

## **RECORD OF THE CONSULTATION MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE JULY-SEPTEMBER 2012 GILT MARKET OPERATIONS CALENDAR**

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 28 May 2012. The meetings were primarily intended to inform the choice of gilts to be issued by auctions and syndications in July to September 2012.

The DMO anticipates holding two syndicated offerings in the period. Twelve gilt auctions are scheduled in the second quarter: nine of conventional gilts and three of index-linked gilts. The DMO envisages that three auctions of short-, two auctions of medium- and four auctions of long-dated conventional gilts will be held. In discussion, the following main points emerged.

### **GEMMs**

Syndications: Most recommended that both syndications in Q2 be for index-linked gilts but a significant minority also advised holding a conventional rather than a second index-linked operation. A new index-linked gilt maturing in the 30-year area was the most often suggested, with a small number of GEMMs suggesting such a bond could be sold twice via syndication in Q2. Other recommendations were received for the launch of a new index-linked gilt in the 10-year or 40-year area. For a conventional syndication recommendations were received for the launch of a new 2044 and re-openings of the 2052 and 2060 maturities.

### **Conventional auctions:**

Shorts: Two re-openings of the 5-year benchmark (1% 2017) was widely recommended, with some calls for three auctions of that stock. A range of other gilts were mentioned for the third auction.

Mediums: Strong support was expressed for two re-openings of the new September 2022 gilt (to be auctioned for the first time on 21 June) with only isolated calls for any other gilts.

Longs: A wide range of maturities were mentioned, with re-openings of the 2042 and 2052 maturities the most widely supported (accompanied by re-openings of shorter-dated longs in the 2030-2036 area).

Index-linked: Again a wide range of existing maturities were proposed, with re-openings of the 2029, 2034 and 2050 maturities most often mentioned. There were also isolated calls for the launch of a new 10- or 30- year maturity gilt by auction.

### **Investors**

Syndications: There was strong support for two index-linked syndications in Q2 with the launch of a new 30-year gilt the most often suggested. Other maturities suggested as candidates included a new gilt in the 2025 or 2052 area.

### Conventional auctions:

Shorts: All who expressed a view recommended at least two re-openings of 1% 2017 with some calls for three re-openings of that gilt. 4½% 2019 was the next most frequently mentioned gilt for a re-opening in Q2.

Mediums: Two auctions of the new September 2022 gilt was seen as the obvious choice for medium conventional issuance.

Longs: A wide range of gilts were suggested for re-opening including 6% 2028, and the 2030, 2032, 2034, 2036, 2038, 2042, 2052 and 2060 maturities.

Index-linked: Again a number of maturities were recommended for re-opening including the 2029, 2034, 2040, 2047, 2050 and 2062 maturities.

### **Royal Mail Pension Plan Gilt cancellations**

Both GEMM and investor attendees thought that the market should be able to manage the planned cancellations without disruption given their size and profile and the relatively small impact of cancellation on industry indices. Views were mixed on the timing of cancellations, with some attendees preferring that these happen as early as practically possible while others, with reference to the index-linked component of the portfolio, suggested waiting for the index-event in November<sup>1</sup>. Generally, fewer rather than more cancellation operations were preferred and seven working days was seen as sufficient prior notice by the DMO in advance of a cancellation.

### **Any other business**

- It was noted that on 22 May 2012 there had been a £176 million upward adjustment to the 2011-12 CGNCR outturn due to data revisions on government accounts held in the commercial sector. No change arises for the DMO financing remit for 2012-13 at this stage. The change will be taken into account at a remit revision at the time of the Autumn Statement 2012.
- GEMM and investor attendees mentioned the reports that the ONS were considering potential methodological changes to the computation of the RPI that could have the effect of lowering the RPI. The independent status of the ONS and the UK Statistics authority, the fact that the work is at a relatively early stage, and the likely amount of time before decisions would begin to be taken were pointed out.
- There was a discussion (amongst the GEMMs) about auction format and in particular whether there might be merit in index-linked auctions moving to a multiple price format. Views were mixed, but a majority who expressed a view favoured the maintenance of the single price format, while recognising that the decision on auction format was one for the DMO to take. The DMO said that it

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<sup>1</sup> When 1¼% IL 2017 falls out of the over 5-year index.

kept issues like auction format under review and welcomed ongoing market feedback on issues of this kind.

The calendar of gilt issuance in July-September 2012 will be announced by the DMO at 3.30pm on Thursday 31 May 2012.

The next consultation meetings to discuss gilt issuance in October-December 2012 will be held at the DMO's offices on Tuesday 21 August 2012.