

THE UK DEBT MANAGEMENT OFFICE'S FINANCING REMIT 2020-21

MINUTES OF CONSULTATION MEETINGS WITH GEMMs AND INVESTORS, HELD AT HM TREASURY ON 27 JANUARY 2020; AND

MINUTES OF THE DMO'S MEETING WITH GILT INVESTORS IN EDINBURGH ON 24 JANUARY 2020

The Economic Secretary to the Treasury chaired the annual meetings with representatives of the Gilt-edged Market Makers (GEMMs) and gilt investors on 27 January 2020. 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 2020-21.

The Economic Secretary opened both meetings by thanking attendees for their commitment to the gilt market in 2019-20.

The main points arising at the meetings in relation to the 2020-21 financing remit are summarised below.

GEMMs

Attendees noted that the 2019-20 financing remit has been delivered smoothly to date and those that expressed a view did not expect any major departure from the overall structure in 2020-21.

Most attendees considered it likely that the proportion of index-linked issuance would continue to fall in 2020-21, in light of the government's stated intention gradually to reduce inflation exposure in the public finances. However, given that a larger financing remit is anticipated, the absolute level of index-linked supply could be relatively unchanged. Ongoing uncertainty about the potential impact on the index-linked gilt market following the conclusion of the RPI reform consultation was also mentioned.

There was a preference expressed by a couple of attendees that any reduction in index-linked gilt supply in 2020-21 should be balanced by a commensurate increase in long conventional issuance, in part to compensate for the loss of duration from reduced long-dated index-linked gilt issuance in 2019-20.

Where views were expressed, attendees preferred the proportions of short and medium conventional issuance to remain broadly unchanged in 2020-21 relative to the initial plan in 2019-20.

Retention of the unallocated portion of issuance was supported, with some attendees suggesting the initial proportion should remain broadly the same as in 2019-20, implying a larger absolute amount based on an expectation of a larger overall financing remit. Some attendees suggested that the size of the unallocated portion could be increased to address circumstances where demand for index-linked gilts increased during the year following the outcome of the RPI consultation. A number of participants welcomed the greater use of the gilt tender programme in 2019-20.

Support was expressed for larger gilt auctions in 2020-21 relative to the current year. In terms of encouraging participation at gilt auctions, a few GEMMs recommended either an increase in the rate of the post-auction option facility (PAOF) or a lengthening of the PAOF window. Others mentioned potentially increasing the GEMM non-competitive

allocation. Among those who commented, there were mixed views about the existing auction bidding formats.

A few attendees reported growing interest from their clients in government issuance of green bonds and suggested this possibility should be considered in the coming financial year. There was also some support for issuance of CPI-linked gilts.

Investors

Attendees commented that the 2019-20 financing remit had been successfully delivered in the year to date. Participants particularly welcomed the issuance of the off-the-run gilts and increased use of gilt tenders in the current financial year.

There was an expectation that the proportion of index-linked issuance was likely to continue to fall modestly in 2020-21. There were mixed views about how any such reduction should be accommodated in the financing programme. Some attendees expressed a preference for this to be accommodated through increased short and medium conventional issuance, whilst others thought that any increase should be directed to long conventional issuance.

There was some concern expressed that liquidity in the medium conventional sector had been adversely affected as a result of gilt purchases by the Bank of England's Asset Purchase Facility. Hence, it was felt that this sector, in particular, should not be neglected in 2020-21.

The majority of investors expressed a preference for auctions rather than syndications. However, an ongoing role for syndications was foreseen, with a greater emphasis on long conventional rather than index-linked issuance. Where a view was expressed, a number of investors suggested larger rather than more frequent auctions should be scheduled in 2020-21, although there was an isolated call for smaller more frequent auctions.

Several attendees raised the subject of the forthcoming consultation on RPI reform. The need for early clarity was stressed both regarding the future of RPI and the government's preferred measure of inflation. There was also some support expressed for government issuance of green bonds, gilts linked to the CPI measure of inflation and issuance of floating rate notes linked to SONIA.

MINUTES OF THE DMO'S CONSULTATION MEETING WITH GILT INVESTORS HELD IN EDINBURGH ON 24 JANUARY 2020

Officials from the UK Debt Management Office (DMO) met representatives of Scottish-based gilt investors in Edinburgh on 24 January 2020. The meeting complemented those held at HM Treasury, in London, on 27 January 2020, and was held primarily to allow investors based in Scotland to present their views on the structure of the DMO's financing remit for 2020-21.

The main points relating to the remit for 2020-21 discussed at the meeting are summarised below.

It was felt that, while the focus of demand at the long-end had recently moved shorter down the curve, demand for ultra-long gilts remained, as evidenced by the continuing inversion at the long end of the curve. The forthcoming syndicated sale of 1½% 2071 was discussed, with investors noting it was important that this part of the market was not neglected in 2020-

21 as there was still pension industry de-risking to be implemented. It was suggested that there may be more syndicated offerings in 2020-21 than in the current financial year and that it would be sensible to continue to use this financing method to supply long and ultra-long maturities in particular.

The importance of continued supply at the medium part of the curve was also mentioned. Purchases of medium conventional gilts by the Asset Purchase Facility were seen as having an impact on liquidity and it was mentioned that the launch of new gilts in this part of the curve should be considered: new 2031 and 2033 maturities were suggested.

The upcoming consultation on the implementation of RPI reform was noted. It was suggested that the lack of clarity in the early part of the 2020-21 financial year regarding the outcome of the consultation may impact on the functioning of the inflation-linked market; this could cause problems for those pension funds that relied on this market for their liability management strategies.