

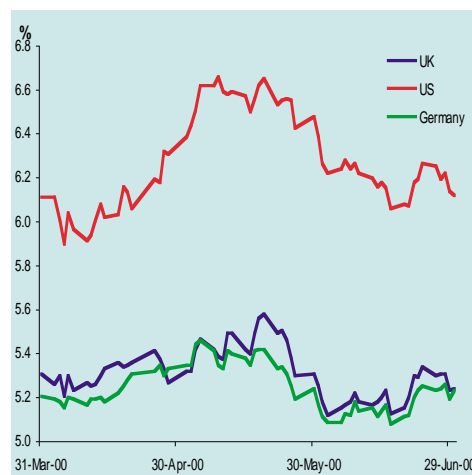
Quarterly Review

2nd Quarter 2000 April - June

Economic Background

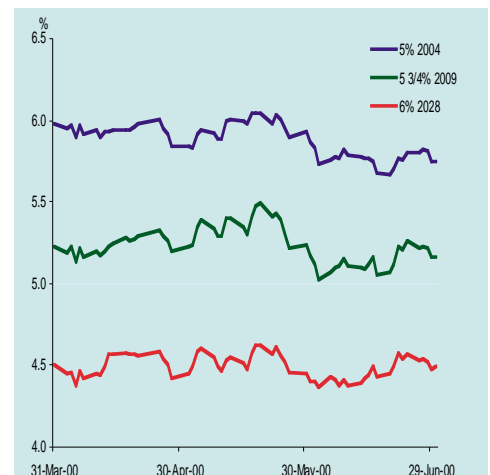
International bond yields rose during the first part of the quarter (see chart 1), particularly in the US, where continuing robust economic data took the yield on the 10-year Treasury from below 6% to 6.6% by mid-May. Continental bonds were also adversely affected by the weak euro. The second half of the period, after the US Fed's decision to raise rates by 50 basis points on 16 May, saw some recovery in bond markets, helped by some signs in early June that the growth rate of the US economy might be beginning to slow. The ECB's decision to raise euro-zone rates by an unexpected 50 basis points on 8 June was seen as helpful in addressing inflationary pressures.

Chart 1: International 10-year Government Bond Yields



Source: DMO

Chart 2: Conventional Benchmark Gilt Redemption Yields



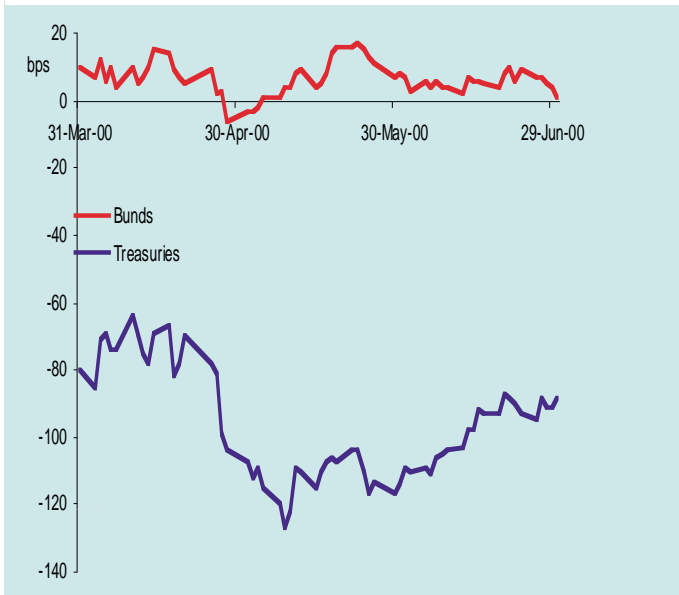
Source: DMO

The direction in the UK market largely reflected international movements, although the Bank of England kept UK rates on hold at 6% throughout the quarter, as economic indicators continued to give mixed signals and showed continuing divergence between the manufacturing and service sectors of the economy. Increasingly the market began to expect that UK rates may peak at a lower level than had been previously anticipated.

10-year spreads under US Treasuries widened by 10 basis points to 90 basis points over the quarter, although this represented a recovery by Treasuries relative to gilts in the second half of the period - in mid-May the comparable spread had been around 120 basis points. Gilts were more

