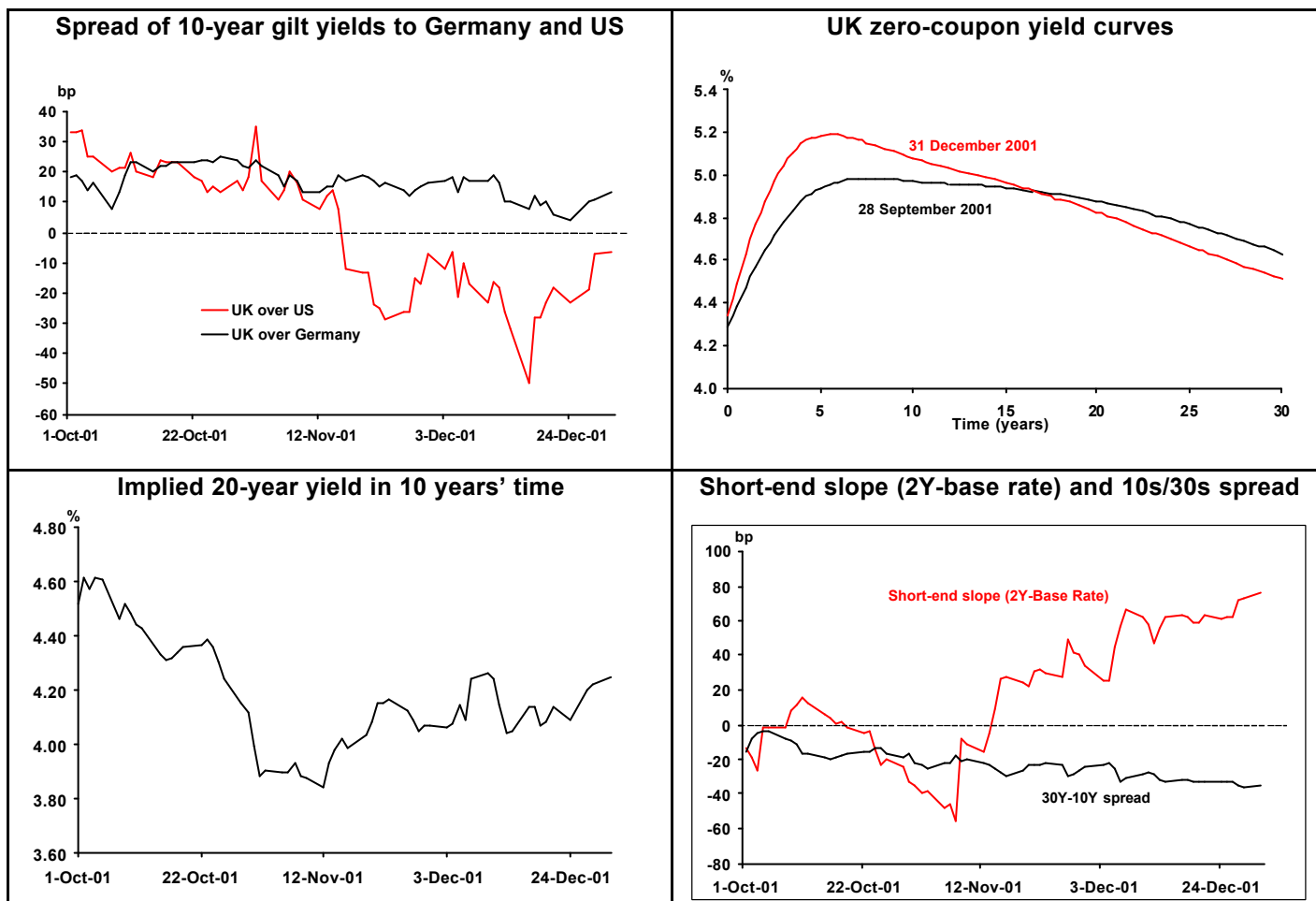




Quarterly Review

October - December 2001

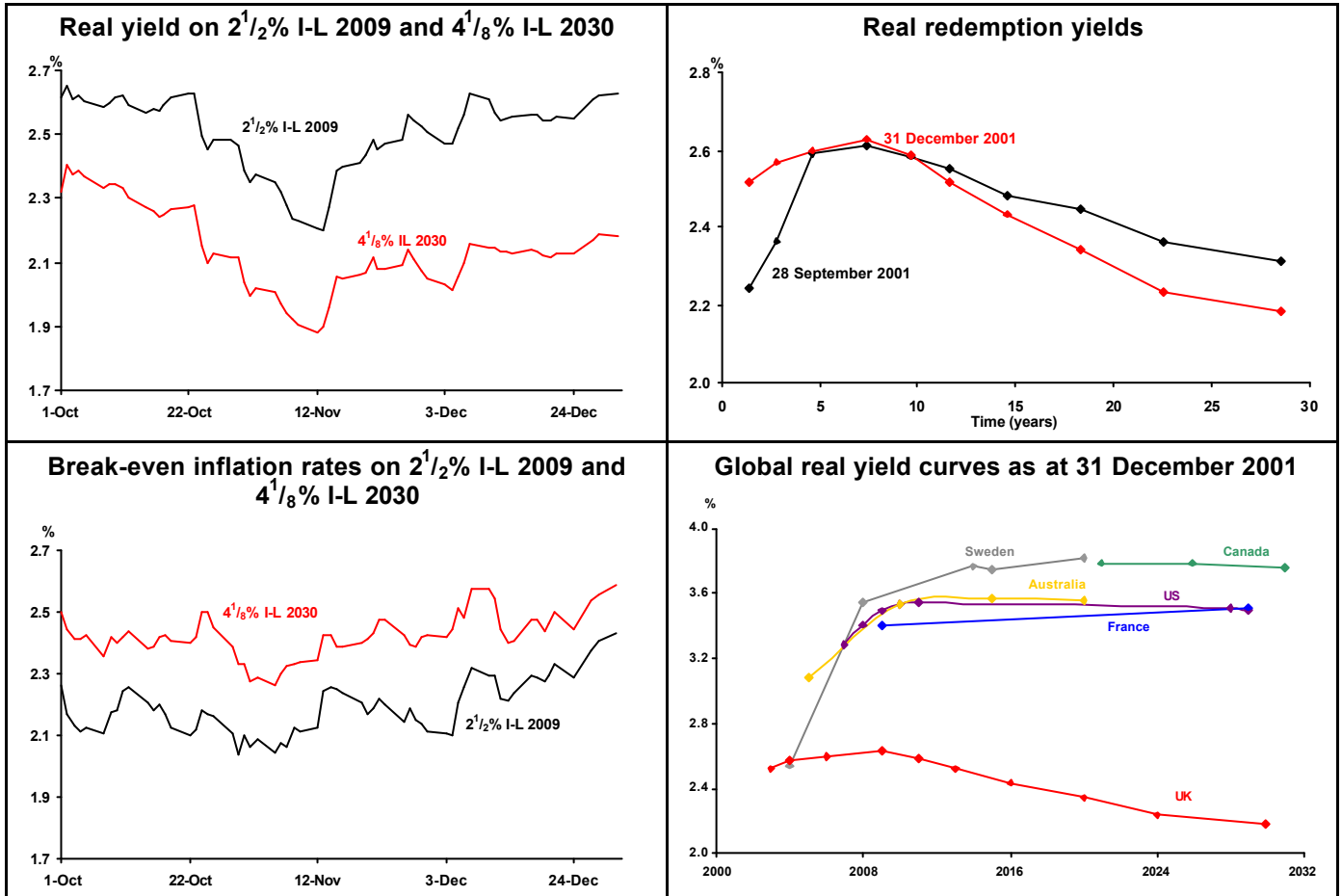
Conventional gilts



The Bank of England lowered its repo rate twice during the quarter in October and November. These rate reductions, along with signs of continued consumer strength in the UK and less negative data from the United States, created an increased expectation that short rates in the UK may be at, or near, their trough. As a result the short-end of the yield curve steepened. During the quarter the spread of the 2-year yield over the Bank's repo rate increased from -15.28bp to +75.66bp. This relative