

RECORD OF THE DMO CONSULTATION CONFERENCE CALLS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE JANUARY TO MARCH 2022 GILT OPERATIONS CALENDAR

The DMO held conference calls with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on Monday 22 November 2021. The calls were primarily intended to inform the choice of gilts to be sold via auction and syndication in the final quarter of financial year 2021-22.

Seven gilt auctions are scheduled to be held in January to March 2022: five of conventional gilts and two of index-linked gilts. In addition to views on the choices of gilts for sale via auction, feedback was also sought on the choice of a planned long conventional gilt and timing for sale via syndication.

In discussion, the following main points emerged.

GEMMs

Long conventional gilt syndication

Strong support was expressed for an extension of the conventional yield curve, with a new gilt maturing in 2073 or 2074 most often mentioned, although some attendees did not have a strong preference between the two maturity years. There were also isolated calls for re-openings of either 1¼% 2051 or 1⅝% 2071, together with a suggestion that the DMO could leave the decision about the maturity of gilt to be issued until nearer the time of the transaction. The week commencing 7 February 2022 was widely preferred for the scheduling of the transaction.

Conventional auctions (five)

Short (two)

Most GEMMs recommended one auction each of 0¼% 2025 and 0⅜% 2026. However, there were also some calls for a re-opening of 0½% 2029 later in Q4 2021-22, when the gilt will have moved into the short maturity basket, reflecting its maturity date of 31 January 2029. There were only isolated calls for issuance at other maturities.

Medium (two)

Good support was expressed for two re-openings of the new 31 January 2032 maturity gilt, which the DMO plans to launch on 1 December 2021. However, there were also some calls for a re-opening of 0½% 2029 as a medium maturity gilt in January 2022.

Long (one)

The majority of GEMMs recommended a re-opening of 1¼% 2051, with only isolated calls for re-openings at other maturities (ranging from 1⅝% 2039 to 0½% 2061).

Index-linked auctions (two)

Strongest support was received for auctions of IL 2039 and IL 2051, but there were also a number of recommendations for a re-opening of IL 2031 and one for IL 2050.

Gilt investors

Long conventional gilt syndication

General support was expressed for an extension of the yield curve in February 2022, with the launch of a conventional gilt maturing in 2073 most widely recommended. There were also some calls for a 2074 maturity or a slightly longer maturity. However, it was also noted that, given the likelihood of a relatively low coupon on a new gilt maturing in the 50-year area in comparison with the existing longest conventional gilt (1 $\frac{5}{8}$ % 2071), the additional duration to be supplied by even a new 2073 maturity would be considerable.

Conventional auctions (five)

Short (two)

One re-opening each of 0 $\frac{1}{4}$ % 2025 and 0 $\frac{3}{8}$ % 2026 were recommended by many who expressed a view, but there were also a few calls for two auctions of 0 $\frac{1}{4}$ % 2025 and some for an auction of 0 $\frac{1}{2}$ % 2029 (as a short maturity gilt in March 2022). A number of attendees commented on the currently reduced liquidity at the short-end of the conventional curve and the tightness of bonds in the repo market.

Medium (two)

Views were generally divided between those who recommended two auctions of the new 31 January 2032 maturity gilt (to be launched on 1 December 2021) and one re-opening of the new gilt alongside an auction of 0 $\frac{1}{2}$ % 2029 before it drops out of the medium maturity bracket.

Long (one)

Many attendees advocated a re-opening of 1 $\frac{1}{4}$ % 2051, but there were also some recommendations for an auction of 0 $\frac{5}{8}$ % 2050, in order to alleviate observed scarcity in the secondary and repo markets.

Index-linked auctions (two)

Where views were expressed, attendees most often recommended auctions of IL 2039 and IL 2051, although there were a few suggestions that the new IL 2073 could be considered for re-opening via auction in Q4 2021-22.

Timetable

The DMO will announce details of the gilt operations calendar for January to March 2022 at 7.30am on Tuesday 30 November 2021.

The next consultations to discuss gilt issuance in April to June 2022 are currently scheduled to be held at 3.30pm (investors) and 5.00pm (GEMMs) on Monday 14 March 2022, subject to confirmation pending the Chancellor's decision on the timing of fiscal events.