THE UK DEBT MANAGEMENT OFFICE'S FINANCING REMIT 2018-19: MINUTES OF CONSULTATION MEETINGS WITH GEMMs AND INVESTORS, HELD AT HM TREASURY ON 29 JANUARY 2018

The Economic Secretary to the Treasury chaired the annual meetings with representatives of the Gilt-edged Market Makers (GEMMs) and of UK-based gilt investors on 29 January 2018. Officials from HM Treasury and the UK Debt Management Office (DMO) were also present. These meetings provided gilt market participants with the opportunity to inform HM Treasury's decisions regarding the debt financing remit for 2018-19.

The gross financing requirement for 2018-19 is currently projected to be around £119 billion. The DMO's financing remit for 2018-19 will be published alongside the Spring Statement 2018 on 13 March 2018.

The Economic Secretary opened both meetings by thanking attendees for their commitment to the gilt market in 2017-18. Attendees also noted that the 2017-18 remit had been delivered smoothly in the year to date.

The main points arising at the meetings in relation to the 2018-19 remit are summarised below.

GEMMs

There were several observations about the ongoing strength of demand in the gilt market.

Where attendees expressed a view, they were supportive of continuing with the broad structure of conventional issuance implemented in 2017-18. Some GEMMs, however, reported that the strength of demand for short conventional gilts had recently declined and suggested that issuance should be skewed somewhat more towards longer maturities where appetite was relatively greater.

Attendees also suggested that prevailing long-end demand for conventional gilts was strongest in the ultra-long sector, as reflected in the shape of the conventional yield curve. A number of recommendations were made for a modest extension of the conventional yield curve to the 2070 to 2074 maturity area.

For index-linked gilts, it was also noted that demand had moved away from the ultra-long sector to the 15- to 30-year area. Some attendees noted that it could be appropriate to adjust the maturity structure of issuance accordingly; however some participants expressed caution about the extent to which the proportion of index-linked gilts in the financing programme might be reduced simultaneously with any maturity reduction, given the importance of this asset class to the pension fund industry.

Attendees felt that the auction programme had been delivered smoothly in the current financial year; though some suggested that the size of short and medium auctions could be increased and the number of these auctions reduced in 2018-19. Given the relatively stronger demand at the ultra-long end of the nominal versus the real yield curve, several attendees suggested planning for fewer index-linked and more conventional syndications in 2018-19 in comparison with the 2017-18 remit. In addition, a number of attendees commented that greater use could be made of the gilt tender programme in 2018-19 as a flexible means of responding to evolving market conditions.

Some attendees observed that interest in the CPI-linked bond sector was increasing. However, it was recognised that greater clarity would be needed on the status of the CPI and CPIH measures of inflation before it would be appropriate for the DMO to consult the market about the potential for CPI-linked gilt issuance.

Investors

A number of attendees highlighted the ongoing strength of demand for index-linked gilts. However, mixed views were expressed about the desirability of reducing the proportion of index-linked issuance in 2018-19, with some attendees suggesting that any reduction should be relatively small. It was also noted by some participants that the prevailing pattern of demand suggested shortening the maturity of index-linked issuance toward the 20- to 30-year area and away from ultra-long maturities.

There were also mixed views about the current structure of the syndication programme, with some suggestions that the number of syndications be reduced and the number of auctions increased in 2018-19. It was felt that this approach to syndications would be consistent with issuing fewer ultra-long index-linked gilts. It was also discussed that a rebalancing towards more, and potentially larger, auctions would be consistent with a reported improvement in market liquidity and reduced strain on banks' balance sheets.

By contrast, it was reported that prevailing demand for long conventional gilts was greatest in the ultra-long sector and that a modest extension to the conventional yield curve would be appropriate in 2018-19.

There were some calls in both meetings for a greater supply of Treasury bills via tenders.