underperformance of the short and medium sector, taken with the reduction in yields at the long-end of the curve, resulted in a reinversion of the curve at longer maturities; at the start of the quarter the spread of 30-year yields over 10-year yields was -18.18bp but this fell to -38.20bp by the end of the period. The spread of 10-year gilt yields over Germany and the United States also fell during the quarter; against the 10-year US Treasury this spread reached a low of -50bp on 17 December, although it came back somewhat later in the month. As a result of this long-end reinversion, the implied 20-year yield in 10 years' time fell to 3.84% by mid-November and, although increasing during December, finished the quarter lower at 4.25%.



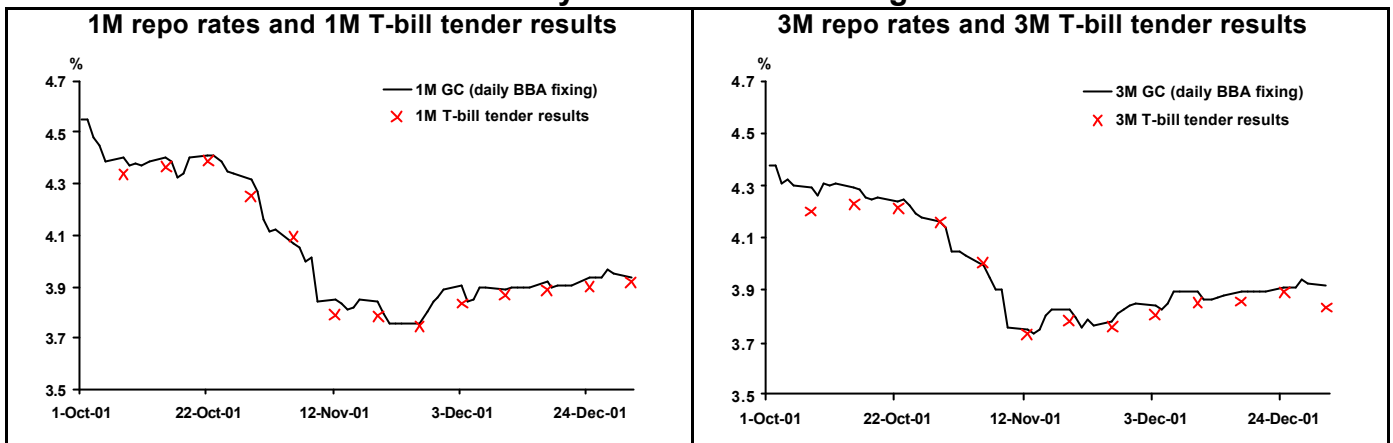
Index-linked gilts



In common with conventional gilts, the long-end of the real yield curve outperformed during the quarter. The real yield on the 2½% I-L 2009 gilt increased by 2bp, finishing the period at 2.63%; in contrast, the real yield on the 4⅛% I-L 2030 fell from 2.32% to 2.18% during the quarter. As a result long-dated index-linked gilts outperformed conventional gilts, with an 11bp increase in the break-even inflation rate in the 30-year sector of the curve during the quarter.

