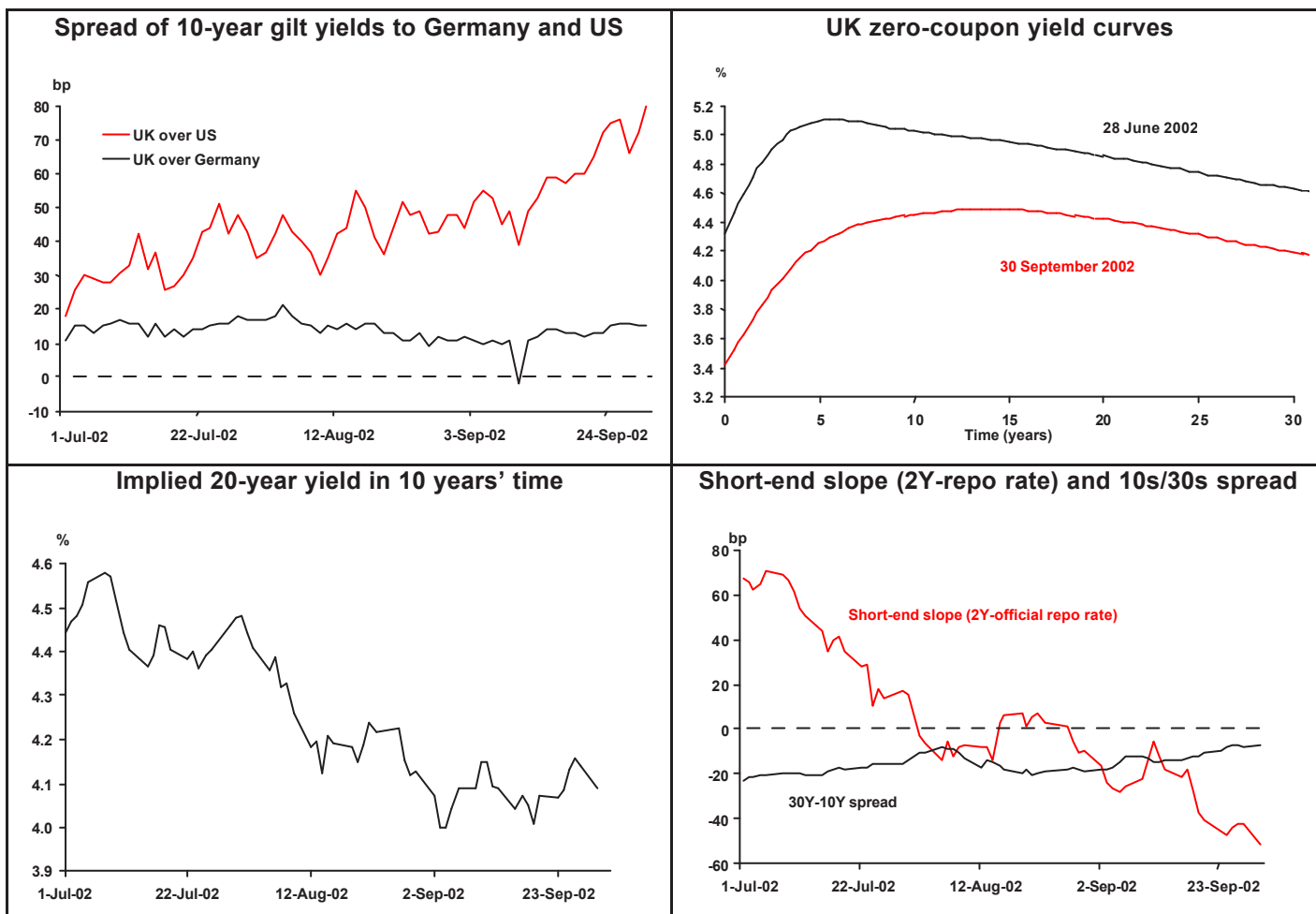




Quarterly Review

July - September 2002

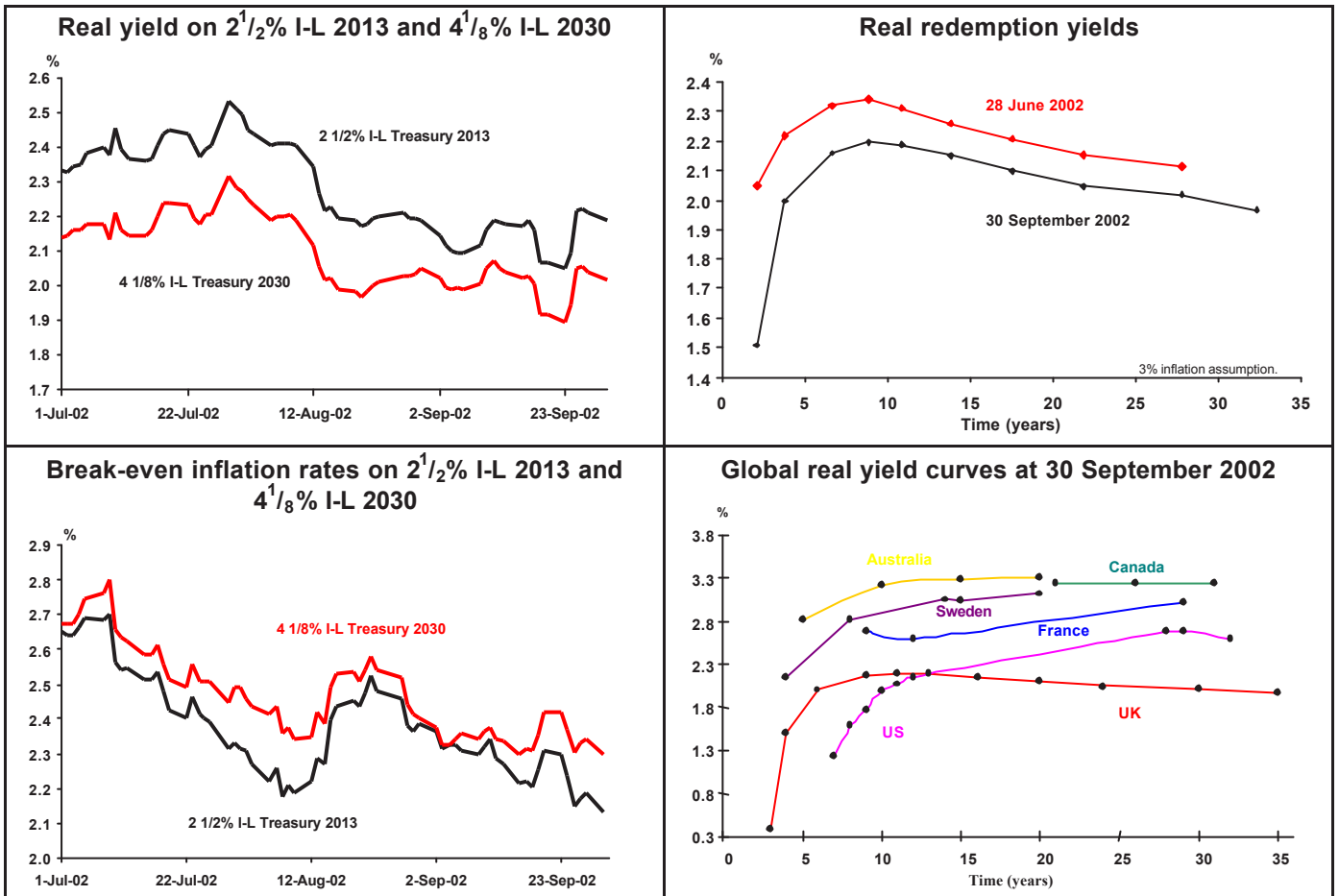
Conventional gilts



The Bank of England kept its repo rate at 4.00% throughout the quarter and by the end of September this rate had been left unchanged at ten consecutive MPC meetings. Sharp falls in equity market indices along with weaker economic data from the eurozone, the US and the UK served to raise expectations that the Bank of England might cut its policy rate. As a result the short-end of the yield curve steepened. During the quarter the spread of the 2-year gilt yield over the Bank's repo rate fell from +68bp to -52bp. Yields fell at all points along the curve with medium gilts relatively outperforming the ultra-long sector of the