

RECORD OF THE CONSULTATION MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE APRIL-JUNE 2011 GILT MARKET OPERATIONS CALENDAR

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 28 March 2011. The meetings were primarily intended to inform the choice of gilts to be issued by auction and syndication in April-June 2011¹.

13 gilt auctions are scheduled in April-June 2011: nine of conventional gilts and four of index-linked gilts. The DMO is planning to hold three auctions each of short-, medium- and long-dated conventional gilts in the period. Two syndicated gilt offers are also expected to be held. The following main points emerged:

GEMMs

Syndication: A clear message was received that there should be one index-linked and one long-dated conventional syndicated offer scheduled in the April-June quarter. While views were mixed regarding the scheduling by type, a majority favoured an index-linked transaction in May with a conventional transaction to follow in June. A number of GEMMs also suggested that the DMO should plan to schedule an index-linked syndication in July, to coincide with the IL 2016 index event², and that the operation in May could introduce a new, index-neutral gilt that could then be re-opened in July. However, there were also calls for a new sub-10 year index-linked gilt (2019 maturity) or for a new 50-year to be syndicated in this quarter. For a conventional syndication the most popular choice was for a re-opening of 4% 2060, although there were some calls for a new 40-year and one call for a new 30-year gilt.

Conventional auctions:

Short-dated: There was virtual unanimity of preference for two auctions of 2% 2016 in the quarter, with the next most popular call being for a re-opening of 2¼% 2014. There were also some recommendations for a new 2017 gilt, as well as one proposal for 5% 2018 to be re-opened.

Medium-dated: Again, there was near unanimity in calls for a second auction of the new 3¾% 2021, in addition to the operation already scheduled for 5 April. Although some GEMMs suggested that three auctions of the 2021s could be accommodated, 5% 2025 was the next most often cited gilt for re-opening, with isolated calls for other candidates, including one for a new 2023 issue.

Long-dated: Views here were less concentrated than on short- and medium-dated, but there was strong support for at least one auction of 4¼% 2040 and some calls for that gilt to be auctioned twice. 4½% 2034 was the next most suggested bond for re-opening, with the 2027, 2049 and the 2060 maturities also mentioned.

¹ The DMO has already announced (on 25 March) the identity of the first two gilts to be auctioned on 5 and 6 April (3¾ % 2021 and 1½% IL 2037 respectively).

² 2½% Index-linked Treasury Stock 2016 falls out of the over five year gilt index on 26 July 2011.

Index-linked auctions: A wide range of bonds was recommended for auction in the coming quarter, with the 2027s, the 2050s, the 2022s and the 2040s most often mentioned for re-opening. In addition, there were some calls for the launch of a new 2019 or 2021 maturity index-linked gilt.

Investors

Syndication: There was a general preference for an index-linked syndication in May, to be followed by a long-dated conventional operation in June. Where a specific maturity preference was expressed, investor representatives favoured the sale of a new index-neutral maturity gilt (2034 was cited), and for such a bond to be re-opened in July to coincide with the IL 2016 index-event. For a conventional syndication, the general preference was for a re-opening of 4% 2060.

Conventional auctions: General support was expressed for the issuance strategy proposed in the meeting agendas, with further issuance of 2% 2016 and 3¾% 2021 playing a central part in short- and medium-dated conventional programmes. Within the short programme, some support was also expressed for the launch of a new 2017 maturity and/or a reopening 2¼% 2014. Within the medium sector, there were also a number of recommendations for a re-opening of 5% 2025. A variety of maturities were suggested for re-opening of long-dated conventional gilts by auction, including the 2027, 2034, 2039, 2040, 2046 and 2049 gilts.

Index-linked auctions: A general preference for continued issuance of long-dated index-linked gilts was expressed, with the 2022, 2027, 2037, 2040, 2042 and 2050 maturities most frequently mentioned. There were also a few calls for a new 2019 maturity.

A full calendar of gilt issuance in April-June 2011 will be announced by the DMO at 3.30pm on Thursday 31 March 2011.

The next quarterly consultation meetings, to discuss gilt issuance in July-September 2011, will be held at the DMO's offices on Monday 23 May 2011.