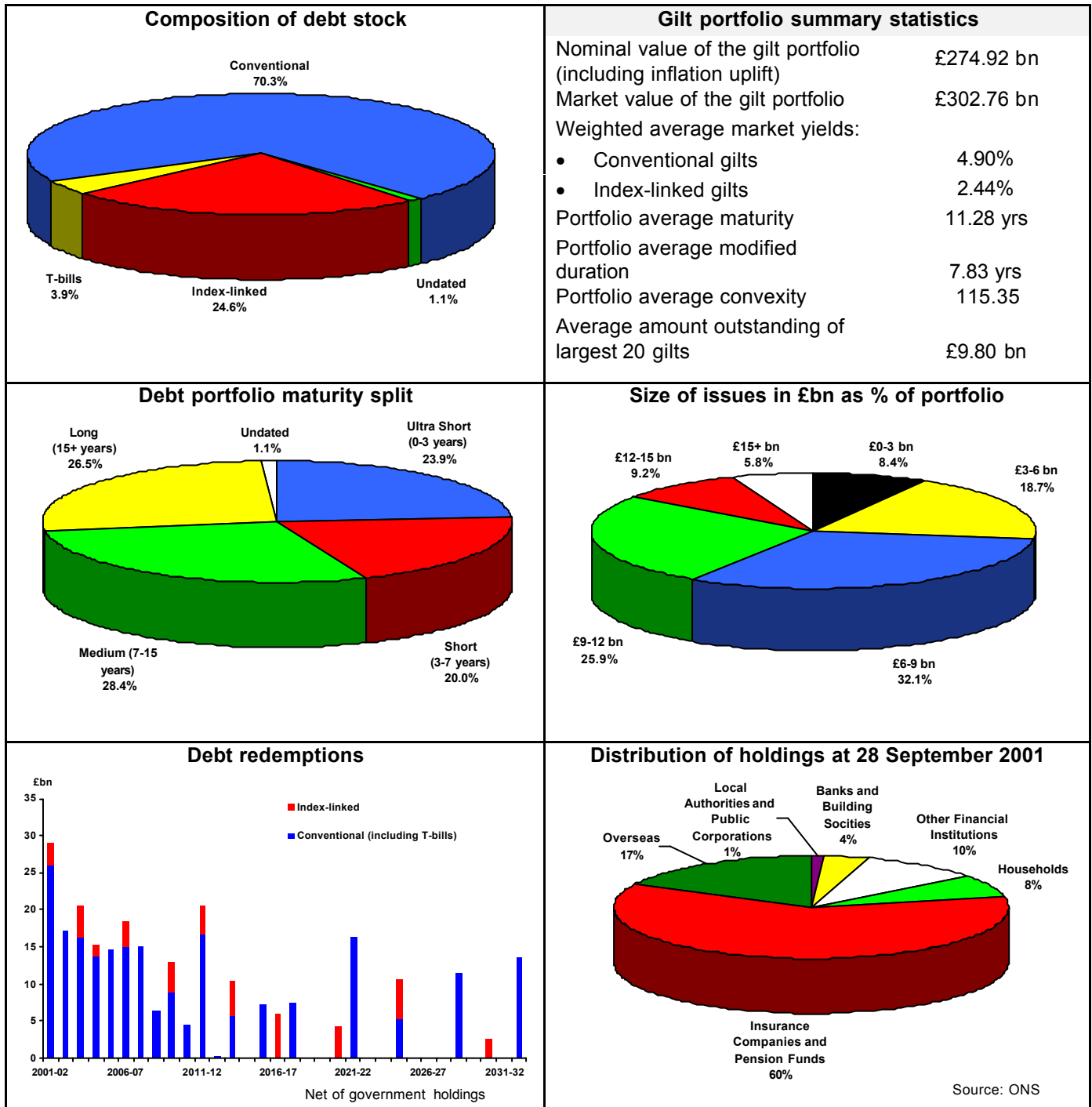
On 15 January 2002 the DMO published its response to the replies received to its consultation paper on index-linked re-design published on 7 September 2001.

Treasury bills and cash management



Weekly tenders of 1-month and 3-month T-bills were maintained throughout the quarter. The size of the 3-month T-bill tenders was increased from £500mn to £700mn during the quarter and weekly 1-month T-bill tender sizes peaked around the beginning of December at £1bn. This increase in tender sizes expanded the overall stock of T-bills from £2.7bn on 1 October 2001 to £11.2bn on 31 December 2001. During the period 1-month bills were sold at an average 4.53bp below the repo rate and 3-month bills at an average of 3.66bp lower than the corresponding repo rate.

