

RECORD OF THE DMO CONSULTATION MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE JANUARY-MARCH 2016 GILT MARKET OPERATIONS CALENDAR

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 30 November 2015. The meetings were primarily intended to inform the choice of gilts to be sold via auctions and syndication in the fourth quarter of 2015-16.

Ten gilt auctions are scheduled in January-March 2016: seven of conventional gilts and three of index-linked gilts. In addition, one index-linked gilt syndication is planned. In discussion, the following main points emerged:

A. GEMMs

Syndication:

In terms of timing, GEMM views were broadly split between holding the index-linked syndication in January or February 2016.

In terms of maturity, views were broadly split between the launch of a new index-linked gilt maturing in 2065 or a new gilt that would extend the real yield curve, with 2070, 2072 and 2075 all suggested as possible redemption years. There was an isolated call for a new gilt in the 20 to 30- year maturity area and a few other calls for a re-opening of an existing index-linked gilt.

Conventional auctions: Shorts (2):

Very strong support was expressed for two re-openings of 1½% 2021 (with an isolated call for a reopening of the 1¾% 2019).

Mediums (2):

Almost all GEMMs advocated at least one re-opening of 2% 2025, with recommendations for the second medium auction broadly split between a further re-opening of 2% 2025, the launch of a new 2026 maturity or a re-opening of 5% 2025 (although this gilt was also suggested as a potential mini-tender candidate).

Longs (3):

Very strong support was expressed for a further re-opening of 3½% 2045, with a number of calls for two auctions of this gilt. A range of other gilts were suggested as auction candidates, particularly in the long to ultra-long area, with issuance in the 20-year area generally not recommended. The 2052, 2060 and 2065 maturities were the most frequently suggested. There were also a few calls for a new 2046 or 2047 gilt.

Index-linked auctions (3):

There was strong support for an auction of IL 2026 and a few calls for this gilt to be re-opened twice. IL 2034 and IL 2046 were the next most often recommended gilts for re-opening, within a wide range of maturities mentioned from IL 2019 to IL 2058. There were also some calls for a new 5- or 20-year maturity index-linked gilt.

B. Investors

Syndication:

Investor attendees who expressed a view unanimously recommended holding the index-linked transaction in February. There was a strong preference for ultra-long supply, with those who preferred there to be a conventional gilt of equivalent maturity alongside recommending the launch of a new index-linked gilt maturing in 2065 or the re-opening of IL 2068. Other attendees, however, recommended a new longer gilt to reflect the strength of demand for duration; 2070, 2072, 2073 and 2075 maturities were all mentioned.

Conventional auctions:

Shorts (2):

Where views were expressed, most attendees favoured two re-openings of 1½% 2021.

Mediums (2):

Views were broadly mixed between those who recommended two re-openings of 2% 2025 and those who recommended one auction of 5% 2025 alongside one re-opening of 2% 2025. There were also some calls for the launch of a new 2026 maturity in either Q4 or the first quarter of 2016-17.

Longs (3):

3½% 2045 was widely recommended for re-opening alongside longer-dated gilts mostly in the 40 to 50 year maturity area (maturities mentioned included 2052, 2055, 2065 and 2068). By contrast, there were relatively few calls for issuance in the below 30-year maturity area. Some investors also considered future 30-year issuance through a new 2046 or 2047 gilt.

Index-linked auctions (3):

A range of gilts was mentioned for re-opening, including IL 2026, IL 2052 and IL 2058; however, against the backdrop of an assumed ultra-long syndication in Q4, representations were also made for consideration of the launch of a new short (5-year) maturity to fill a gap in the curve and in recognition of a relative lack of short dated index-linked issuance in recent years.

Any other business

The calendar of gilt issuance in January-March 2016 will be announced by the DMO at 3.30pm on Friday 4 December 2015.

The next quarterly consultation meetings to discuss gilt issuance in April-June 2016 are expected to be held at the DMO's offices on the first Monday after Budget 2016. A further announcement about the timing of the next meetings will be made after the date of Budget 2016 has been announced.