

RECORD OF QUARTERLY MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE Q3 2008-09 GILT AUCTION CALENDAR

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 18 August 2008. The meetings were primarily intended to inform the choice of gilts to be issued in the scheduled auctions in October-December 2008.

Ten gilt auctions are scheduled in the third quarter of FY 2008-09: six of conventional gilts and four of index-linked gilts. The conventional auctions are scheduled to be held on 1 and 16 October, 4 and 20 November and 2 and 11 December¹. The DMO had previously indicated an expectation to hold two short, one medium and three long-dated conventional auctions in Q3. The index-linked auctions are scheduled to be held on 7 and 28 October, 25 November and 9 December. The following main points emerged in discussion:

GEMMs

Conventional: In terms of auction scheduling, there was general support for a long/short/long/medium/long/short sequence, although there were a few calls for an auction in October of the new 2019 maturity (being auctioned for the first time on 25 September). There was widespread support for two auctions of 4½% 2013, to build it up to benchmark size, and isolated calls for an auction of 5¼% 2012 or a new 2014 maturity. The new 2019 maturity was seen as the obvious candidate for medium-dated issuance. There was widespread support for Q3 to begin with a re-opening of the new 2049 maturity gilt (being auctioned for the first time on 2 September) and significant support for two auctions of that gilt in the quarter. Of the existing long-dated gilts, recommendations were received for reopenings of the 2030, 2036, 2038 and 2055 maturities. There were also a number of calls for a new long-dated gilt to be issued in Q3, with 2034 the most often mentioned maturity year and one recommendation for a new 30-year gilt.

Index-linked: A majority of GEMMs favoured starting the quarter with an auction of either the 2017 or 2022 maturities. Of the other existing gilts, the 2047 maturity was the most often mentioned candidate for reopening in Q3, but some calls were also received for reopening the 2027, 2037 and 2055 maturities. There was also significant support for the launch of a new 2032 or 2033 maturity (and some calls for such a gilt to be issued twice). One call was received for the launch of a new gilt maturing in 2042 or 2043.

¹ Auction dates in Q3 are subject to confirmation pending the Chancellor's decision on the date of the Pre-Budget Report (PBR)

Investors

Conventional: In terms of auction scheduling, there was widespread support for a long/short/long/medium/long/short sequence. On specific maturities, there was a general preference for two auctions of 4½% 2013, but there was also a call for a re-opening of 5¼% 2012. The new 2019 gilt was the widely favoured candidate for medium maturity issuance, while a reopening of the 4% 2016 was also mentioned. In terms of long-dated issuance, an auction of the new 2049 gilt on 1 October received very strong support and there was also strong support for two auctions of this gilt in Q3. The 2030 and 2038 maturities were the most often mentioned alternative re-openings, though there was one call for an auction of 6% 2028.

Index-linked: There was widespread support for the proposition of bridging existing gaps in the (3-month lag instrument) real yield curve. The most popular maturity years for a proposed new index-linked gilt were 2032 and 2019, although there were some calls for 2040 or 2042. Some investors called for two auctions of a new 2032 maturity and, indeed, a minority called for two new gilts to be issued in Q3. Amongst existing gilts, re-openings of the 2017, 2022 and 2047 maturities were most often mentioned, although there were isolated calls for auctions of the 2013, 2027 or 2037 maturities.

The details of the auction calendar for October-December 2008 will be announced by the DMO at 3:30pm on Friday 29 August.

The next quarterly consultation meetings will be held at the DMO on Monday 17 November 2008 (subject to confirmation depending on the date of the Pre-Budget Report).