

THE UK DEBT MANAGEMENT OFFICE'S FINANCING REMIT 2021-22

MINUTES OF CONSULTATION CONFERENCE CALLS WITH GEMMs AND INVESTORS, HELD ON 18 JANUARY 2021

The Economic Secretary to the Treasury chaired annual consultation conference calls with representatives of the Gilt-edged Market Makers (GEMMs) and gilt investors on 18 January 2021. Officials from HM Treasury and the UK Debt Management Office (DMO) also took part. These calls provided gilt market participants with the opportunity to inform HM Treasury's decisions regarding the debt financing remit for 2021-22.

The gross financing requirement for 2021-22 is currently projected to be £257.7 billion, as published in the Office for Budget Responsibility's (OBR's) Economic and Fiscal Outlook on 25 November 2020. The DMO's financing remit for 2021-22 will be published alongside Budget 2021 on 3 March 2021.

The Economic Secretary opened both meetings by thanking attendees for their commitment to the gilt market in 2020-21.

The main points arising at the meetings are summarised below.

GEMMs

2020-21: Attendees noted that the 2020-21 remit had been delivered smoothly to date, that the balance between auctions and syndications had been broadly appropriate and that gilt supply had been well received by market participants. It was felt that the market had remained resilient in the context of the unprecedented size of the financing programme.

2021-22: It was noted that the certainty provided to the market as a result of the publication of the government's and UKSA's response to the consultation on reform of the Retail Prices Index (RPI) methodology had released pent-up demand for inflation-linked gilts. Some attendees suggested that this might be met by an increased proportion of index-linked gilt issuance in 2021-22. Some suggested that broadly the same cash amount as supplied in 2020-21 might be appropriate, taking into account the most recent forecast of the gross financing requirement for 2021-22. A number of attendees also indicated a preference for longer-dated index-linked issuance next year to be greater than in 2020-21.

No significant changes were recommended to the proportionate split of conventional issuance by maturity, although some attendees suggested that the proportion of short and/or medium gilts could be reduced slightly. Support was expressed for the continued issuance of current coupon benchmark gilts at different maturities in order to continue to build a curve of such instruments.

There were some suggestions for fewer and slightly larger auctions (in particular for long conventional gilts). Furthermore, the 25% Post Auction Option Facility (PAOF) was seen as helpful for smoothing supply around auctions. A few attendees also noted that

syndications had been well received by the market and were seen as supportive of market liquidity.

A number of attendees welcomed the prospect of the sale of a green gilt, which they suggested should be launched via syndication.

Investors

2020-21: Attendees commented that the 2020-21 remit had been delivered successfully to date, particularly given the unprecedented context and scale of the financing programme. Some attendees welcomed the launch of new current coupon gilts.

2021-22: A number of attendees suggested that the proportion of short and medium gilt issuance could be moderately lower relative to 2020-21, with corresponding increases in long and index-linked gilt issuance (although some noted the ongoing need to maintain short gilt supply).

In general, it was felt that the issuance split should broadly revert to the proportions seen prior to financial year 2020-21, with a number of attendees preferring that the proportion of index-linked issuance, in particular, should rise given the conclusion to the RPI reform consultation.

There were mixed views on the need for extensions to the conventional or index-linked gilt yield curves. A few attendees observed that the yield curve inversion in the long-dated sectors was supportive of further extension. However, others pointed to the focus of demand being primarily in the 20- to 40-year maturity area, particularly in index-linked gilts, indicating a preference to continue to fill gaps in the current coupon curve.

A number of attendees expressed support for an ongoing programme of syndications as an effective means by which quickly to build the outstanding size of new gilts.

There was also enthusiasm expressed about the prospect of a green gilt issue in 2021. Some attendees expressed an interest to hear more details about the government's plans in this area.