

Minutes of meeting with gilt investors in Scotland on 25 January 2013

Officials from the UK Debt Management Office (DMO) and HM Treasury met representatives of Scottish-based gilt investors in Edinburgh on 25 January 2013. The meeting complemented those held at HM Treasury, in London, on 24 January 2013, and was held primarily to allow investors based in Scotland to present their views on the structure of the DMO's financing remit for 2013-14. The gross financing requirement for 2013-14 is currently forecast to be around £161 billion. The DMO's financing remit for 2013-14 will be published alongside the Budget on 20 March 2013.

The main points discussed at the meeting are summarised below:

There was a general view that the structure of the remit in 2012-13 had worked well and that overall market liquidity had been relatively good. A similar shaped remit looked to be appropriate for 2013-14, given the continued high expected quantum of financing.

It was felt that there was a case for increasing, in a measured way, the size of index-linked issuance in 2013-14, not least because of the redemption of IL 2013, but also because net supply to the market of conventional gilts was expected to rise significantly next financial year.

Limited demand was foreseen for CPI-linked gilts at present. The CPI market was currently seen as small and illiquid and would involve the Government as a new issuer having to pay a premium to the market. Some felt that market participants could, in any event, themselves structure cash flows from RPI linked gilts in such a way as to hedge CPI liabilities.

Demand was not currently expected to be significant for super-long issuance, with what interest there was likely to be more focussed in the index-linked sector, and to be for maturities in the 2065-2070 area.

The importance of medium-dated issuance to support liquidity around the futures basket was noted.

It was questioned whether demand from overseas Central Bank and Reserve Managers would be as strong in 2013-14, and that in those circumstances it may be appropriate to reduce short-dated issuance slightly.

It was felt that the distribution mechanisms for gilts, using auctions, syndications and mini-tenders should be continued, but that it was worth considering fewer, but larger sized syndications and for syndications to be used particularly for the issuance of ultra-long dated maturities.

Some attendees noted that recent Government consultations had added an element of uncertainty into the market and that more stability and predictability on the part of the authorities would be welcome.