

RECORD OF THE CONSULTATION MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE APRIL-JUNE 2012 GILT MARKET OPERATIONS CALENDAR

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 26 March 2012. The meetings were primarily intended to inform the choice of gilts to be issued by auctions and syndications in April-June 2012.

The DMO anticipates holding two syndicated offerings in the period. Twelve gilt auctions are scheduled in the first quarter: nine of conventional gilts and three of index-linked gilts. The DMO envisages that three auctions each of short, medium, and long conventional and three of index-linked gilts will be held. The DMO announced on 23 March 2012 that the auction to be held on 3 April 2012 will be for 4% 2022. In discussion, the following main points emerged:

GEMMs

Syndications:

Almost all GEMM representatives recommended a conventional syndication in April and an index-linked in May. Widespread support was expressed for a re-opening of either 3¾% 2052 or 4% 2060 in April with isolated calls for a new 30-year. A range of views were received for an index-linked syndication in May, with a number of calls for a re-opening of the 2029 or 2034 maturities, some for the launch of a new 30-year and other calls for a new 40-year or a re-opening of the 2062 bond.

Conventional auctions:

Shorts:

There was clear support for two re-openings (mostly in April and June) of 1% 2017 as the main focus for short issuance. For the remaining short auction in the quarter, there were some calls for a third re-opening of 1% 2017, with a range of other bonds from 2014 to 2019 also suggested.

Mediums:

Most recommended the launch and re-opening of a new 10-year benchmark gilt at the proposed medium auction slots in May and June, although there was a wide range of potential maturity dates suggested, from September 2022 to September 2023. Other attendees suggested that 5% 2025 should be re-opened, and that the introduction of a new 10 year gilt could be towards the end of the quarter or even wait until Q2 2012-13.

Longs:

A wide range of bond recommendations was received, generally with support for some shorter-dated long issuance via auction to balance the preference for an ultra-long syndication. 4½% 2042 was recommended for re-opening most frequently, with a number of requests for the re-opening of the 2034 and 2060 maturities. There were also some calls for the launch of a new 30-year maturity gilt.

Index-linked:

A wide range of recommendations was received - with almost all maturities from 2022 to 2062 mentioned. The 2029, 2034, 2040, 2047 and 2062 bonds were most often recommended for re-openings and there was an isolated call for the launch of a new 10-year index-linked gilt via auction.

Investors

Syndications:

A preference was expressed for the sequencing of a conventional syndication in April followed by an index-linked sale in May, and generally for both sales to be for existing ultra-long (30-50 years) bonds. There were, however, isolated calls for a new 50 year conventional issue and a new 14-year or 30-year index-linked issue via syndication.

Conventional auctions:

Shorts:

Where an opinion was expressed, attendees were generally supportive of at least two re-openings of 1% 2017, with 2% 2016, 5% 2018 and 4½% 2019 also mentioned as potential candidates for re-opening.

Mediums:

The launch of a new 10-year gilt was widely endorsed, with January or March 2023 the most often suggested maturity dates; although a bond maturing later in 2022 was also seen as a viable option.

Longs:

Where specific views were expressed, a range of bonds to be re-opened was mentioned, including the 2034, 2039, 2040, 2042, 2046, 2052 and 2060 maturities.

Index-linked:

A wide range of gilts for re-opening via auction was proposed. A re-opening of the 2029 maturity was most often recommended, but other maturities mentioned included the 2017, 2027, 2040, 2042 and 2062 maturities. There was also an isolated call for the issue of a new bond to fill the gaps between either the 2022 and 2027 maturities or between the 2050 and 2055 maturities.

Any other business

The DMO explained that the Royal Mail Pension Plan (RMPP) gilts will be transferred into public ownership in April 2012. The exact amount and breakdown of the gilts to be transferred will not be known with certainty until the transfer has been completed – which is likely to take several weeks. Once this process has been completed, the DMO will publish the full portfolio breakdown. Mindful of the fact that cancellation will have an impact on market indices, the DMO will be inviting feedback as part of the quarterly consultation process on the appropriate timing of cancellation. There were calls in both meetings for the timing of the publication of the gilt portfolio breakdown to be pre-announced.

The calendar of gilt issuance in April-June 2012 will be announced by the DMO at 3.30pm on Friday 30 March 2012.

The next consultation meetings to discuss gilt issuance in July-September 2012 will be held at the DMO's offices on Monday 28 May 2012.