Details of the debt portfolio as of 31 December 2001



In the pie charts figures may not sum due to rounding

2000-01 and 2001-02 financing requirements

Note: figures may not sum due to rounding	Budget 2001 financing requirement for 2000-01	2000-01 Outturn	Budget 2001 Financing requirement for 2001-02	PBR 2001 Financing requirement for 2001-02
CGNCR forecast	-33.3	-35.2	0.3	6.3
Replacing foreign currency debt	9.3	9.4	1.3	1.3
Redemptions	18.6	18.6	17.8	17.8
Debt buy-backs	5.5	5.7	1.0	0.5
Residual from 1999-2000	-12.8	-12.8	na	na
Financing requirement	-12.7	-14.3	20.4	25.9
Less				
National Savings contribution	-0.7	-0.6	-3.0	0.0
DMO cash deposit at Bank of England	-0.2	-0.5	0.3	0.3
Net financing requirement	-11.8	-13.2	23.1	25.6
Change in Ways and Means	-3.6	-3.6	0.0	0.0
Change in planned Treasury bill stock	-6.5	-6.7	5.0	6.4
Change in levels of net short-term debt	-11.7	-12.9	4.6	5.2
Gilt sales planned during year	10.0	10.0	13.5	14.0

Gilt auction results Q4 2001

Outright auction results						
Auction date	Issue amount (nominal)	Stock	Cover	Yield tail	Average accepted price	Yield at average price
24-Oct-01	£425mn ^a	2½% I-L 2016	2.63	N/A ^b	£213.00	2.39%
6-Dec-01	£2,750mn	5% 2025	1.97	1bp	£104.93	4.65%

^a An additional £20mn nominal was created and issued to the CRND
^b Index-linked gilts are issued through a uniform price format

Progress against the 2001-02 gilts remit as at 31 December 2001

(£mn)	Conventional gilts			Index-linked gilts	Total
	Short (0-7 years)	Medium (7-15 years)	Long (>15 years)		
Remit plans	0	4,750	5,500	3,750	14,000
Outright sales to date	0	2,469	5,388	2,716	10,573
Remaining	0	2,281	112*	1,034	3,427

*no more long conventional gilt sales are planned in the 2001-02 financial year.

Treasury bill tender results Q4 2001

Tender date	Stock amount (£mn)	Average yield (%)	Average price (£)	Cover	Yield tail (bp)
1 month T-bills					
5-Oct	300	4.3371	99.6684	8.13	1
12-Oct	300	4.3667	99.6661	9.52	0
19-Oct	300	4.3907	99.6643	8.33	1
26-Oct	300	4.2485	99.6751	8.29	0
2-Nov	500	4.0932	99.6870	6.99	0
9-Nov	500	3.7886	99.7102	7.66	0
16-Nov	750	3.7838	99.7106	6.69	1
23-Nov	900	3.7435	99.7137	6.39	1
30-Nov	1000	3.8323	99.7069	5.23	2
7-Dec	1000	3.8650	99.7044	6.27	1
14-Dec	1000	3.8849	99.7029	6.32	1
21-Dec	600	3.9000	99.7017	5.43	0
28-Dec	600	3.9150	99.7006	4.37	1
3 month T-bills					
5-Oct	500	4.2000	98.9637	7.45	0
12-Oct	500	4.2280	98.9569	7.01	2
19-Oct	500	4.2145	98.9602	7.98	2
26-Oct	500	4.1584	98.9739	7.78	0
2-Nov	500	4.0035	99.0117	7.18	2
9-Nov	600	3.7291	99.0789	7.96	0
16-Nov	700	3.7821	99.0659	8.36	1
23-Nov	700	3.7579	99.0718	6.31	0
30-Nov	700	3.8069	99.0598	5.36	1
7-Dec	700	3.8485	99.0496	6.26	2
14-Dec	700	3.8571	99.0475	6.60	1
21-Dec	700	3.8900	99.0395	5.36	0
28-Dec	700	3.8333	99.0338	5.31	1

Details of market turnover

Top twenty stocks traded (by market value) in the thirteen weeks to 31 December 2001

