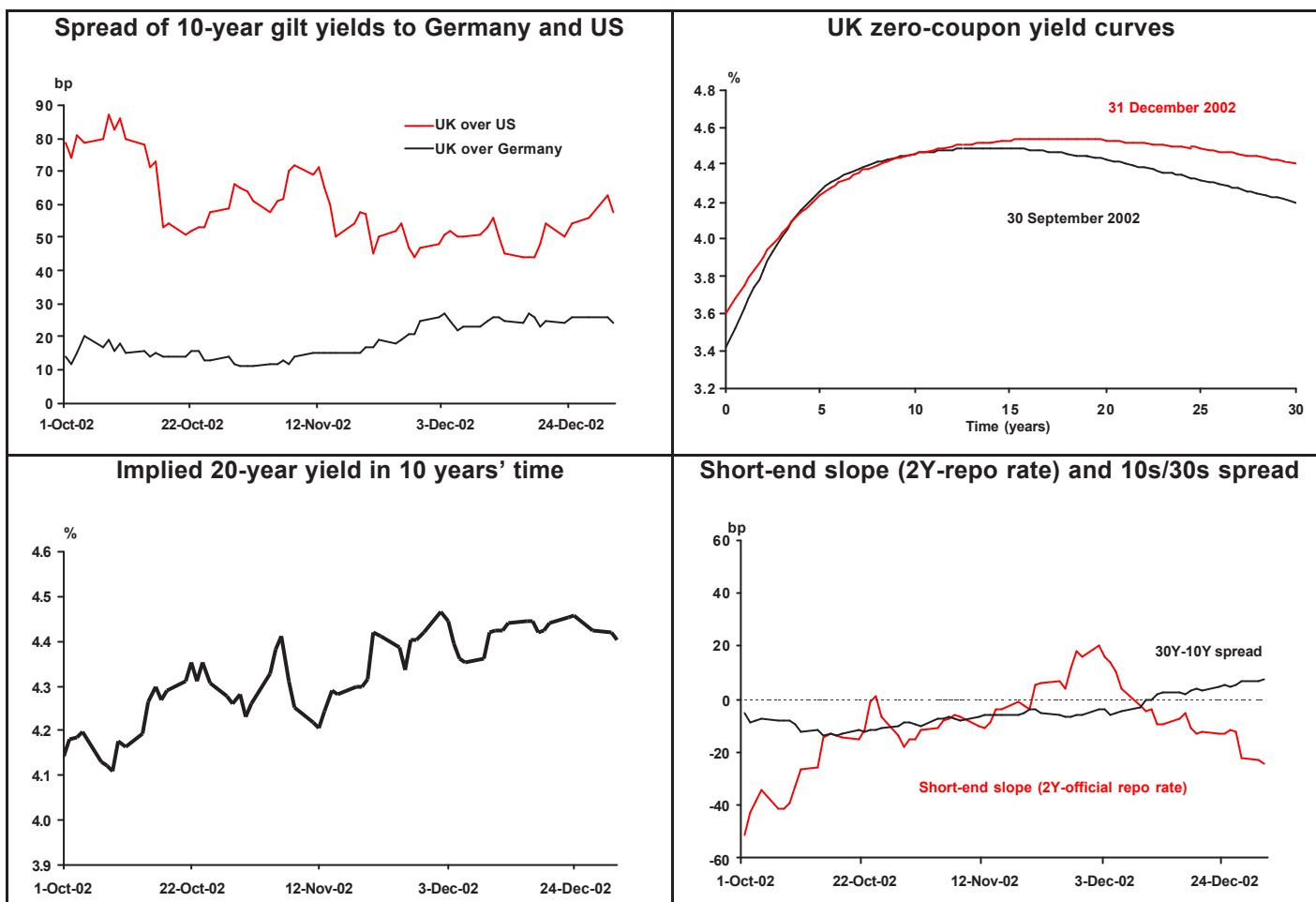




# Quarterly Review

October - December 2002

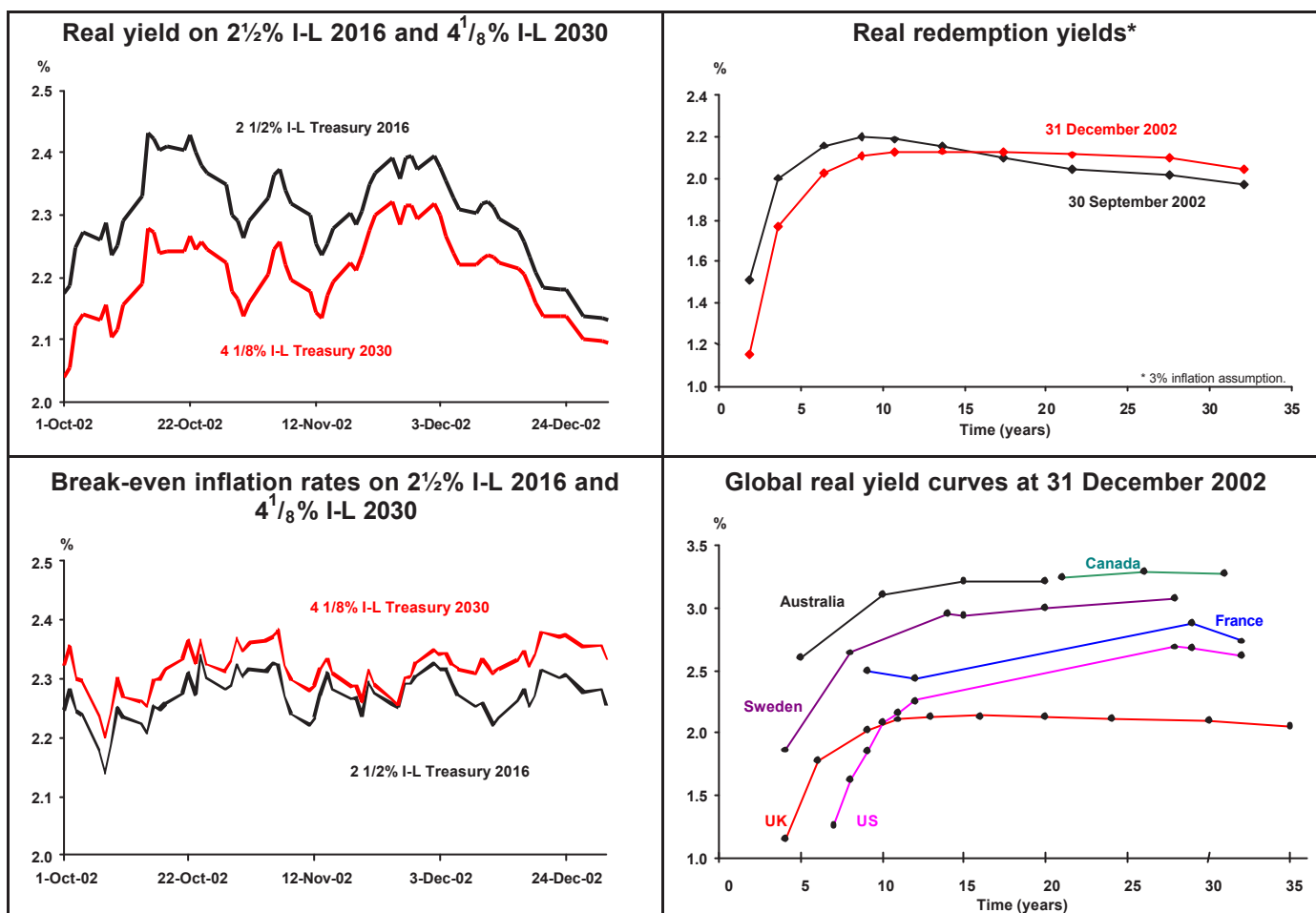
## Conventional gilts



The Bank of England kept its repo rate at 4.00% throughout the quarter and by the end of December this rate had been left unchanged at thirteen consecutive MPC meetings. Expectations that the MPC would cut its policy rate declined over the quarter, as domestic demand remained relatively robust and policy rates were reduced, by 50bp, in both the US and Europe. Yields rose at the ultra short and long end of the curve during the quarter: the spread of the 2-year gilt yield over the Bank's repo rate rose from -51bp to -25bp while the 30Y-10Y spread moved from -5bp to +7bp over the quarter, which resulted in an absolute disinversion of the curve at longer maturities for the first time since April 1999. The increase in long gilt yields over the quarter also boosted the implied 20-year yield in 10 years' time by 26bp to finish the period at 4.40%, 2bp above the average for the year. International comparisons indicate that gilts outperformed US Treasuries but underperformed German bonds over the quarter. The spread of 10-year gilt yields over the United States declined from +79bp at the start of October to +58bp by the end of the quarter while the spread of 10-year gilt yields over Germany increased from +14bp to +24bp over the quarter.

