

Minutes of meeting with gilt investors in Scotland on 11 January 2008

Officials from the DMO met representatives of Scottish-based gilt investors in Edinburgh on 11 January 2008. The meeting complemented those held at HM Treasury, in London, on 11 December 2007 and was held to allow investors in Scotland to communicate their views on the structure of the DMO's financing remit for 2008-09. On the basis of the Pre-Budget Report forecast for the CGNCR in 2008-09 of £38 billion and gilt redemptions of £17 billion, the gross financing forecast for 2008-09 is currently £55 billion. In discussion, the following main points emerged:

There was a general agreement that, despite the change in the shape of the yield curve over the past year, the underlying structural demand for long-dated gilts persists. This was felt by some to be particularly true for index-linked gilts as indicated by ongoing low levels of real yields.

Despite the focus on long-dated maturities it was noted that structural demand is also evident at the short-end of the curve. The scale and nature of overseas purchases of gilts was discussed as was the size of recent and forthcoming redemptions. It was considered important also not to neglect market requirements at the short-end, and some felt that if there was a current point on the maturity spectrum that was of a lesser priority against a backdrop of a slightly smaller financing requirement it would be the medium sector.

Ongoing significant levels of demand for long-dated and index-linked gilts was also seen as important in the context of an anticipated reduction in levels of corporate supply of these instruments next financial year. It was generally felt that market capacity for index-linked supply significantly exceeded current levels of supply – and that it was important to further build up the portfolio of three-month lag instruments. There was some discussion about the possibility of switch auction(s) out of the 2013 maturity index-linked gilt ahead of it dropping out of the five-year index in August 2008 and also the possibility of switches from eight to three-month lag instruments more generally.