

RECORD OF THE DMO CONSULTATION MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE APRIL-JUNE 2015 GILT MARKET OPERATIONS CALENDAR

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 23 March 2015. The meetings were primarily intended to inform the choice of gilts to be sold via auctions and at a syndicated gilt offer in the first quarter of the 2015-16 financial year.

Ten gilt auctions are scheduled in April-June 2015: seven of conventional gilts and three of index-linked gilts. In addition, one syndicated offer is planned. In discussion, the following main points emerged:

GEMMs

Syndication:

There was a widespread preference for an index-linked transaction in Q1. A late June transaction was suggested, but a number of GEMMs proposed an index-linked syndication on or around 16 April, to help manage the index-extension effect, as IL 2020 falls out of the over 5-year index on that day, as well as to capture ongoing LDI demand. It was noted that such an operation would require the index-linked auction already scheduled for 16 April to be moved to either another day in the same week, or the preceding or succeeding week.

There were some suggestions that if no index-linked syndication was to be held in April, a mini-tender of a long index-linked gilt could be scheduled for late April, subject to ongoing demand. A small number of GEMMs also called for two syndications in Q1, implying the scheduling of a long conventional transaction in June.

In terms of maturity, a strong preference was expressed for the launch of a new 30-year index-linked gilt, maturing in 2045 or 2046. Of those GEMMs calling for two syndications, the maturity choice for a conventional operation was divided between the 30-year and ultra-long sectors.

Conventional auctions:

Shorts (2):

A strong preference was expressed for two re-openings of 2% 2020. Isolated calls were received for an auction of a slightly shorter dated gilt.

Mediums (2):

The unanimous view was for two re-openings of the new 2% 2025 to build up the gilt towards 10-year benchmark status.

Longs (3):

Strong support was received for one or two re-openings of the current 30-year benchmark - 3½% 2045 - but a central theme was to spread issuance along the curve including 20-year and ultra-long supply.

Index-linked auctions (3):

Issuance along the curve was recommended, with the 2024, 2029, 2034, 2040, 2042, 2044, 2058 and 2068 maturities most often mentioned. It was generally felt that the index-linked auction on 16 April should be for a relatively index-neutral maturity and there were a number of calls for that operation to be for a larger size than usual.

Investors

Syndication:

Attendees who expressed a view recommended an index-linked syndication in Q1, with most of these favouring or expecting a June transaction. There were, however, a few calls for an April syndication. Views on the maturity of the gilt to be sold by syndication were mixed. Of those that expressed views, most favoured a new 30-year (maturing in 2045 or 2046) although IL 2068 was also mentioned as a candidate, as was issuance in the 20- or 40-year area.

Conventional auctions:

Shorts (2):

Two re-openings of 2% 2020 were widely supported, although there were isolated calls for a re-opening of 3¾% 2019.

Mediums (2):

All attendees who expressed a view on medium conventional issuance recommended two re-openings of the new 2% 2025.

Longs (3):

A number of attendees recommended up to two re-openings of 3½% 2045 with views mixed about the maturity of other longs that could be sold, split between the 15- to 20-year area of the curve and ultra-longs.

Index-linked auctions (3):

A wide range of gilts, generally from the 2029 to 2058 maturities, were suggested by those attendees who expressed a view, with less of an appetite for shorter tenors.

Any other business

At 3.30pm on 24 March the DMO will announce the identity of the short conventional gilt to be auctioned on 8 April 2015.

The calendar of gilt issuance in April-June 2015 will be announced by the DMO at 3.30pm on Tuesday 31 March 2015, alongside the size and other final terms of the short conventional auction to be held on 8 April.

The next quarterly consultation meetings to discuss gilt issuance in July-September 2015 are scheduled to be held at the DMO's offices on Monday 18 May 2015.