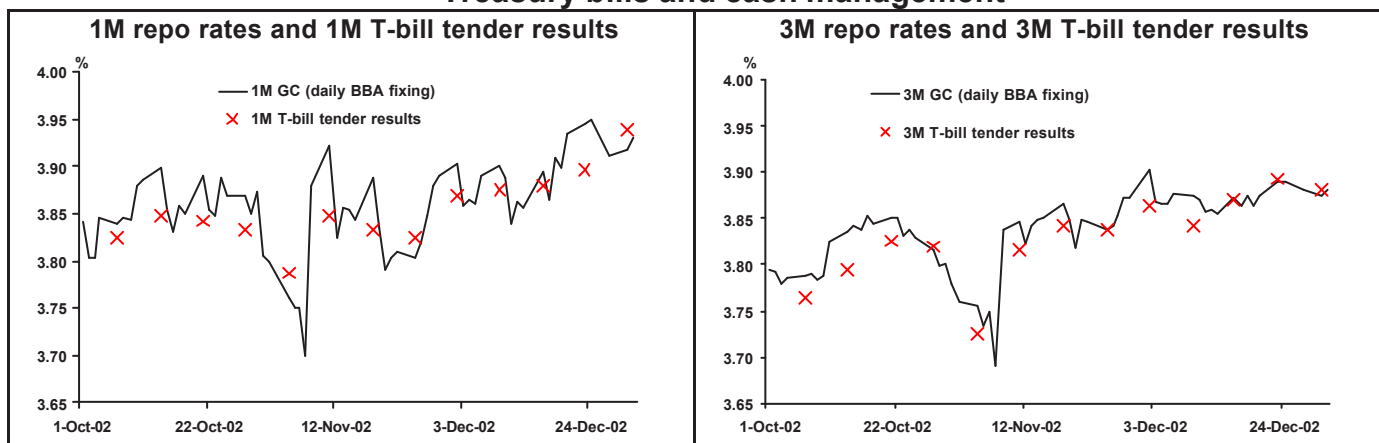


## Index-linked gilts



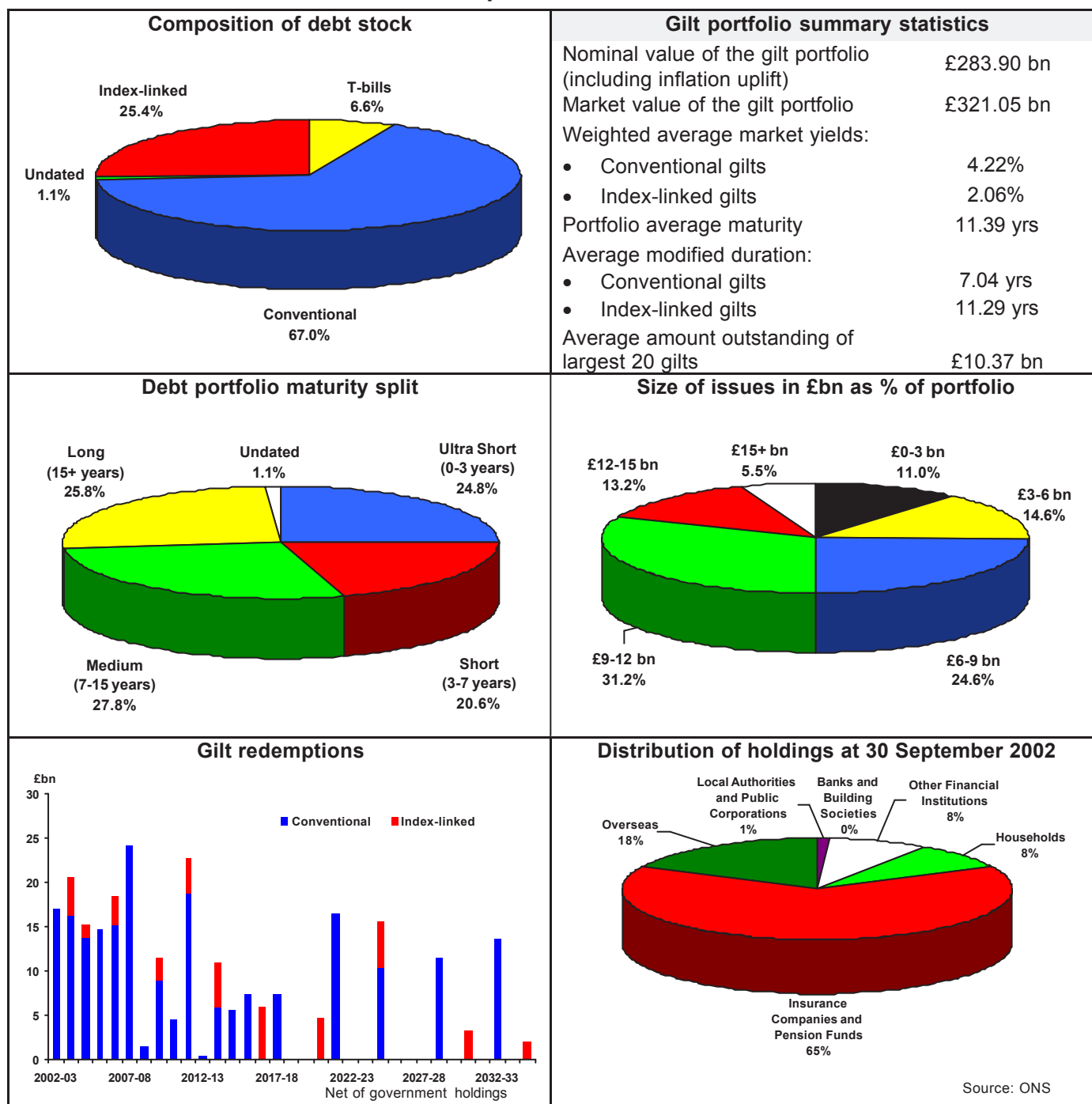
The long end of the real yield curve partially disinverted during the latter stages of the quarter. Over the quarter the real yield on the 2½% I-L 2016 gilt fell 4bp, finishing the period at 2.13%; while the real yield on 4⅛% I-L 2030 rose 6bp to 2.10%. Index-linked gilts across the curve finished the quarter broadly unchanged against conventional gilts; with the break-even inflation rates in the 2016 and 2030 sectors of the curve rising by less than 1bp.

