 maturities most often mentioned. There were also some calls for re-

openings of the 2065 and 2068 maturities from those who felt the market might need more duration in this final quarter of the financial year.

Index-linked (three auctions)

A number of gilts were recommended for auction with re-openings of IL 2026, IL 2036 and IL 2056 most often mentioned. There were also a number of calls for a new index-linked gilt to be considered for launch by auction in the coming quarter(s), most notably a new 10-year (maturing in 2028), together with isolated calls for new 2031 and 2041 maturities.

B. Investors

Syndication

Strong support was expressed for a re-opening of IL 2048 via syndication in Q4, but there was also a call for a re-opening of IL 2056. Most attendees also recommended that the transaction should take place in early February 2018.

Conventional auctions

Short (two auctions)

Where a view was expressed, attendees unanimously recommended that 0¾% 2023 be auctioned twice in the January-March quarter.

Medium (two auctions)

Most attendees recommended a re-opening of 1¼% 2027 at the auction scheduled for 9 January, although some pointed to their preference for the launch of a new 2028 maturity as soon as practicable. For the medium auction proposed for 15 March, a majority of those who expressed a view recommended that a new 2028 maturity gilt be sold, with September suggested by one attendee as an appropriate maturity month.

Long (three auctions)

Investors made a general point that they saw the bulk of prevailing demand towards the ultra-long end of the curve, as evidenced by the current 30- to 50-year yield curve inversion. The gilts most often recommended for re-opening were 1¾% 2037, 1¾% 2057 and 2½% 2065. There were also some calls for a further auction of 1½% 2047 and one call for a new 25-year maturity gilt.

Index-linked (three auctions)

In contrast to the conventional market, prevailing demand for index-linked gilts was currently deemed to be more focused in the 20- to 30-year area than in ultra-long maturities. The gilts most often recommended for re-opening by auction were IL 2026 and IL 2036, but there were a number of calls for the launch of a new gilt maturing in the 2030-31 area or possibly the 25-year area. Other index-linked gilts

suggested as candidates for auction included IL 2040, IL 2046, IL 2048, IL 2056 and IL 2065.

Timetable

The gilt operations calendar for January-March 2018 will be announced by the DMO at 7.30am on Thursday 30 November 2017.

The next quarterly consultation meetings to discuss gilt issuance in April-June 2018 are scheduled to be held at the DMO's offices on Monday 19 March 2018 (subject to confirmation depending on the Chancellor's decision on the timing of the Spring Statement).