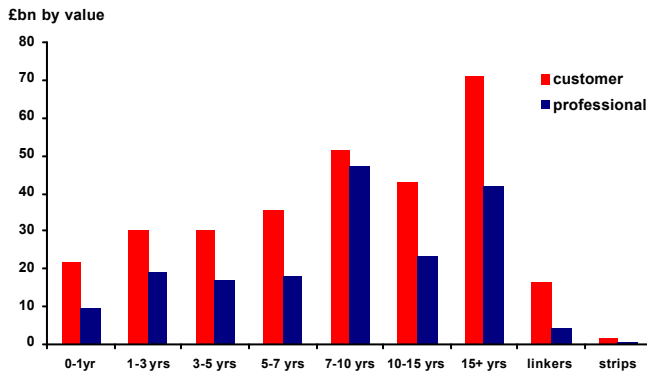
Stock	Market value of trades (£mn)	% of value of all gilt trades	Turnover Ratio ^a	Number of bargains ('000s)	Average bargain size (£mn)
9% Conversion 2011	67,759	13%	9.61	4	17
6% Treasury 2028	42,526	8%	3.02	8	6
5% Treasury 2012	37,500	7%	3.33	9	4
7½% Treasury 2006	32,451	6%	2.46	8	4
4¼% Treasury 2032	28,919	5%	2.20	6	5
8% Treasury 2021	27,552	5%	1.17	7	4
6½% Treasury 2003	26,838	5%	3.22	5	6
8½% Treasury 2005	23,259	4%	1.97	5	5
6¼% Treasury 2010	23,199	4%	4.40	4	6
7% Treasury 2002	22,614	4%	2.47	3	9
5¾% Treasury 2009	22,260	4%	2.36	11	2
8% Treasury 2015	21,891	4%	2.25	5	5
7¼% Treasury 2007	18,259	3%	1.47	9	2
6¾% Treasury 2004	17,967	3%	2.60	6	3
5% Treasury 2025	15,006	3%	2.72	3	6
9% Treasury 2008	14,895	3%	2.19	3	5
5% Treasury 2004	12,780	2%	1.71	5	2
8% Treasury 2013	10,952	2%	1.39	2	7
8% Treasury 2003	9,196	2%	1.24	3	3
7% Treasury 2001	6,940	1%	0.54	1	12
Total market	527,660			137	4

The top twenty stocks account for 91% of total market turnover.

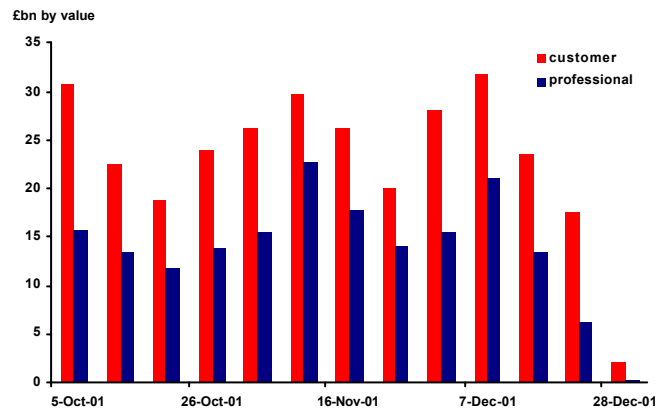
This information is based on provisional information provided by the London Stock Exchange and should only be treated as indicative.

^a The total nominal value of the stock traded over the quarter relative to the nominal amount outstanding at the end of quarter.

