

RECORD OF THE DMO CONSULTATIONS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE JANUARY TO MARCH 2024 GILT OPERATIONS CALENDAR

The DMO held consultations with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on Monday 27 November 2023 in hybrid form, with some participants attending at the DMO's offices and others joining via conference/video call.

The consultations were primarily intended to inform the choice of gilts to be sold via auction and syndication in the final quarter of financial year 2023-24. However, they also covered the specific maturities of gilts to be sold at the two conventional gilt auctions scheduled on Wednesday 13 December 2023 and Tuesday 19 December 2023, which were added to the operations calendar at the DMO remit revision published alongside Autumn Statement 2023 on 22 November 2023.

The DMO set out a schedule of 19 gilt auction dates in the January to March 2024 period together with a proposed maturity split of conventional auctions. The DMO is planning to schedule 15 auctions of conventional gilts and four auctions of index-linked gilts in the final quarter of 2023-24. The DMO also plans to schedule two syndications in the coming quarter: a new long conventional gilt maturing in the 25- to 35- year area in January 2024 and an index-linked gilt in March 2024, in each case subject to demand and market conditions.

In discussion, the following main points emerged.

GEMMs

Additional conventional gilt auctions on 13 December 2023 and 19 December 2023

A re-opening of 3¾% 2053 was the most popular choice of gilt for sale at the long conventional auction on 13 December 2023, although several GEMMs each recommended re-openings of 1½% 2039, 4¾% 2043 or 4% 2063. There was one call for an auction of 1½% Green Gilt 2053. A re-opening of 4½% 2034 was supported by almost all attendees for the medium conventional auction on 19 December 2023, with isolated calls for a re-opening of 3¾% 2038.

Long conventional syndication

There was almost unanimous support for the launch in January 2024 of a new 30-year gilt, with the majority of those providing an opinion proposing the new gilt mature in 2054, although some preferred a 2055 maturity. There were also isolated suggestions for a re-opening of 4% 2063 and for the launch of a new gilt maturing in 2048.

Index-linked syndication

There was clear support for the launch in March 2024 of a new index-linked gilt, with most who expressed a view suggesting the new gilt should mature in 2054 but with a few preferring 2055. There were also isolated calls for re-openings of IL 2045, IL 2051 and IL 2073.

Conventional auctions (15)

Short (six)

Very strong support was expressed for further issuance of 4½% 2028 with up to three re-openings suggested by the majority of attendees. Participants also strongly favoured the launch of a new 3-year gilt (maturing in 2026 or 2027) followed by two re-openings in the forthcoming quarter, with isolated calls for further issuance of 3½% 2025 and 0½% 2029.

Medium (five)

Up to three re-openings of 4⁵/₈% 2034 were very widely recommended with a minority of attendees recommending four further taps in the quarter. There was also strong support for a re-opening of 3³/₄% 2038 with some support expressed for a second re-opening of this gilt in the quarter. The launch and re-opening of a new 7-year gilt maturing in 2031 was also widely favoured, with isolated calls for re-openings of 0⁷/₈% Green Gilt 2033 and 4¹/₂% 2034.

Long (four)

The most often recommended gilts were re-openings of 4³/₄% 2043, 3³/₄% 2053, 1¹/₂% Green Gilt 2053 and 4% 2063, together with a first auction of a new 30-year gilt (following launch via syndication) and an isolated call for further issuance of 1¹/₈% 2039 in the quarter.

Index-linked auctions (four)

The four index-linked gilts most often recommended for re-opening in Q4 2023-24 were IL 2033 (including calls for two auctions of this gilt), IL 2039, IL 2045 and IL 2051, with a few expressions of interest in IL 2056 and an isolated call for IL 2041 to be issued.

Gilt investors

Additional conventional gilt auctions on 13 December and 19 December 2023

For the additional long conventional gilt auction on 13 December 2023, views were generally split between those recommending a re-opening of 4³/₄% 2043 and those favouring a final re-opening of 3³/₄% 2053 (in the expectation that a new 30-year gilt would be launched in January 2024). A re-opening of 4⁵/₈% 2034 was widely recommended by those that expressed an opinion for the medium conventional auction on 19 December 2023.

Long conventional syndication

A new 30-year maturity was widely advocated for launch in January 2024. Opinion was divided about the maturity year for the new gilt between 2054 and 2055, with some attendees noting that the latter year would provide more time to build the new gilt up to benchmark size in advance of it reaching the 30-year maturity point.

Index-linked gilt syndication

Of those expressing a view, the launch of a new 30-year index-linked gilt in March 2024 was favoured, although some participants suggested that it may be premature to be specific about the planned maturity this far in advance of the transaction given the potential for demand and market conditions to evolve between now and March next year.

Conventional auctions (15)

Short (six)

Re-openings of 4¹/₂% 2028 and the launch and subsequent re-openings of a new 3-year maturity gilt in the quarter were recommended by those expressing a view. There was some divergence of opinion on the preferred maturity year for the new 3-year gilt.

Medium (five)

Strong support was expressed amongst those that offered an opinion for re-openings of 4 $\frac{5}{8}$ % 2034 and 3 $\frac{3}{4}$ % 2038, together with the launch and re-opening of a new 7-year gilt maturing in 2031.

Long (four)

Attendees recommended re-opening the 4 $\frac{3}{4}$ % 2043 in Q4 2023-24, with some suggesting two re-openings. Further issuance of 1 $\frac{1}{2}$ % Green Gilt 2053 was also often recommended. An initial re-opening of the new 30-year gilt to be launched by syndication in January 2024 was recommended for later in the quarter with a few calls for an auction of 3 $\frac{3}{4}$ % 2053, and support expressed for further issuance of 4% 2063.

Index-linked auctions (four)

Amongst those participants offering their opinions, re-openings of IL 2033 were widely supported. Other index-linked gilts recommended most often for re-opening were IL 2039, IL 2045 and IL 2051, with isolated calls for issuance at other maturities.

Timetable

The DMO will announce details of the gilt operations calendar for January to March 2024 at 7.30am on Thursday 30 November 2023. The announcement will include the choice of gilts to be auctioned on 13 December 2023 and 19 December 2023.

The next consultations to discuss gilt issuance in the period April to June 2024 are currently scheduled for 3.30pm (gilt investors) and 5.00pm (GEMMs) on Monday 18 March 2024, subject to confirmation pending any decisions by the Chancellor of the Exchequer on the timing of fiscal events.