## Treasury bills and cash management



Weekly tenders of 1-month and 3-month T-bills and monthly tenders of 6-month T-bills were maintained throughout the quarter. Weekly T-bill tender sizes for 1-month maturities declined to £150mn during the middle of the quarter before rising to a maximum of £1,500mn in late November and most of December. For 3-month T-bills the tender size was £1,000mn for most of the quarter and for 6-month T-bills the tender size remained at £750mn throughout the quarter. This pattern of T-bill issuance increased the overall stock of T-bills from £18.10bn on 30 September to £21.65bn on 31 December. During the period 1-month bills were sold at an average of 2.5bp below the corresponding repo rate while 3-month and 6-month bills averaged 1.7bp and 1.5bp respectively below their repo rates.

## Details of the debt portfolio as of 31 December 2002



In the pie charts figures may not sum due to rounding

## 2001-02 and 2002-03 financing requirements

Figures may not sum due to rounding	Budget 2001 Financing requirement for 2001-02	2001-02 Outturn	Budget 2002 Financing requirement for 2002-03	PBR 2002 Financing requirement for 2002-03
CGNCR forecast	0.3	2.8	13.5	18.7
Replacing foreign currency debt	1.3	1.2	0.0	0.0
Redemptions	17.8	17.8	17.0	17.0
Debt buy-backs	1.0	0.6	0.0	0.3
<b>Financing requirement</b>	<b>20.4</b>	<b>22.4</b>	<b>30.5</b>	<b>36.0</b>
Less				
National Savings & Investments' contribution	-3.0	-0.3	-1.5	-1.0
DMO cash deposit at Bank of England	0.0	0.4	-0.1	-0.1
<b>Net financing requirement</b>	<b>23.4</b>	<b>22.3</b>	<b>32.1</b>	<b>37.1</b>
Change in Ways and Means	0.0	0.0	0.0	0.0
Change in planned Treasury bill stock	5.0	6.4	4.3	4.3
Change in level of DMO cash position	4.9	2.2	5.4	6.6
<b>Gilt sales planned during year</b>	<b>13.5</b>	<b>13.7</b>	<b>22.4</b>	<b>26.2</b>

## Gilt auction results Q4 2002

Outright auction results						
Auction date	Issue amount (nominal)	Stock	Cover	Yield tail (basis points)	Average accepted price	Yield at average price
22-Oct-02	£2,750mn	5% 2014	1.99	1	£102.05	4.77%
24-Oct-02	£450mn	2½% I-L 2013	3.01	N/A <sup>a</sup>	£197.72	2.40%
3-Dec-02	£2,750mn	5% 2025	1.77	1	£103.21	4.76%

<sup>a</sup> Index-linked gilts are issued through a uniform price format

Index-linked mini tender <sup>1</sup>					
Date	Stock	Amount Sold (nominal)	Strike price	Real yield at strike price*	% allotment at strike price
14-Nov-02	2% I-L 2035	£74mn	£98.76	2.08%	50%

\* Using a 3% inflation assumption

<sup>1</sup> This holding represented the unsold portion of stock retained on the official portfolio following the auction of this stock held on 25 September 2002. No new stock was created in this operation.

