

RECORD OF THE DMO CONSULTATION MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE JULY-SEPTEMBER 2017 GILT MARKET OPERATIONS CALENDAR

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 22 May 2017. The meetings were primarily intended to inform the choice of gilts to be sold via auction, syndication and gilt tender in the second quarter of 2017-18.

Nine auctions are scheduled in July-September 2017: seven of conventional gilts and two of index-linked gilts. In addition to views on choices of gilts for issuance via auctions, feedback was sought on the choice of gilt for issuance via two syndications (an index-linked gilt in July and a further potential syndication in September) and via gilt tenders, as well as the timing of any such operations. In discussion, the following main points emerged:

A. GEMMs

Syndications:

Majority support was expressed for a re-opening of IL 2056 in July, with other suggestions for a new IL 2048 maturity. Support was also received for a long conventional syndication in September, although some GEMMs also suggested that the next long conventional syndication could wait until Q3 of the financial year.

To the extent that a syndicated offering in September might be contemplated, a re-opening of 1¾% 2057 was seen by several GEMMs as the recommended choice at this stage. There were, however, also some calls for a re-opening of 2½% 2065, and some demand for a new ultra-long gilt to extend the current curve.

Conventional auctions:

Short (2 auctions):

Widespread support was received for the launch of a new 2023 maturity with many GEMMs calling for two auctions of a new gilt. There was also, however, a number of recommendations for a final auction of 0½% 2022 in July before launching a new short gilt, and a few who advocated two re-openings of 0½% 2022. July 2023 was the most often recommended maturity month for the new gilt, though January and March 2023 were also mentioned.

Medium (3 auctions):

Three auctions of 1¼% 2027 were almost unanimously supported, but there were isolated calls for re-openings of 2% 2025 and/or 4¼% 2027.

Long (2 auctions):

A re-opening of 1½% 2047 was the most often recommended gilt for auction, with a few calls for it to be sold twice. The second most popular choice was 1¾% 2037. Other auction candidates mentioned included re-openings of 1¾% 2057, 2½% 2065 or 3½% 2068, taking into account GEMMs' views on a potential syndication in the quarter.

Index-linked (2 auctions):

The IL 2036 and IL 2026 maturities were the most popular choices for re-opening, with isolated calls for an auction of IL 2042, IL 2046, IL 2050 or IL 2065.

B. Investors

Syndications:

There was general support for an index-linked transaction in July and a long conventional in September. Views on the maturity of the index-linked gilt to be sold in July were broadly split between a new 30-year gilt and a re-opening of IL 2056.

A range of maturities was suggested for a conventional transaction in September including 1¾% 2057, 2½% 2065, a new gilt maturing in 2062-63 and a conventional curve extension up to 2072 (to precede a similar extension in the inflation-linked curve in a subsequent quarter).

Conventional auctions:

Short (2 auctions):

Where an opinion was expressed, views were generally mixed between those preferring to see two auctions of a new 2023 maturity and those who suggested a final auction of 0½% 2022 before launching a new short gilt.

Medium (3 auctions):

At least two re-openings of 1¼% 2027 were recommended by those offering a view, with some advocating three auctions of that gilt. Other bonds mentioned as candidates for one of the medium auction slots included 2% 2025, 1½% 2026 and 4¼% 2027.

Long (2 auctions):

1¾% 2037 and 1½% 2047 were widely recommended for sale by auction in the coming quarter.

Index-linked (2 auctions):

Re-openings of IL 2026 and IL 2036 were broadly supported, with some calls for an auction, or sale by tender, of IL 2040 and IL 2056. The launch of a new IL 2048 by auction was also mentioned.

Any other business - GEMMA reference prices

It was noted in both meetings that the transition to new providers of gilt and Treasury bill reference prices is expected to take place in July 2017.

The gilt operations calendar for July-September 2017 will be announced by the DMO at 3.30pm on Wednesday 31 May 2017.

The next quarterly consultation meetings to discuss gilt issuance in October-December 2017 are scheduled to be held at the DMO's offices on Monday 21 August 2017.