

RECORD OF THE CONSULTATION MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE OCTOBER-DECEMBER 2012 GILT MARKET OPERATIONS CALENDAR

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 21 August 2012. The meetings were primarily intended to inform the choice of gilts to be issued by auctions and syndications in October-December 2012, but the choice of the index-linked gilt to be sold by syndication in the second half of September was also discussed.

The DMO anticipates holding two syndicated offerings in the third quarter of the financial year. Ten gilt auctions are scheduled in the period: seven of conventional gilts and three of index-linked gilts. The DMO plans that conventional issuance via auctions will be split as follows: two short, three medium and two long. In discussion, the following main points emerged:

GEMMs

Syndications:

- September: a mixture of views was received, ranging from those advocating the launch of a new index-linked gilt maturing in the 10/12-year area, to the launch of a new 40-year gilt or re-opening either of the existing 2044 or 2062 maturity bonds.
- October: a long conventional was seen as the most obvious choice for this month, with the launch of a new gilt in the 30-year maturity area the most widely supported. The second most popular choice was a re-opening of 4% 2060; there were also isolated mentions of 3¾% 2052 and 4¼% 2049.
- November: a re-opening of IL 2044 was the most widely preferred option at this stage, to coincide with various index changes, although there were some calls for a new 10-year or 40-year or a re-opening of the 2062 maturity.

Conventional auctions:

Shorts: 1% 2017 was the most widely preferred choice for short issuance, with most recommending two re-openings. A number of GEMMs, however, suggested that a re-opening of another short, in particular 4½% 2019 would be welcomed by the market.

Mediums: 1¾% 2022 was seen as the obvious choice for at least two re-openings in Q3, with a number of GEMMs recommending it be auctioned three times. As alternatives for the third auction, recommendations were received for a range of other bonds including 3¾% 2020, 3¾% 2021 and 5% 2025.

Longs: A wide range of gilts were mentioned – with the emphasis broadly being on the 20-year sector (the 2030 or 2032 maturities were most often mentioned) for the

October auction ahead of the presumed conventional syndication later that month, and longer-dated gilts (2052 or 2060 maturities) for the November auction.

Index-linked auctions: All of the 3-month lag gilts apart from IL 2017 were suggested as auction candidates, with the 2029, 2034, 2047 and 2050 maturities the most popular choices. There were also some calls for the re-opening of a new 10-year gilt (assuming such a gilt had previously been launched by syndication in September) towards the end of the quarter.

Investors

Syndications:

- September: a variety of views were expressed, with most favouring a new gilt in the 10-12 year area, although the 2044 and 2062 maturities were also mentioned as suitable candidates.
- October: the launch of a new conventional gilt in the 30-year maturity area was the most widely advocated, although there were isolated calls for longer maturities (including a new 2057 maturity and a re-opening of 4% 2060).
- November: a re-opening of IL 2044 was the most widely preferred option at this stage, although there was also one call for the launch of a new 2019 maturity.

Conventional auctions:

Shorts: two re-openings of 1% 2017 were widely recommended, although some attendees called for a reopening of 4½% 2019.

Mediums: where a preference was expressed, most present recommended three re-openings of 1¾% 2022, but there were some requests for other bonds (e.g. 3¾% 2020 or 5% 2025) to be auctioned alongside two auctions of the 10-year benchmark.

Longs: a wide range of candidate bonds were mentioned, but most attendees recommended that long issuance by auction should be directed towards “shorter” long maturities (i.e. the 20-30 year area), albeit with a few calls for re-openings of the 2049, 2052 or 2060 maturities.

Index-linked auctions: again a range of maturities were mentioned, with the most popular suggestions being re-openings of the 2022, 2027, 2029, 2034, 2047 and 2062 maturities.

Royal Mail Pension Plan (RMPP) gilt cancellation

A range of views were expressed regarding the preferred timing for the cancellation of the RMPP gilt portfolio, by both GEMMs and investors, but the clear preference was for this to be done on a single date.

The DMO reiterated its commitment to give the market at least seven working days advance notice of the cancellation date.

Any other business

The calendar of gilt issuance in October-December 2012 will be announced by the DMO at 3.30pm on Friday 31 August 2012.

The next consultation meetings to discuss gilt issuance in January-March 2013 will be held at the DMO's offices on Monday 26 November 2012, subject to confirmation pending the Chancellor's decision on the Budgetary timetable.