## Outturn against the 2002-03 gilts remit as at 31 December 2002

(£mn)	Conventional gilts			Index-linked gilts	Total
	Short (0-7 years)	Medium (7-15 years)	Long (>15 years)		
Remit plans	8,500	5,500	7,700	4,500	26,200
Outright sales to date	2,987	5,584	5,033	3,602	17,206
Remaining	5,513	0	2,667	898	8,994

## Treasury bill tender results Q4 2002

Tender date	Stock amount (£mn)	Average yield (%)	Average price (£)	Cover	Yield tail (bp)
<b>1 month T-bills</b>					
4-Oct-02	1200	3.8249	99.7074	4.32	3
11-Oct-02	700	3.8493	99.7056	4.80	0
18-Oct-02	500	3.8426	99.7061	4.79	0
25-Oct-02	150	3.8322	99.7069	8.42	1
1-Nov-02	150	3.7879	99.7103	7.95	0
8-Nov-02	150	3.8476	99.7057	5.90	0
15-Nov-02	150	3.8324	99.7069	8.23	2
22-Nov-02	500	3.8248	99.7075	6.89	1
29-Nov-02	1500	3.8689	99.7041	3.69	0
6-Dec-02	1500	3.8761	99.7035	4.52	0
13-Dec-02	1500	3.8793	99.7033	4.53	0
20-Dec-02	1500	3.8978	99.7019	4.27	0
27-Dec-02	500	3.9384	99.6988	3.19	0
<b>3 month T-bills</b>					
4-Oct-02	1000	3.7656	99.0699	5.95	3
11-Oct-02	1000	3.7957	99.0626	6.92	1
18-Oct-02	1000	3.8260	99.0551	6.36	1
25-Oct-02	1000	3.8193	99.0568	6.28	0
1-Nov-02	1000	3.7250	99.0798	7.05	0
8-Nov-02	1000	3.8155	99.0577	5.70	1
15-Nov-02	1000	3.8425	99.0511	7.45	0
22-Nov-02	1000	3.8371	99.0524	7.81	0
29-Nov-02	1000	3.8638	99.0459	6.24	1
6-Dec-02	1000	3.8419	99.0512	6.93	1
13-Dec-02	1000	3.8699	99.0444	4.67	0
20-Dec-02	700	3.8926	99.0389	4.57	1
27-Dec-02	700	3.8799	99.0420	3.64	2
<b>6 month T-bills</b>					
1-Nov-02	750	3.6950	98.1811	6.73	0
29-Nov-02	750	3.9197	98.0830	6.41	0
27-Dec-02	750	3.8500	98.1164	3.17	0

## Details of market turnover

### Top twenty stocks traded (by market value) in the thirteen weeks to 31 December 2002

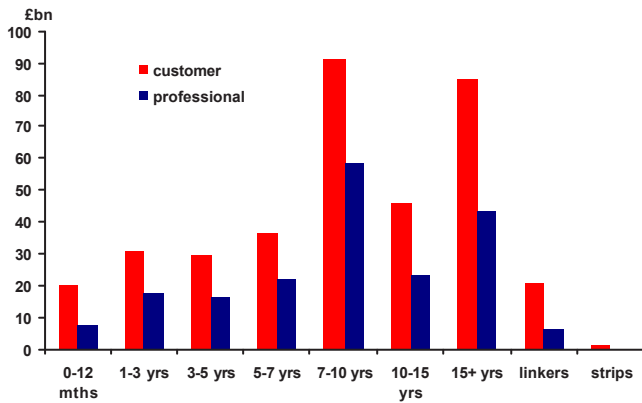
Stock	Market value of trades (£mn)	% of value of all gilt trades	Turnover Ratio <sup>a</sup>	Number of bargains ('000s)	Average bargain size (£mn)
5% Treasury 2012	136,793	22%	10	16	9
6% Treasury 2028	48,838	8%	3	8	6
7¼% Treasury 2007	37,120	6%	3	11	3
8% Treasury 2021	34,210	5%	1	9	4
5% Treasury 2014	33,785	5%	6	4	9
5% Treasury 2008	30,373	5%	3	17	2
4¼% Treasury 2032	29,667	5%	2	7	5
8% Treasury 2015	29,456	5%	3	5	5
7½% Treasury 2006	24,031	4%	2	7	3
8½% Treasury 2005	23,825	4%	2	5	4
5¾% Treasury 2009	23,647	4%	2	13	2
8% Treasury 2003	22,147	4%	3	3	6
5% Treasury 2025	20,418	3%	2	3	8
6¾% Treasury 2004	18,718	3%	3	5	4
5% Treasury 2004	16,966	3%	2	4	4
6½% Treasury 2003	15,907	3%	2	5	3
9% Conversion 2011	15,172	2%	2	2	9
8% Treasury 2013	14,681	2%	2	2	8
8¾% Treasury 2017	6,776	1%	1	2	4
9½% Conversion 2005	5,302	1%	1	1	5
<b>Total market</b>	<b>624,197</b>			<b>163</b>	<b>4</b>

