

RECORD OF QUARTERLY MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE Q2 2008-09 GILT AUCTION CALENDAR

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 19 May 2008. The meetings were primarily intended to inform the choice of gilts to be issued in the scheduled auctions in July-September 2008.

Eleven gilt auctions are scheduled in the second quarter of FY 2008-09: seven of conventional gilts and four of index-linked gilts. The conventional auctions are scheduled to be held on 2, 17 and 29 July, 5 August and 2, 10 and 25 September. The DMO had previously indicated an expectation to hold two short, two medium and three long-dated conventional auctions in Q2. The index-linked auctions are scheduled to be held on 8 and 24 July, 14 August and 23 September. The following main points emerged in discussion:

GEMMs

Conventional: A majority of GEMMs favoured two auctions of 4½% 2013 (to build the gilt up quickly), although others suggested a re-opening of another existing short-dated gilt, with 5% 2012 the most often mentioned in this respect. Views were also mixed on the approach to medium issuance, with a majority favouring the launch of a new 2019 maturity in the quarter, generally following a further re-opening of 5% 2018. Others thought that a new 2019 could wait until Q3 and advocated the re-opening of 4% 2016 (or 4¾% 2020) alongside 5% 2018. Some called for two auctions of 5% 2018. A range of views were also received on long-dated issuance. Most recommended a re-opening of 4½% 2042, but opinions were more divided on the merits of re-opening 4¾% 2030. In terms of potential new long-dated maturities, most cited the ongoing demand for duration and recommended the launch of a new gilt in the 2050 area of the curve, though there was also a call for new 2040 or 2060 maturity.

Index-linked: All existing three-month lag bonds were mentioned as possible candidates for re-opening by those at the meeting. A strong bias toward long-dated issuance was expressed, however, by a majority of GEMMs, who supported the re-opening of the 2027, 2037, 2047 and/or 2055 maturities in Q2. The 2027 or the 2037 maturities were favoured by a small majority of attendees as potential candidates for the auction on 14 August (to coincide with the IL 2013 index event), but others mentioned for that date were the 2017, 2035, 2047 and 2055 bonds. There was little support for the launch of any new index-linked gilt in Q2, with attendees generally suggesting that such action could be postponed until the next quarter.

Investors

Conventional: For short-dated maturities, views were divided between those advocating two re-openings of 4½% 2013 and others recommending one auction of a shorter-dated gilt alongside 4½% 2013, with 5% 2012 and 5¼% 2012 both mentioned here. There was general support for one re-opening of 5% 2018 and the launch of a new 10-year (2019) gilt in the quarter, although there were also isolated calls for a re-opening of 4% 2016. Again, a range of views were expressed regarding the choice of long-dated issuance in Q2, with general support for re-openings of 4¾% 2030 and 4½% 2042. For a new long-dated gilt, a variety of new maturities were suggested, with 2040, 2049 and 2050 maturities variously mentioned.

Index-linked: Most investors favoured one re-opening of the 2022 maturity early in the quarter. Re-openings of the 2027, 2037 and 2047 maturities were also widely advocated. There were also some calls for a re-opening of the 2055 maturity. The 2027 or 2037

maturities were the most widely suggested maturities for the 14 August auction, although there were some calls for a new 2032 maturity and the re-opening of some 8-month lag bonds.

The details of the auction calendar for July-September 2008 will be announced by the DMO at 3:30pm on Friday 30 May.

The next quarterly consultation meetings will be held at the DMO on Monday 18 August 2008.