

RECORD OF THE DMO CONSULTATIONS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE OCTOBER TO DECEMBER 2024 GILT OPERATIONS CALENDAR

The DMO held consultations with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on Monday 19 August 2024 in hybrid form, with some participants attending at the DMO's offices and others joining via conference/video call.

The consultations were primarily intended to inform the choice of gilts to be sold via auction and syndication in the third quarter of financial year 2024-25.

The DMO set out a schedule of 19 gilt auction dates (16 for conventional gilts and three for index-linked gilts) in the October to December 2024 period, together with a proposed maturity split for conventional gilt auctions. The DMO also plans to schedule a syndication for an index-linked gilt in the coming quarter, subject to demand and market conditions.

In discussion, the following main points emerged.

GEMMs

Index-linked gilt syndication

The gilt most frequently recommended for the syndication in Q3 2024-25 was a re-opening of IL 2054, with attendees in favour of scheduling the transaction in November 2024. However, there were also some calls for the launch of a new index-linked gilt, with 2035, 2038 and 2043 suggested as potential maturity years. Some broader suggestions included a new index-linked gilt maturing in the 10- to 25-year area of the curve. There were also isolated calls for a re-opening of IL 2073. A number of GEMMs commented, however, that it would be premature to commit to the specific maturity of gilt for issuance via syndication at this stage.

Conventional auctions (16)

Short (six)

Two re-openings of 4½% 2029 were unanimously recommended, with strong support expressed for three re-openings of this gilt within the quarter. There was also a clear preference among nearly all attendees for the launch and re-opening of a new 3-year gilt, with a maturity of March 2028 suggested by most who offered an opinion, but with a few calls for a maturity of October 2027. There was also strong support for one auction of 3¾% 2027. Some GEMMs advocated for an auction of 4% 2031 later in the quarter, following its transition into the short maturity basket after 22 October 2024. However, others were more cautious about the strength of demand at this maturity.

Medium (five)

Unanimous support was expressed for two auctions of 4¼% 2034, with a majority of attendees preferring three auctions of this gilt in Q3 2024-25. A final re-opening of 4% 2031 as a medium maturity gilt was very strongly supported, along with one re-opening of 3¾% 2038 also suggested by most GEMMs. There were only isolated calls for other medium gilts to be issued, including a few calls for a re-opening of 0% Green Gilt 2033.

Long (five)

There was unanimous support for one re-opening of 4¾% 2043 with many GEMMs preferring two re-openings in the next quarter. Unanimous support for one re-opening of 4⅜% 2054 was also expressed, with some interest in a second re-opening in Q3 2024-25. Several participants supported one auction of 1½% Green Gilt 2053, with some attendees also interested in a further tap of 4% 2063. There were a few calls for a re-opening via auction of the long conventional gilt maturing on 31 January 2040, which is planned for launch by syndication in the week commencing 2 September 2024.

Index-linked auctions (three)

A wide range of index-linked gilts were recommended for auction in Q3 2024-25, with IL 2045 the most often mentioned. The next most popular preferences were re-openings of IL 2033 and IL 2054, with some attendees advocating for the launch of a new 10-year maturity index-linked gilt.

Gilt tenders

A few GEMMs suggested the DMO could consider issuance via gilt tender in the coming period, with most proposals centred on issuance of low coupon gilts in the short sector and on the 50-year area of the conventional gilt curve.

Gilt investors

Index-linked gilt syndication

A range of maturities were suggested by those who expressed a view for issue at the planned index-linked gilt syndication in Q3 2024-25, including suggestions for a new gilt maturing in 2038 or 2043, and a re-opening of IL 2054. There was an isolated call for a re-opening of IL 2073 via syndication. Overall it was felt that it might be too early to commit to a specific maturity for the index-linked gilt syndication at this stage.

Conventional auctions (16)

Short (six)

A further auction of 3¾% 2027 was recommended by most of those that provided opinions, along with the launch and re-opening of a new 3-year gilt, with suggested maturities of October 2027 or March 2028. Up to three auctions of 4⅛% 2029 were suggested by many participants, with some calls for a re-opening of 4% 2031 following its transition into the short maturity basket after 22 October 2024.

Medium (five)

A final auction of 4% 2031 as a medium maturity gilt was recommended by most attendees who gave a view, with up to three re-openings of 4¼% 2034 also being advocated. One auction of 3¾% 2038 was widely supported, with some investors suggesting two re-openings in Q3 2024-25. There was also an isolated call for a re-opening of 0⅞% Green Gilt 2033 in the coming quarter.

Long (five)

Significant support was expressed for auctions of 4¾% 2043 and 4⅜% 2054. A re-opening of 1½% Green Gilt 2053 was recommended by many investors with some calls for an auction

of the new 31 January 2040 maturity gilt, which is planned for launch via syndication in September 2024. There were recommendations for an auction of 4% 2063 from several attendees, although others questioned the strength of demand currently at this maturity.

Index-linked auctions (three)

A focus on benchmark issues (IL 2033, IL 2045, IL 2054 and IL 2055) was suggested by most participants who expressed a view, but there were also recommendations for re-openings of IL 2031 and IL 2039, together with isolated calls for the launch of a new index-linked gilt maturing in 2035.

Gilt tenders

A few attendees suggested the DMO could consider issuing in the short-dated conventional curve via a gilt tender in the coming period.

Timetable

The DMO will announce the details of the gilt operations calendar for October to December 2024 at 7.30am on Friday 30 August 2024.

The next consultations to discuss gilt issuance in the period January to March 2025 are currently scheduled for 3.30pm (gilt investors) and 5.00pm (GEMMs) on Monday 11 November 2024.