The top twenty stocks account for 94% of total market turnover.

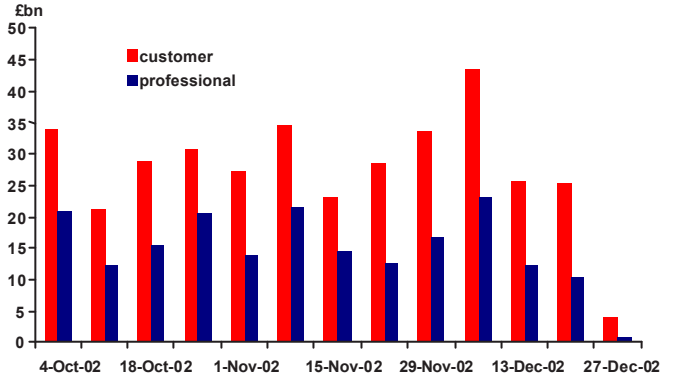
This information is based on provisional information provided by the London Stock Exchange and should only be treated as indicative.

<sup>a</sup> The total nominal value of the stock traded over the quarter relative to the nominal amount outstanding at the end of quarter.

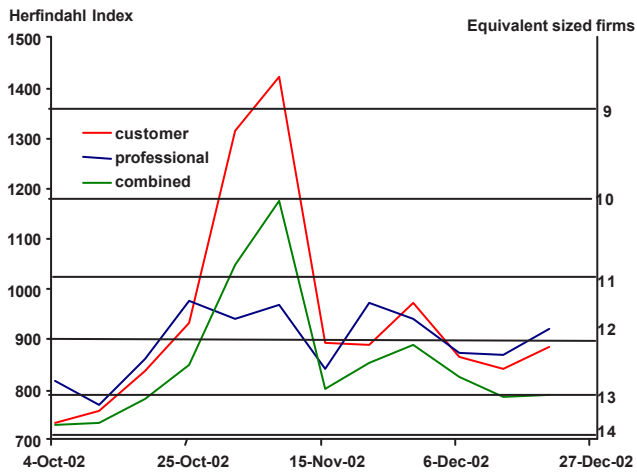
#### GEMM turnover by maturity band, Q4 2002



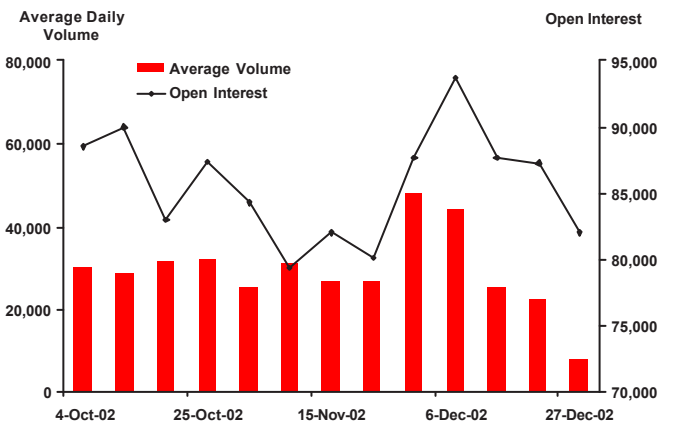
#### Total GEMM market turnover (weekly total)