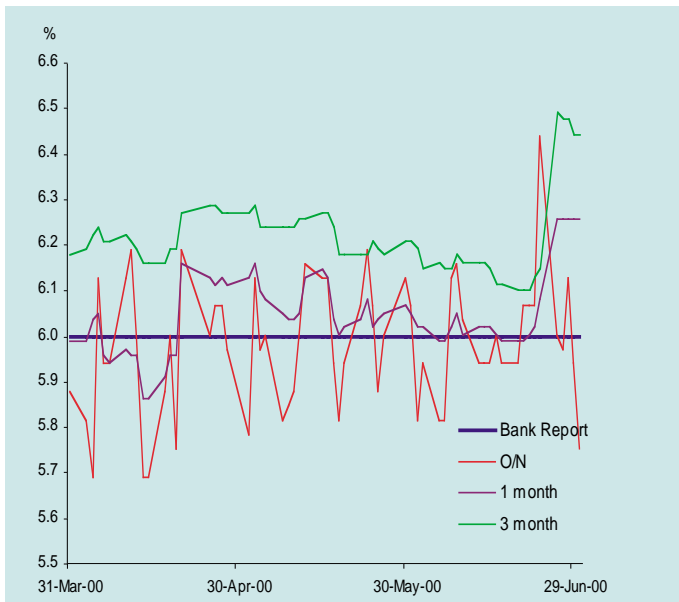


Chart 3: Spread of 10-year Gilt Yields against German Bunds and US Treasuries



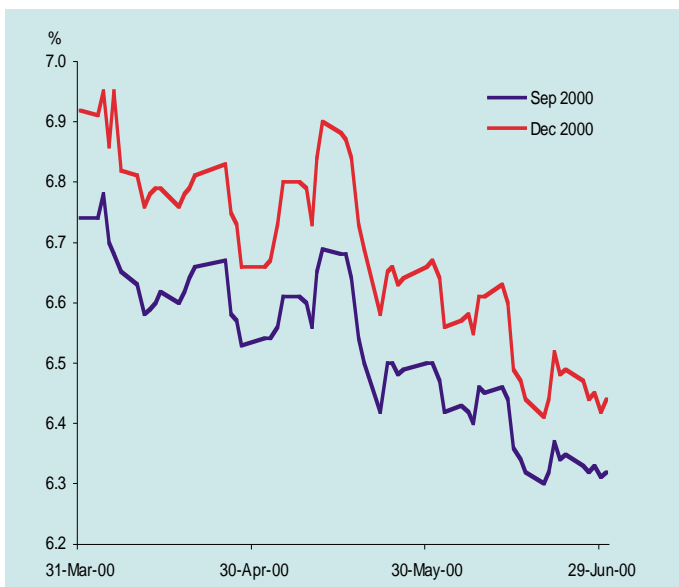
Source: DMO

Chart 4: UK Interest Rates



Source: Bank of England

Chart 5: Implied Interest Rates from Short Sterling Contracts



Source: Bloomberg

stable against continental bonds, with the 10-year gilt trading in single basis points above bunds throughout most of the quarter.

A major structural development within the gilt market was the start of a process of yield curve disinversion as shorter-dated maturities began to benefit from lower interest rate expectations. Longs were also affected by supply considerations after the DMO reaffirmed its intention to maintain long conventional and index-linked gilt issuance on 12 June despite the spectrum auction “windfall” and MFR speculation. Over the quarter the spread between the 5- and 30-year benchmarks narrowed by 22 basis points to 126 basis points.

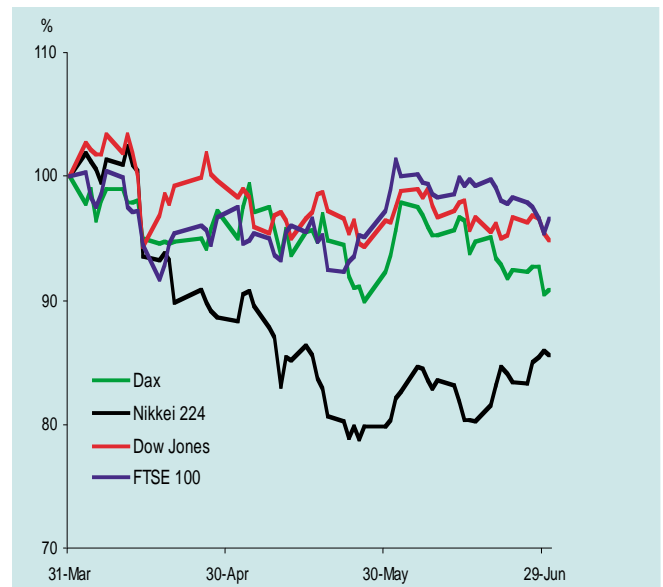
Gilt Market Operations

The DMO held two outright auctions (of the 2½% IL 2020 on 3 May and of the new ultra-long 4¼% 2032 on 24 May) in the quarter. The new 2032 stock was then built up from £2.5 billion to £4.55 billion in issue as a result of a subsequent switch auction into it from 8% 2015 on 22 June. On 12 June the DMO announced the cancellation of a (medium maturity) conventional gilt auction scheduled for September, and the consequent reduction in planned gilt sales in 2000-01 from £12.2 billion to £10 billion.

Money Market Operations

The DMO took over full responsibility for Exchequer cash management on 3 April. The major initial challenge was the handling of the cash receipts from the auction of the first three radio spectrum licenses. £8.3 billion was received on 9 May (amongst the largest ever cash payments to the Government on a single day) and £3.9 billion on 16 May. A regular series of weekly structured Treasury bill tenders and two ad hoc Treasury bill tenders were carried out in the quarter.

Chart 6: Equity Indices



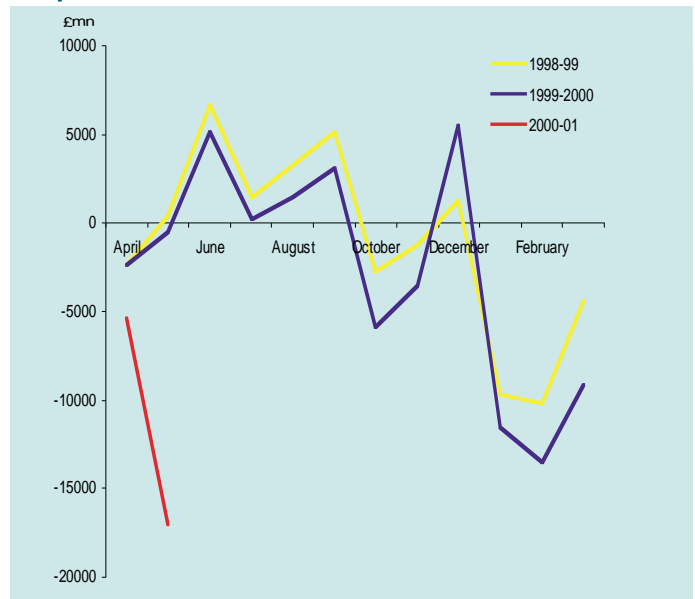
Source: Reuters. 31 March 2000 = 100.