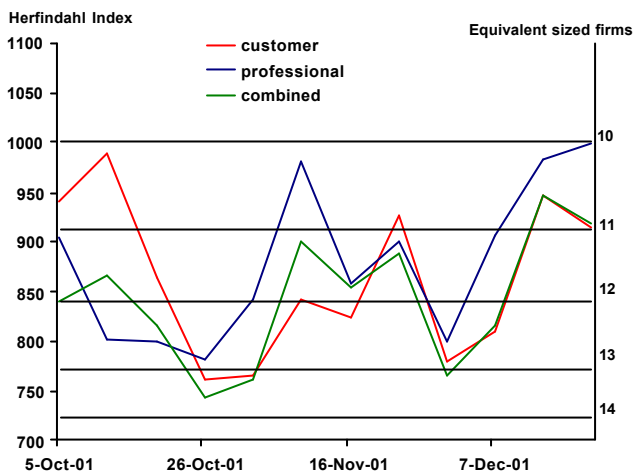
GEMM turnover by maturity band, Q4 2001



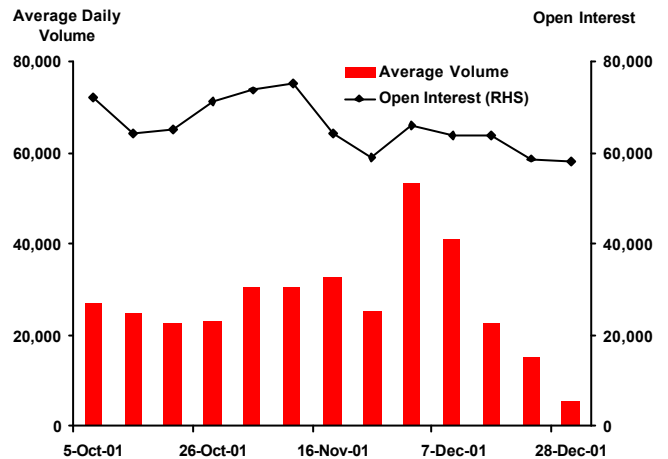
Total GEMM market turnover (weekly total)



Herfindahl index of total GEMM market turnover



Average daily turnover of the long gilt futures contract and open interest*



* Weekly average of daily turnover and end-week level of open interest

Stocks in issue at 31 December 2001 (£mn nominal)

Conventional gilts	Redemption date	Amount in issue	Amount held in stripped form	DMO/NILO* holdings
7% Treasury 2002	07-Jun-02	9000	313	198
9¾% Treasury 2002	27-Aug-02	6527	-	108
8% Treasury 2002-2006	05-Oct-02	2050	-	214
8% Treasury 2003	10-Jun-03	6999	-	418
10% Treasury 2003	08-Sep-03	1768	-	0
6½% Treasury 2003	07-Dec-03	7987	29	208
5% Treasury 2004	07-Jun-04	7408	36	365
3½% Funding 1999-2004	14-Jul-04	543	-	32
6¾% Treasury 2004	26-Nov-04	6500	-	373
9½% Conversion 2005	18-Apr-05	4374	-	0
8½% Treasury 2005	07-Dec-05	10373	110	192
7¾% Treasury 2006	08-Sep-06	3857	-	334
7½% Treasury 2006	07-Dec-06	11700	215	168
8½% Treasury 2007	16-Jul-07	4530	-	254
7¼% Treasury 2007	07-Dec-07	11000	152	132
5½% Treasury 2008-2012	10-Sep-08	1000	-	157
9% Treasury 2008	13-Oct-08	5441	-	0
5¾% Treasury 2009	07-Dec-09	8827	23	242
6¼% Treasury 2010	25-Nov-10	4750	-	269
9% Conversion 2011	12-Jul-11	5273	-	82
7¾% Treasury 2012-2015	26-Jan-12	800	-	334
5% Treasury 2012	07-Mar-12	10979	-	26
8% Treasury 2013	27-Sep-13	6100	-	305
8% Treasury 2015	07-Dec-15	7288	450	83
8¾% Treasury 2017	25-Aug-17	7550	-	179
8% Treasury 2021	07-Jun-21	16500	300	105
5% Treasury 2025	07-Mar-25	5250	-	3
6% Treasury 2028	07-Dec-28	11512	132	65
4¼% Treasury 2032	07-Jun-32	13580	40	2
Index-linked gilts	Redemption date	Amount in issue	Nominal including inflation uplift	DMO/NILO* Holdings
2½% I-L Treasury 2003	20-May-03	2700	5934	163
4 3/8% I-L Treasury 2004	21-Oct-04	1300	1660	69
2% I-L Treasury 2006	19-Jul-06	2000	4983	0
2½% I-L Treasury 2009	20-May-09	2625	5769	26
2½% I-L Treasury 2011	23-Aug-11	3875	8997	3
2½% I-L Treasury 2013	16-Aug-13	4635	8994	17
2½% I-L Treasury 2016	26-Jul-16	5971	12664	85
2½% I-L Treasury 2020	16-Apr-20	4175	8711	0
2½% I-L Treasury 2024	17-Jul-24	5320	9429	30
4 1/8% I-L Treasury 2030	22-Jul-30	2600	3331	0
Undated gilts (non rump)	Redemption date	Amount in issue		DMO/NILO* Holdings
2½% Treasury	Undated	471		0
3½% War	Undated	1909		0
Rump gilts	Redemption date	Amount in issue		DMO/NILO* Holdings
10% Conversion 2002	11-Apr-02	21		12
9½% Conversion 2002	14-Jun-02	2		2
9% Exchequer 2002	19-Nov-02	83		67
11¾% Treasury 2003-2007	22-Jan-03	234		76
9¾% Conversion 2003	07-May-03	11		9
12½% Treasury 2003-2005	21-Nov-03	152		50
13½% Treasury 2004-2008	26-Mar-04	95		22
10% Treasury 2004	18-May-04	20		5
9½% Conversion 2004	25-Oct-04	307		104
10½% Exchequer 2005	20-Sep-05	23		14
9¾% Conversion 2006	15-Nov-06	6		3
8% Treasury 2009	25-Sep-09	393		74
9% Treasury 2012	06-Aug-12	403		115
12% Exchequer 2013-2017	12-Dec-13	57		2
2½% Annuities	Undated	3		0
3% Treasury	Undated	53		6
3½% Conversion	Undated	96		73
2½% Consolidated	Undated	275		46
2¾% Annuities	Undated	1		0
4% Consolidated	Undated	358		22

