THE UK DEBT MANAGEMENT OFFICE'S REMIT 2014-15: MINUTES OF CONSULTATION MEETINGS WITH GEMMs AND INVESTORS, HELD AT HM TREASURY ON 13 JANUARY 2014

The Financial Secretary to the Treasury chaired the annual meetings with representatives of the Gilt-edged Market Makers (GEMMs) and of UK-based gilt investors on 13 January 2014. Officials from HM Treasury and the UK Debt Management Office (DMO) were also present. These meetings provide gilt market participants with the opportunity to inform HM Treasury's decisions regarding the debt financing remit for 2014-15.

The gross financing requirement for 2014-15 is currently projected to be around £167 billion. The DMO's financing remit for 2014-15 will be published alongside Budget 2014 on 19 March 2014.

The Financial Secretary opened both meetings by thanking attendees for their commitment to the gilt market in 2013-14.

The main points discussed at the meetings are summarised below.

Investors:

Attendees were generally supportive of the current remit structure both in terms of the mix of gilt issuance by maturity and type of gilt as well as the distribution mechanisms. The gradual extension of the yield curves (both conventional and index-linked) was welcomed and judged to have been a success, but some caution was recommended about the demand for super-long issuance in 2014-15.

Support was expressed for further issuance of long-dated gilts, both conventional and index-linked against a backdrop of ongoing de-risking by the Defined Benefit pension sector. A number of attendees also reported growing interest in short-dated gilts, both conventional and index-linked and suggested that supply of such gilts could be increased somewhat, in the case of conventionals at the expense of medium maturities.

A number of attendees also welcomed the flexible use of Treasury bills to accommodate the in-year reduction in the financing requirement in 2013-14 and suggested this approach be carried forward as necessary.

GEMMs:

GEMMs generally thought that the 2013-14 remit structure had worked well and noted the successful extension of the nominal and real yield curves to 55-year maturity. No major changes were recommended to the structure of the remit for 2014-15 relative to the current year. Accommodation of the in-year revision to the financing requirement at Autumn Statement, primarily via the Treasury bill programme, was widely welcomed.

Only modest adjustments were recommended to the split of conventional gilt issuance relative to the current year. Some GEMMs suggested that the proportion of short issuance be reduced slightly. There was a general preference expressed to increase long issuance moderately reflecting pension sector demand. In general, attendees also felt that it would be appropriate to retain broadly the same proportion of index-linked issuance in 2014-15 as in 2013-14 in a context of ongoing strong demand. It was observed that holding the quantum of index-linked issuance constant would imply an increase in net supply given the absence of any index-linked gilt redemption in 2014-15.

A number of attendees felt that the market was capable of handling larger auction sizes – particularly for index-linked gilts.

GEMMs expressed support for continuation of a broadly similar sized syndication programme in 2014-15 with the continuation of a similar sized or slightly reduced mini-tender programme to act as a flexible tool including to accommodate syndication sizing outturns.

Most GEMMs recommended that planned Treasury bill stocks be re-built to approximately the same level planned at the beginning of the current financial year, consistent with their use to accommodate in-year changes to the financing requirement.