Chart 7: Exchange Rates



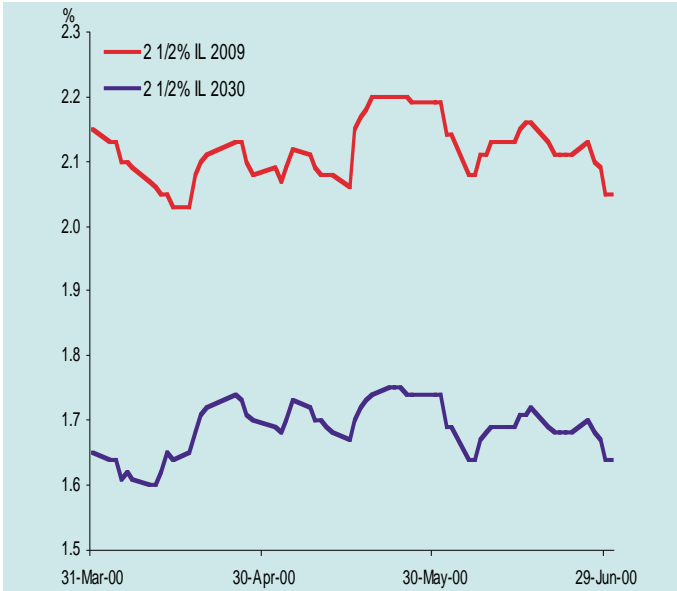
Source: DMO.

Chart 8: Cumulative Central Government Net Cash Requirement



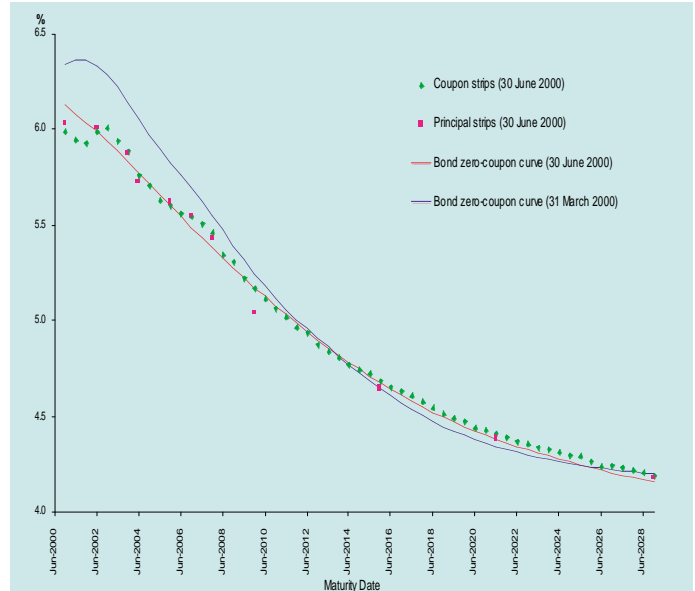
Source: ONS

Chart 9: Index-linked Gilt Real Redemption Yields



Source: DMO. 3% inflation assumption.

Chart 10: Zero-Coupon UK Yield Curves



Source: DMO.

2000-01 Financing Requirement (£bn)

	Budget 12 March	20 April	12 June	Gross sales at auctions- (to end June)	Net Central Government Gilt purchases (to end June)
CGNCR Forecast	-4.9	-4.9	-4.9		
Impact of Spectrum windfall	-	-	-19.5		
Replacing foreign currency debt	3.5	3.5	9.5		
Gilt Redemptions	18.6	18.6	18.6		
Debt buy-backs	3.5	3.5	3.5		
Gilt Sales Residual from 1999-2000	-9.5	-12.8	-12.8		0.2
Financing Requirement	11.2	7.9	-5.6		
<i>Less net financing from:</i>					
National Savings	-0.8	-0.8	-0.8		
DMO cash deposit at Bank of England	-0.2	-0.2	-0.2		
Repayment of Ways & Means	-	-2.0	-2.0		
Reduction in planned T-Bill stock	-	-1.3	-2.0		
Further reductions in net short-term debt	-	-	-10.7		
Gilt Sales Planned	12.2	12.2	10.0		
Short conventionals (1-7 years)	0.0	0.0	0.0		0.2
Medium Conventional (7-15 years)	2.2	2.2	0.0		0.1
Long conventional (>15 years)	6.5	6.5	6.5	2.4	0.0
Index-linked gilts	3.5	3.5	3.5	0.8	-0.1

Auction Results 2000-01

Auction Date	Issue Amount (nominal)	Stock	Cover	Tail (bp)	Average Accepted Price	Yield at Average Accepted Price (%)
3 May 2000	£375mn	2½% IL 2020	2.30	-*	£219.00	1.92
24 May 2000	£2,500mn	4¼% 2032	1.63	2	£96.21	4.47

* Index-linked gilts are issued through a uniform price format

Switch Auction Results

Date	Source Stock	Nominal Switched	Destination Stock	Nominal Created	Avg DP ratio*
22 June 2000	8% 2015	£1.5bn	4¼% 2032	£2.05bn	1.3641

* Dirty Price Ratio, based on average price of the destination stock.