#### 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  
Source: LIFFE

## Stocks in issue at 31 December 2002 (£mn nominal)

Conventional gilts	Redemption date	Amount in issue	Amount held in stripped form	DMO/CRND* Holdings
8% Treasury 2003	10-Jun-03	7,102	-	522
10% Treasury 2003	8-Sep-03	1,872	-	104
6½% Treasury 2003	7-Dec-03	8,095	38	316
5% Treasury 2004	7-Jun-04	7,504	7	465
3½% Funding 1999-2004	14-Jul-04	561	-	50
6¾% Treasury 2004	26-Nov-04	6,597	-	470
9½% Conversion 2005	18-Apr-05	4,469	-	95
8½% Treasury 2005	7-Dec-05	10,486	210	305
7¾% Treasury 2006	8-Sep-06	3,955	-	432
7½% Treasury 2006	7-Dec-06	11,807	263	275
8½% Treasury 2007	16-Jul-07	4,638	-	362
7¼% Treasury 2007	7-Dec-07	11,103	151	241
5% Treasury 2008	7-Mar-08	8,971	1	133
5½% Treasury 2008-2012	10-Sep-08	1,026	-	182
5¾% Treasury 2009	7-Dec-09	8,937	27	357
6¼% Treasury 2010	25-Nov-10	4,958	-	477
9% Conversion 2011	12-Jul-11	5,396	-	205
7¾% Treasury 2012-2015	26-Jan-12	806	-	339
5% Treasury 2012	7-Mar-12	13,346	0	235
8% Treasury 2013	27-Sep-13	6,181	-	386
5% Treasury 2014	7-Sep-14	5,550	0	51
8% Treasury 2015	7-Dec-15	7,377	235	172
8¾% Treasury 2017	25-Aug-17	7,751	-	380
8% Treasury 2021	7-Jun-21	16,741	202	346
5% Treasury 2025	7-Mar-25	10,422	0	177
6% Treasury 2028	7-Dec-28	11,756	166	309
4¼% Treasury 2032	7-Jun-32	13,829	193	251
Index-linked gilts	Redemption date	Amount in issue	Nominal including inflation uplift	DMO/CRND* Holdings
2½% I-L Treasury 2003	20-May-03	2,734	6,099	238
4 3/8% I-L Treasury 2004	21-Oct-04	1,338	1,734	38
2% I-L Treasury 2006	19-Jul-06	2,037	5,151	37
2½% I-L Treasury 2009	20-May-09	2,673	5,963	74
2½% I-L Treasury 2011	23-Aug-11	3,942	9,291	70
2½% I-L Treasury 2013	16-Aug-13	5,172	10,187	104
2½% I-L Treasury 2016	26-Jul-16	6,055	13,035	169
2½% I-L Treasury 2020	16-Apr-20	4,668	9,886	68
2½% I-L Treasury 2024	17-Jul-24	5,401	9,716	111
4½% I-L Treasury 2030	22-Jul-30	3,171	4,124	71
2% I-L Treasury 2035	26-Jan-35	1,850	1,872	0
Undated gilts (non rump)	Redemption date	Amount in issue		DMO/CRND* Holdings
2½% Treasury	Undated	493		22
3½% War	Undated	1,939		30
Rump gilts	Redemption date	Amount in issue		DMO/CRND* Holdings
11¾% Treasury 2003-2007	22-Jan-03	234		81
9¾% Conversion 2003	7-May-03	12		10
12½% Treasury 2003-2005	21-Nov-03	152		54
13½% Treasury 2004-2008	26-Mar-04	96		25
10% Treasury 2004	18-May-04	20		6
9½% Conversion 2004	25-Oct-04	307		139
10½% Exchequer 2005	20-Sep-05	24		16
9¾% Conversion 2006	15-Nov-06	6		3
9% Treasury 2008	13-Oct-08	687		78
8% Treasury 2009	25-Sep-09	393		92
9% Treasury 2012	6-Aug-12	403		147
12% Exchequer 2013-2017	12-Dec-13	58		8
2½% Annuities	Undated	3		0.4
3% Treasury	Undated	53		6
3½% Conversion	Undated	93		73
2½% Consolidated	Undated	275		47
2¾% Annuities	Undated	1		0.3
4% Consolidated	Undated	358		37

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

\* Includes holdings by the Commissioners for the Reduction of the National Debt (CRND) and the DMO. Excludes local authority, public corporations and Bank of England holdings.