It is assumed that double-dated issues currently above par will be called at the first maturity date.

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

Calendar for Q1 2002

Date	January	February	March
1		T-bill tender	T-bill tender
2			
3			
4	T-bill tender		
5			
6			
7			
8		T-bill tender	T-bill tender
9			
10			
11	T-bill tender		
12			
13			
14			
15	Announcement of size of 4 1/8% I-L 2030 auction to be held on 24 January	T-bill tender	T-bill tender
16	Economic Secretary meetings with GEMMs and end-investors		
17			
18	T-bill tender		GEMM and end-investor consultation meetings to be held at the DMO's office*
19			Announcement of size of 5% 2012 auction to be held on 27 March and consultation meetings minutes published*
20			
21			
22		T-bill tender	T-bill tender
23			
24	Auction of 4 1/8% I-L 2030		
25	T-bill tender		
26			
27			Auction of 5% 2012*
28			T-bill tender and publication of Gilt and T-bill issuance calendars for April to June 2002
29			
30			
31			

* subject to confirmation following the Chancellor's decisions on the Budgetary timetable

DMO wire services

Information	Reuters/Bridge/ADP	Telerate	Topic	Bloomberg
Index	DMO/INDEX			DMO<GO>
Announcements	DMO/GILTS1 to 7	22550 to 22556	44700 to 44710	DMO1<GO>
Shop window general info	DMO/GILTS8	6515	44715	DMO2<GO>
Shop window 1	DMO/GILTS9	6516	44716	DMO3<GO>
Shop window 2	DMO/GILTS10	6517	44717	DMO4<GO>
Shop window 3	DMO/GILTS11	6518	44718	DMO5<GO>
Benchmark prices	DMO/BENCH1	22557	44720 to 44721	DMO10<GO>
GEMMA ref prices (Conventionals)	GEMMA01 to 07	47216 to 47222	44800 to 44809	DMO6<GO>
GEMMA ref prices (I-L)	GEMMA08	47223	44805	DMO6<GO>
GEMMA ref prices (Strips)	GEMMA13 to 19	21291 to 21297	44850 to 44859	DMO7<GO>
Cash announcements	DMO/CASH01	15700 to 15709	44660 to 44669	DMO9<GO>
T-bill tender information	DMO/CASH11	15710 to 15711	44670 to 44671	DMO9<GO>
Ad-hoc tender information	DMO/CASH16	15715 to 15716	44675 to 44676	DMO9<GO>

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Updated data, press releases and other information are available on the DMO web site at www.dmo.gov.uk
Comments on this publication and the web site would be welcomed by either Richard Batley or Mark Deacon.