Treasury Bill Tender Results Q2 2000

Date	Issue Amount (£mn)	Average Yield (%)	Average Price	Cover	Yield Tail (bp)
3M T-bills					
7 April	100	5.980	£98.531	6.15	0
14 April	100	5.950	£98.538	7.95	0
20 April	100	6.047	£98.531	5.05	0
28 April	100	6.046	£98.531	5.45	0
5 May	100	6.010	£98.524	5.30	1
12 May	100	6.080	£98.507	5.05	0
19 May	100	5.940	£98.541	4.45	0
26 May	100	5.950	£98.538	4.90	0
2 June	100	5.960	£98.536	5.80	0
9 June	100	5.960	£98.536	4.90	0
16 June	100	5.899	£98.551	5.55	0
23 June	100	5.950	£98.538	5.75	0
30 June	100	5.933	£98.542	3.50	0
1M T-bills					
7 April	150	5.810	£99.556	6.10	0
14 April	150	5.700	£99.565	6.97	0
20 April	150	5.900	£99.565	4.70	0
28 April	150	5.947	£99.546	4.30	0
5 May	150	5.900	£99.549	5.53	0
12 May	150	5.892	£99.500	5.54	1
19 May	150	5.820	£99.555	3.37	1
26 May	150	5.849	£99.569	3.47	1
2 June	150	5.847	£99.533	4.53	0
9 June	500	5.800	£99.557	6.09	0
16 June	750	5.770	£99.599	5.39	0
23 June	750	5.830	£99.555	5.05	0
30 June	750	5.770	£99.559	3.33	0
Ad hoc					
12 April: 14 day	350	5.800	£99.778	8.07	0
27 April: 26 day	500	5.900	£99.581	4.00	0

Chart 11: Structured T-bill Stock by Maturity at Issue in Q2 2000

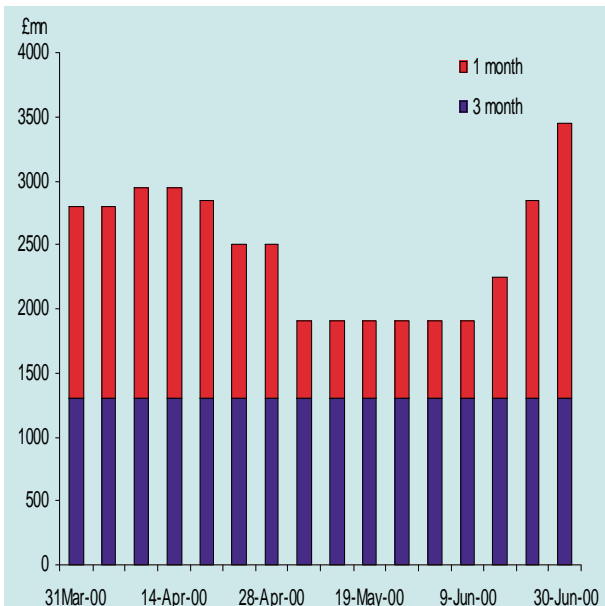
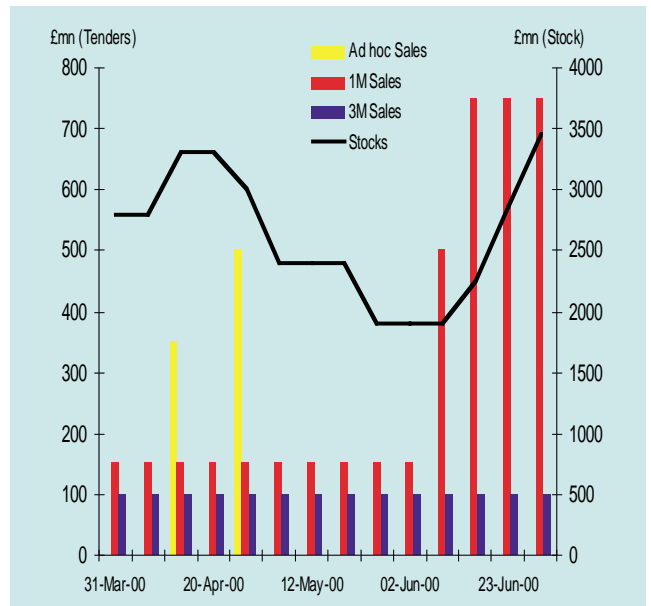
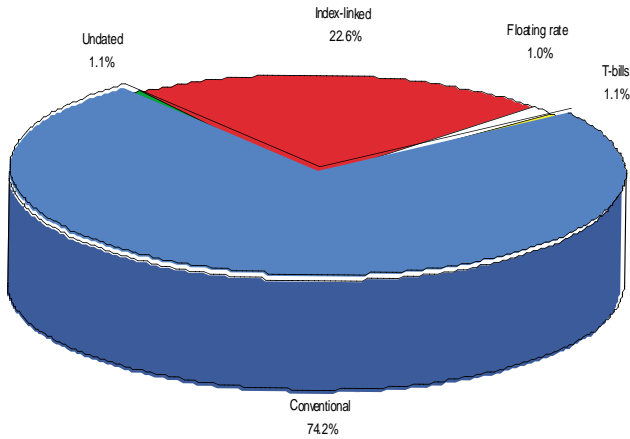


Chart 12: T-bill Stocks and Tenders in Q2 2000



The following charts are based on nominal values. Index-linked gilts are uplifted to account for accrued inflation. Debt statistics include Gilts and T-bills.