## Calendar for Q1 2003

Date	January	February	March
1	<b>BANK HOLIDAY</b>	W/END	W/END
2		W/END	W/END
3	T-bill tender		
4	W/END		
5	W/END		
6			
7	Announcement of size of 5% 2008 auction to be held on 15 January	T-bill tender	T-bill tender
8		W/END	W/END
9		W/END	W/END
10	T-bill tender		
11	W/END		
12	W/END		
13			
14	Announcement of size of 2½% I-L 2020 auction to be held on 22 January	T-bill tender	T-bill tender
15	<b>Auction of 5% 2008</b>	W/END	W/END
16		W/END	W/END
17	T-bill tender		GEMM and end-investor consultation meetings with DMO*
18	W/END	Announcement of coupon and size of new 2036 stock auction to be held on 26 February*	Announcement of size of 5% 2008 auction to be held on 26 March* Publication of GEMM and end-investor consultation meeting minutes*
19	W/END		
20	Financial Secretary meetings with GEMMs and end-investors		
21	Publication of the minutes of the Financial Secretary's consultation meetings	T-bill tender	T-bill tender
22	<b>Auction of 2½% I-L 2020</b>	W/END	W/END
23		W/END	W/END
24	T-bill tender		
25	W/END		
26	W/END	<b>Auction of new 2036 stock*</b>	<b>Auction of 5% 2008*</b>
27			
28		T-bill tender	T-bill tender and publication of the gilts and T-bill issuance calendars for April-June 2003
29			W/END
30			W/END
31	T-bill tender		

\* subject to confirmation following the Chancellor's decisions on the Budget 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 04	47216 to 47219	44800 to 44802	DMO6<GO>
GEMMA ref prices (I-L)	GEMMA08	47223	44805	DMO6<GO>
GEMMA ref prices (Strips)	GEMMA13 to 21	21291 to 21299	44850 to 44863	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](http://www.dmo.gov.uk)  
Comments on this publication and the web site would be welcomed by either Theo Thomas or Mark Deacon.

## PRE-BUDGET REPORT: REVISION TO THE DMO REMIT 2002-03 AND FUTURE FINANCING PROJECTIONS

In the Pre-Budget Report (PBR) on 27 November 2002 the Chancellor announced an increase in the forecast of the Central Government Net Cash Requirement (CGNCR) of £5.2 billion to £18.7 billion. Consequently, the Government's net financing requirement increased by £5.0 billion<sup>1</sup> to £37.1 billion. In order to meet this additional financing requirement the DMO's remit for 2002-03 was revised accordingly.

On 27 November the DMO announced plans to meet the additional financing requirement through:

- an increase of £3.8 billion in planned gilt sales (taking them to £26.2 billion), comprising:
  - additional short conventional gilt sales of £3.0 billion (taking them to £8.5 billion) and;
  - additional long conventional gilt sales of £0.8 billion (taking them to £7.7 billion).

and

- an increased run-down of £1.2 billion in the DMO's net short-term cash position (taking the expected position to £4.4 billion<sup>2</sup> at the end of March 2003).

The increase in gilt sales required the addition of a further short conventional gilt auction; an auction on Wednesday 15 January 2003 was added to the calendar.

### Financing Projections

The PBR also included revised forecasts for the CGNCRs in the years 2003-04 to 2007-08. These showed increases in the indicative gross financing requirement for the years immediately ahead, particularly in 2003-04 (compared with the forecasts published in the Budget in April 2002, see the table below). It should be noted however that the requirements below take no account of contributions to financing from Treasury bill sales, the DMO cash position or from National Savings and Investments and so gilt sales may be correspondingly lower. Nevertheless, on the basis of the PBR forecasts, gilt sales in 2003-04 may well be in excess of £40 billion.

Future financing projections (£bn)					
	2003-04	2004-05	2005-06	2006-07	2007-08
CGNCR projections (PBR)	30.2	21.9	21.2	24.0	21.6
Redemptions	20.6	15.1	14.6	18.3	24.0
<b>Financing Requirement*</b>	<b>50.8</b>	<b>37.0</b>	<b>35.8</b>	<b>42.3</b>	<b>45.6</b>
<b>Change since Budget</b>	<b>12.4</b>	<b>5.6</b>	<b>0.9</b>	<b>-0.3</b>	<b>na</b>
<i>*indicative gross financing requirement</i>					

<sup>1</sup> Secondary market net gilt purchases of £0.3 billion and a reduction of £0.5 billion in NS&I's expected de-financing impacted the change in net financing requirement.

<sup>2</sup> Including £0.2 billion cash deposit at the Bank of England.