

RECORD OF THE CONSULTATION MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE APRIL-JUNE 2013 GILT MARKET OPERATIONS CALENDAR

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 25 March 2013. The meetings were primarily intended to inform the choice of gilts to be issued by auctions and syndications in April-June 2013.

The DMO anticipates holding at least one syndicated offering in the first quarter of the financial year. Eleven gilt auctions are scheduled in the period: seven of conventional gilts and four of index-linked gilts. The DMO plans that conventional issuance via auctions will be split as follows: two short, two medium and three long. In discussion, the following main points emerged:

A) GEMMs

Syndication: Most GEMMs preferred to see a single transaction in Q1 2013-14, with May the more favoured month; a number of attendees also noted that there was a case for a longer lead time for the launch of any super-long issuance. It was suggested that currently there may be marginally higher demand for a super-long index-linked gilt issue, but that it could make sense to launch a new conventional gilt first, to aid pricing of the former. Views were mixed on the preferred maturity, but most recommended a modest extension - in the area of 55 years.

Conventional auctions:

Shorts: Strong support was expressed for two re-openings of 1¼% 2018 in the quarter to build up liquidity in the bond.

Mediums: Virtually all banks recommended the launch of a new gilt maturing in either July or September 2023 in this coming quarter, but views were mixed about whether the new bond should be auctioned twice or whether the first medium auction should be for a re-opening of 1¾% 2022.

Longs: 3¼% 2044 was widely advocated for re-opening with a number of GEMMs suggesting it be re-opened twice in the quarter; other suggested auction stocks included the 2030, 2032, 2034, 2049 and 2052 maturities.

Index-linked auctions:

Clear support was expressed for at least one auction of IL 2024, with the other most popular choices being the 2029, 2034, 2044 and 2052 maturities. There were also isolated calls for the launch of a new index-linked gilt with a 5- year maturity.

Mini-tenders:

Mini-tenders were seen by some as offering an opportunity to address possible scarcity in sub-5 year gilts, medium-dated deliverables and/or others.

B) Investors

Syndication: There was a general support for extending the curve, but views were mixed as to both preferred maturity (with circa 55 years the often mentioned) and whether to start the programme with a conventional or an index-linked super-long gilt. Investors suggested that if a new issue were to be built up to benchmark size relatively quickly, then it made sense to start the programme in Q1 2013-14. Where views were expressed on timing, these were divided between late May and late June, although the point was made that some in the LDI industry would prefer reasonable notice to be provided before a new super-long gilt is issued.

Conventional auctions:

Shorts: There was strong support for two re-openings of 1¼% 2018, although with isolated calls for an issue of 1% 2017 or 3¾% 2019.

Mediums: Where a specific view was expressed, virtually all supported a re-opening of 1¾% 2022, followed by the launch of a new gilt maturing in 2023 (with September the most often mentioned maturity month).

Longs: Where a specific maturity was mentioned, a reopening of 3¼% 2044 was most widely supported. Other gilts proposed for re-opening included the 2030, 3034, 2039 and 2052 maturities.

Index-linked auctions:

A wide range of maturities was suggested for issuance, although a number of attendees referred to the prevailing strength of demand for relatively shorter-dated maturities - and there was one recommendation for a new 2019 maturity. Re-openings of the 2024, 2029, 2034, 2052, and 2062 were the most popular candidates for issuance.

Any other business

The calendar of gilt issuance in April-June 2013 will be announced by the DMO at 3.30pm on Thursday 28 March 2013.

The next consultation meetings to discuss gilt issuance in July-September 2013 will be held at the DMO's offices on Monday 20 May 2013.