Composition of Debt Stock

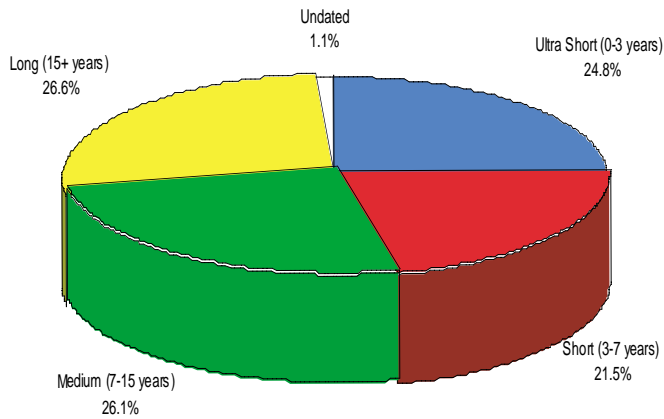


Gilt Portfolio Summary Statistics

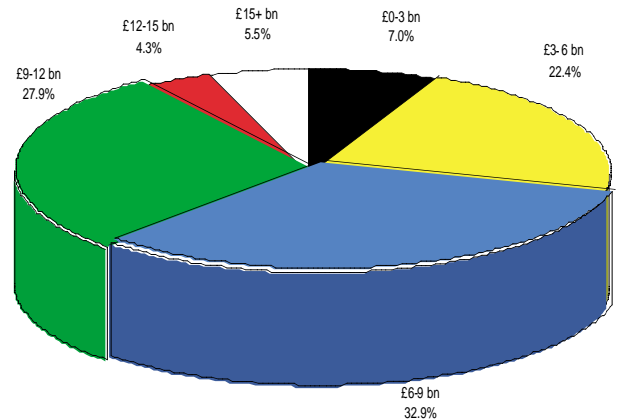
Nominal Value of the Gilt Portfolio:	£295.00bn
Market Value of the Gilt Portfolio:	£336.41bn
Weighted Average Market yields	
-Conventional gilts	5.38%
-Index-linked gilts	2.24% (real)
Portfolio Average Maturity:	10.61 years*
Portfolio Average Modified Duration:	7.45 years
Portfolio Average Convexity:	107.74
Average Amount Outstanding of Largest 20 Gilts:	£9.58bn

Calculated using different methodology than in previous publications – calculations now use market value weights.

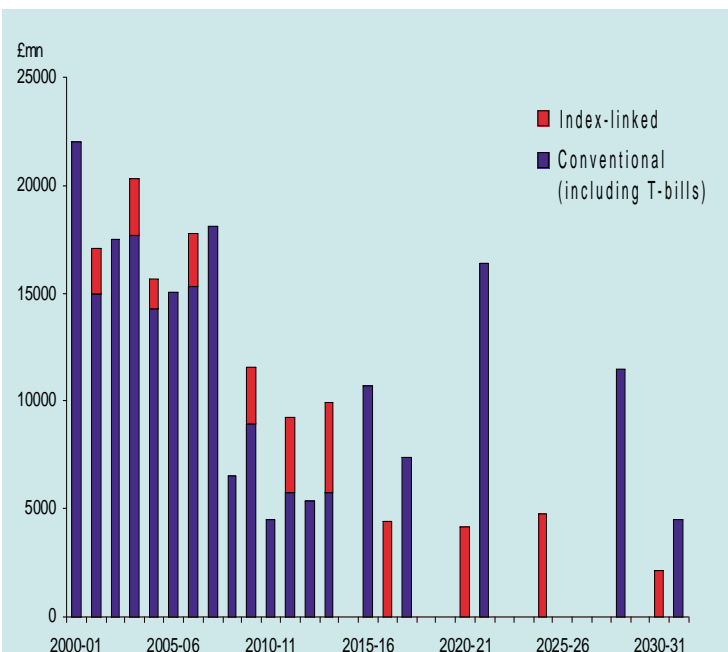
Debt Portfolio's Maturity Split



Size of Issues in £bn as Percentage of the Portfolio

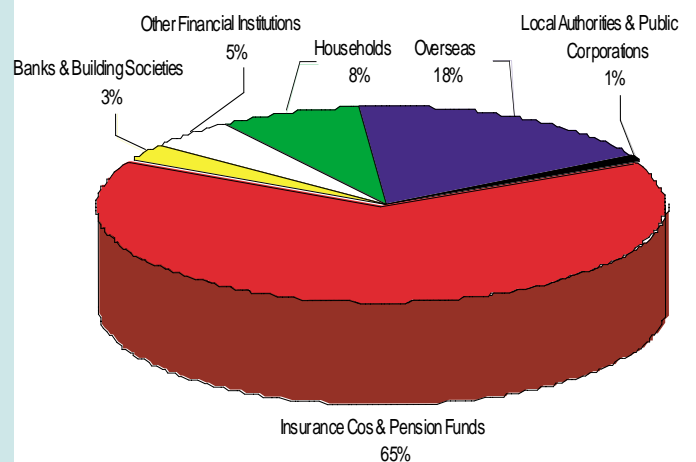


Debt Redemptions (by Financial Year)



Source: DMO. Double-dated issues currently above par are assumed to be called at first maturity. Index-linked gilts are not uplifted for inflation. Inflation uplift is scored in the CGNCR on maturity.

Distributions of Holdings of Gilts in Market Hands Q1 2000



Source: ONS. Holdings of gilts are in market value terms.

