Minutes of meeting with gilt investors in Scotland on 29 January 2016

Officials from the UK Debt Management Office (DMO) met representatives of Scottish-based gilt investors in Edinburgh on 29 January 2016. The meeting complemented those held at HM Treasury, in London, on 26 January 2016, and was held primarily to allow investors based in Scotland to present their views on the structure of the DMO's financing remit for 2016-17.

At Autumn Statement 2015 the gross financing requirement for 2016-17 was forecast to be around £140 billion. The DMO's financing remit for 2016-17 will be published alongside Budget 2016 on 16 March 2016.

The main points discussed at the meeting are summarised below:

Attendees thought that the structure of the 2015-16 financing remit had worked well, noting the strength of underlying end-investor demand for gilts. This had facilitated the smooth delivery of the remit overall, although recent auction performance was noted in the light of more difficult market conditions and recent regulatory initiatives.

The strong and focused demand from the Liability Driven Investment (LDI) community for longer-dated index-linked gilts was mentioned, with the impression that this demand appeared to be robust and often independent of the level of outright yields.

Attendees did not propose any fundamental changes for the 2016-17 remit, although some marginal changes were put forward: it was suggested by some that fewer and larger auctions were preferable to smaller and more frequent operations on practical grounds. The role of syndications was noted, with some suggesting that, at prevailing levels of financing, syndications be viewed as part of the main programme of issuance, rather than as a supplementary method.

Limited enthusiasm was expressed for the role of mini-tenders in the financing programme; similarly some attendees expressed ambivalence regarding the contribution of Treasury bills relative to short conventional gilts.

The potential for the EU referendum to take place this year was suggested by some investors to pose challenges in scheduling gilt operations for the 2016-17 remit.

Current liquidity conditions in fixed income markets were discussed. It was noted that liquidity issues were not confined to the gilt market or the UK. The unintended consequences of regulation were seen as a factor affecting fixed income markets globally and it was mentioned that prevailing conditions in the repo market were poor. However, some attendees observed that day-to-day liquidity in the secondary market remained adequate.