Details of Gilt Market Turnover (2nd Quarter 2000)

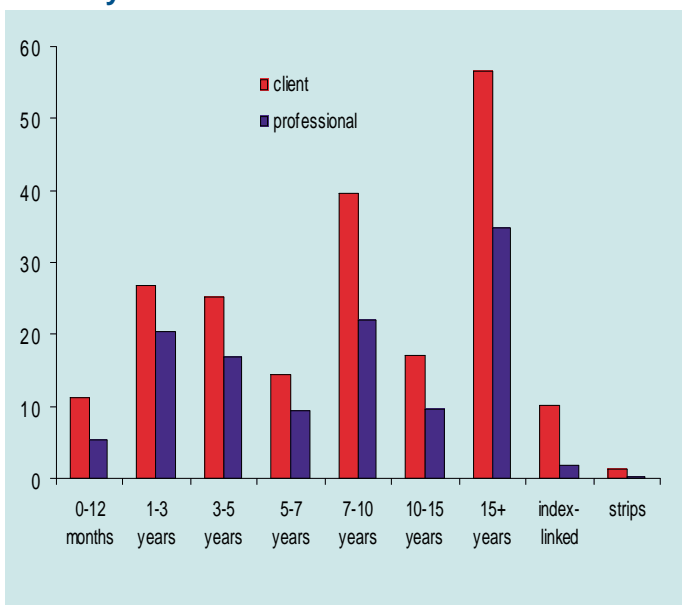
Top Ten Stocks Traded (by Market Value) in the 13 Weeks to 30 June 2000*

Stock	Market Value of Trades (£mn)	% of Value of all Gilt Trades	Number of Bargains ('000's)	Average Bargain Size (£mn)
5¾% Treasury 2009	47,914	13%	10.0	4.8
6% Treasury 2028	35,202	9%	7.2	4.9
8% Treasury 2021	28,914	8%	6.0	4.8
7% Treasury 2002	28,696	7%	4.5	6.4
8% Treasury 2015	20,983	5%	4.1	5.1
9% Conversion 2011	20,684	5%	2.2	9.5
8% Treasury 2000	17,994	5%	2.2	8.1
6½% Treasury 2003	17,361	5%	6.1	2.9
4¼% Treasury 2032	17,245	5%	2.7	6.3
7% Treasury 2001	16,797	4%	5.0	3.4
Total Market	382,666	66%	122	3.0

The top ten stocks account for % of total market turnover.

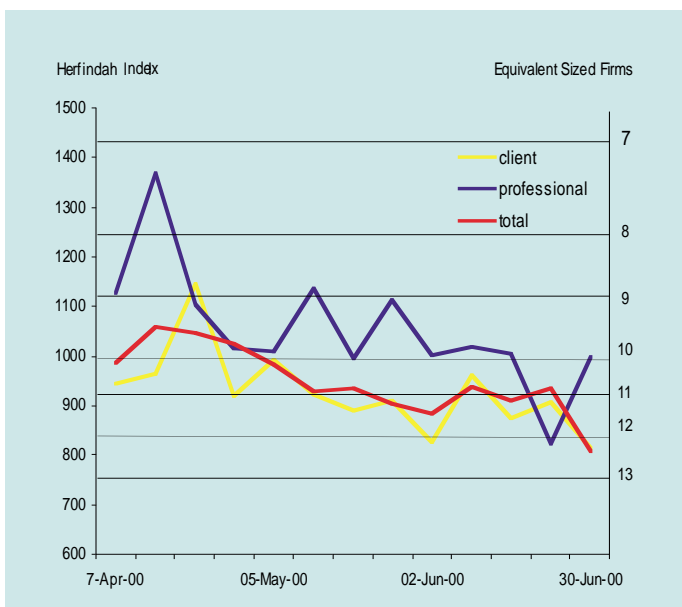
*Disclaimer: This information is based on provisional information provided by the London Stock Exchange and should only be treated as indicative.

GEMM Market Turnover (£bn nominal) by Maturity Band



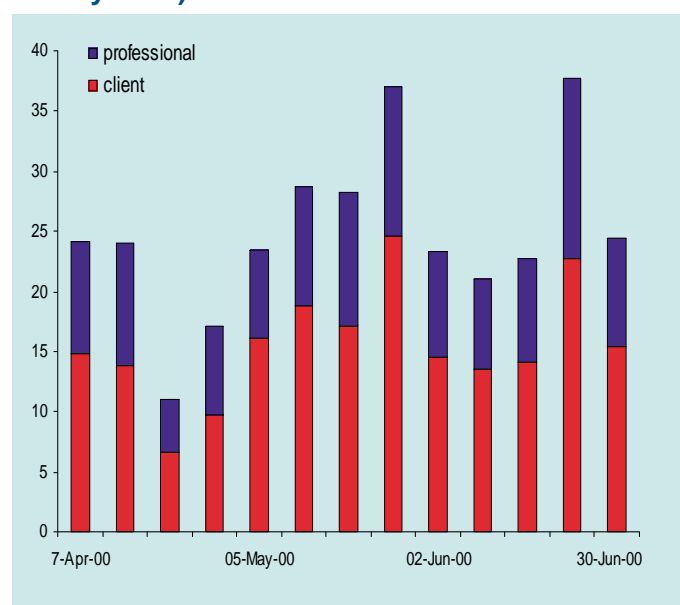
Source: DMO

Herfindahl Index of Total GEMM Market Turnover



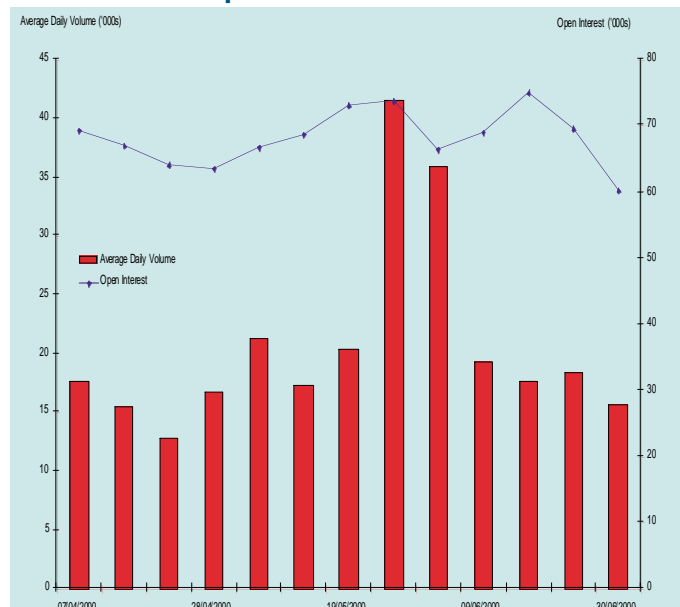
Source: DMO

Total GEMM Market Turnover (£bn nominal, weekly total)



Source: DMO

Average Daily Turnover of the Long Gilt Futures Contract and Open Interest



Source: London International Financial Futures Exchange

Stock in Issue at 30 June 2000 (£mn nominal)

Conventional Gilts	Redemption Date	Amount in Issue (£mn)	Amount held in Stripped form (£mn)	Central Government Holdings* (DMO and NILO) at 31 Mar 2000
13% Treasury 2000	14-Jul-00	3,171	-	0
8% Treasury 2000	07-Dec-00	9,800	80	219
10% Treasury 2001	26-Feb-01	4,406	-	15
11½% Treasury 2001-2004	19-Mar-01	1,620	-	142
Floating Rate 2001	10-Jul-01	3,000	-	16
7% Treasury 2001	06-Nov-01	12,750	-	749
7% Treasury 2002	07-Jun-02	9,000	183	79
9¾% Treasury 2002	27-Aug-02	6,527	-	47
8% Treasury 2002-2006	05-Oct-02	2,050	-	118
8% Treasury 2003	10-Jun-03	7,600	-	418
10% Treasury 2003	08-Sep-03	2,506	-	0
6½% Treasury 2003	07-Dec-03	7,987	59	115
5% Treasury 2004	07-Jun-04	7,408	1	79
3½% Funding 1999-2004	14-Jul-04	543	-	32
6¾% Treasury 2004	26-Nov-04	6,500	-	373
9½% Conversion 2005	18-Apr-05	4,842	-	0
8½% Treasury 2005	07-Dec-05	10,373	299	188
7¾% Treasury 2006	08-Sep-06	4,000	-	261
7½% Treasury 2006	07-Dec-06	11,700	261	132
8½% Treasury 2007	16-Jul-07	7,397	-	216
7¼% Treasury 2007	07-Dec-07	11,000	267	91
5½% Treasury 2008-2012	10-Sep-08	1,000	-	58
9% Treasury 2008	13-Oct-08	5,621	-	0
5¾% Treasury 2009	07-Dec-09	8,827	167	242
6¼% Treasury 2010	25-Nov-10	4,750	-	269
9% Conversion 2011	12-Jul-11	5,273	-	82
7¾% Treasury 2012-2015	26-Jan-12	800	-	177
9% Treasury 2012	06-Aug-12	5,361	-	0
8% Treasury 2013	27-Sep-13	6,100	-	305
8% Treasury 2015	07-Dec-15	10,787	512	83
8¾% Treasury 2017	25-Aug-17	7,550	-	179
8% Treasury 2021	07-Jun-21	16,500	416	105
6% Treasury 2028	07-Dec-28	11,512	293	65
4¼% Treasury 2032	07-Jun-32	4,546	0 (not yet strippable)	na
2½% Treasury	Undated	474	-	0
3½% War	Undated	1,909	-	0
Index-linked Gilts	Redemption Date	Amount in Issue (£mn)	Nominal Including Inflation Uplift (£mn)	Central Government Holdings* (DMO and NILO) at 31 Mar 2000
2½% I-L Treasury 2001	24-Sep-01	2,150	4,573	38
2½% I-L Treasury 2003	20-May-03	2,700	5,708	14
4¾% I-L Treasury 2004	21-Oct-04	1,300	1,596	0
2% I-L Treasury 2006	19-Jul-06	2,500	5,991	14
2½% I-L Treasury 2009	20-May-09	2,625	5,549	26
2½% I-L Treasury 2011	23-Aug-11	3,475	7,761	3
2½% I-L Treasury 2013	16-Aug-13	4,200	7,840	7
2½% I-L Treasury 2016	26-Jul-16	4,495	9,169	45
2½% I-L Treasury 2020	16-Apr-20	4,175	8,379	0
2½% I-L Treasury 2024	17-Jul-24	4,820	8,217	40
4⅛% I-L Treasury 2030	22-Jul-30	2,150	2,650	3
"Rump" Gilts	Redemption Date	Amount in Issue (£mn)		Central Government Holdings* (DMO and NILO) at 31 Mar 2000
13¾% Treasury 2000-2003	25-Jul-00	53		4
9½% Conversion 2001	12-Jul-01	3		3
9¾% Conversion 2001	10-Aug-01	35		28
10% Conversion 2002	11-Apr-02	21		11
9½% Conversion 2002	14-Jun-02	2		2
9% Exchequer 2002	19-Nov-02	83		65
11¾% Treasury 2003-2007	22-Jan-03	234		58
9¾% Conversion 2003	07-May-03	11		9
12½% Treasury 2003-2005	21-Nov-03	152		42
13½% Treasury 2004-2008	26-Mar-04	95		10
10% Treasury 2004	18-May-04	20		5
9½% Conversion 2004	25-Oct-04	307		58
10½% Exchequer 2005	20-Sep-05	23		13
9¾% Conversion 2006	15-Nov-06	6		2
8% Treasury 2009	25-Sep-09	393		26
12% Exchequer 2013-2017	12-Dec-13	57		1
2½% Annuities	Undated	3		0
3% Treasury	Undated	55		3
3½% Conversion	Undated	98		74
2½% Consolidated	Undated	275		22
2¾% Annuities	Undated	1		0
4% Consolidated	Undated	358		14

Double-dated issues currently above par are assumed to be called at first maturity.

*Includes holdings by National Investments and Loans Office (NILO) and DMO. Excludes local authority, public corporation and Bank of England holdings.

Announcements, Events and Contacts

Last Quarter

Date	Notice	Title
14 April	Press Notice	Early redemption of 13 3/4% Treasury Stock 2000-03 on 25 July 2000
20 April	Screen Announcement	Revised gilt financing arithmetic
25 April	Press Notice	Index-linked gilt auction announcement: £375mn nominal of 2 1/2% IL 2020
26 April	Press Notice	DMO consultation paper on reverse gilt auctions
3 May	Press Notice	Index-linked gilt auction 2 1/2% IL 2020: result
16 May	Press Notice	Gilt auction announcement: £2,500mn nominal of 4 1/4% Treasury 2032
24 May	Press Notice	Gilt auction 4 1/4% Treasury 2032: result
12 June	Screen Announcement	Revision to HM Treasury's Gilt remit to the DMO 2000-01
13 June	Press Notice	Gilt switch auction 8% Treasury 2015 into 4 1/4% Treasury 2032: details
14 June	Press Notice	Reverse gilt auctions: DMO response to consultation
22 June	Press Notice	Gilt switch auction 8% Treasury 2015 into 4 1/4% Treasury 2032: result
23 June	Press Notice	Publication of response to the consultation paper on the secondary market for gilts
30 June	Press Notices	Gilt-edged auctions and structured Treasury bill tenders: July-September 2000

Gilt Auction dates

Date	Event
11 July	Announcement of size and terms of first reverse auction
18 July	Announcement of size of 2 1/2% IL 2013 auction
20 July	First reverse auction (2003-05 maturity bracket)
26 July	Auction of 2 1/2% IL 2013
12 Sep	Announcement of size and terms of second reverse auction
19 Sep	Announcement of size and terms of switch auction from 8% 2015 into 4 1/4% 2032
21 Sep	Second reverse auction (2006-08 maturity bracket)
27 Sep	Switch auction from 8% 2015 into 4 1/4% 2032
29 Sep	Quarterly Auction Calendar: October - December 2000

Structured Treasury Bill Tenders

Will be held on every Friday during the quarter. Tenders are likely to comprise a combination of one month and three month bills.

Contacts

Name	Position	Telephone No.
Mike Williams	Chief Executive	020 7862 6533
Paul Mills	Head of Policy	020 7862 6521
Jo Whelan	Head of Markets	020 7862 6531
Hamish Watson	Chief Gilts Dealer	020 7862 6530
Martin Duffell	Senior Gilts Dealer	020 7862 6517
Mike Ness	Chief Money Market Dealer	020 7862 6522
Nick Fisher	Money Market Dealer	020 7862 6518
Jim Juffs	Head of Operations and Resources	020 7862 6520
Steve Whiting	Press Officer	020 7862 6532
Mark Deacon	Quantitative Analyst	020 7862 6516
Gurminder Bhachu	Quantitative Analyst	020 7862 6512
David Cuthbert	Operations Manager	020 7862 6542
Switchboard no.		020 7862 6500
Fax no.		020 7862 6509

Other Events

Date	Event
July	Publication of DMO Report & Accounts 1999-2000 and
August	Gilt Review 1999-2000
18 Sep	GEMMs Quarterly Consultation
19 Sep	End-Investors Quarterly Consultation

Information	Reuters/Bridge/ADP	Telerate	Bloomberg	Topic3/ASCII Broadcast
Index	DMO/INDEX		DMO<GO>	
Announcements	DMO/GILTS1 to 7	22550 to 22556		44700-44714
Shop window general info	DMO/GILTS8	6615		44715
Shop window 1	DMO/GILTS9	6516		44716
Shop window 2	DMO/GILTS10	6517		44717
Shop window 3	DMO/GILTS11	6518		44718
				Stock ID
GEMMA ref prices (Conventionals)	GEMMA01 to 07	47216 to 47222		44800 to 44804
GEMMA ref prices (Index-linked)	GEMMA08	47223		44805
GEMMA ref prices (STRIPS)	GEMMA13 to 19	21291 to 21297		44850 to 44854
				ISIN code
Cash announcements	DMO/CASH01	15700		44806 to 44809
T-bill tender information	DMO/CASH11	15710		44811
Ad-hoc tender information	DMO/CASH16	44675		44855 to 44859
DMO website: www.dmo.gov.uk				44660
				44670
				15715
				Address: DMO, Cheapside House, 138 Cheapside, London EC2V 6BB.