curve, which resulted in a partial disinversion of the curve at longer maturities. The 30Y-10Y spread moved from -23bp to -7bp over the quarter. Continuing the trend from the previous quarter the spread of 10-year gilt yields over the United States increased from +18bp at the start of July to +80bp by the end of the quarter – the highest spread since November 1997. The spread of 10-year gilt yields over Germany remained relatively stable over the quarter, averaging 14bp. The fall in gilt yields over the quarter also reduced the implied 20-year yield in 10 years' time by 34bp to finish the period at 4.09%, having reached a trough of 3.99% in early September - the lowest yield since November last year.

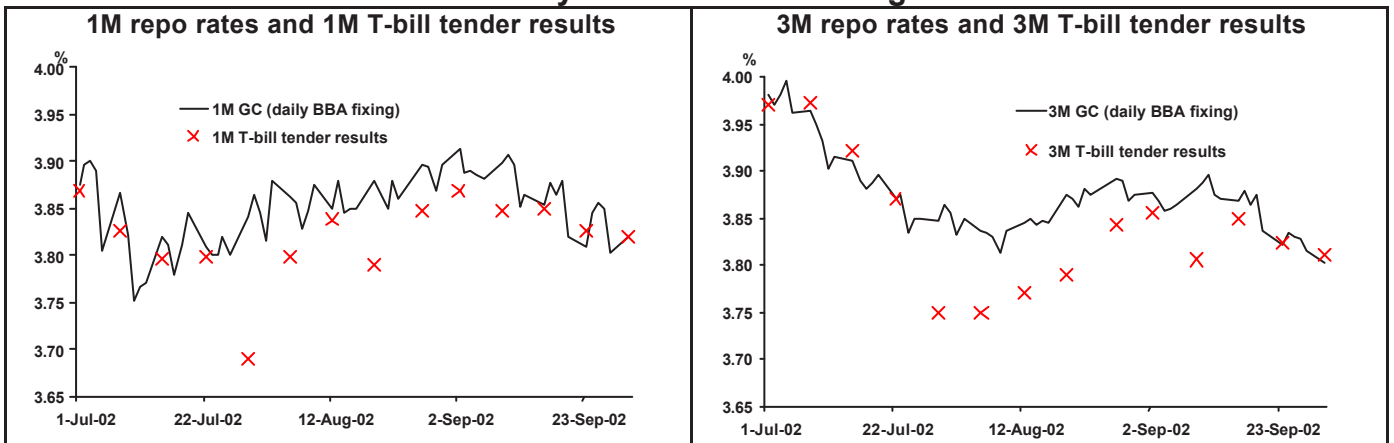


Index-linked gilts



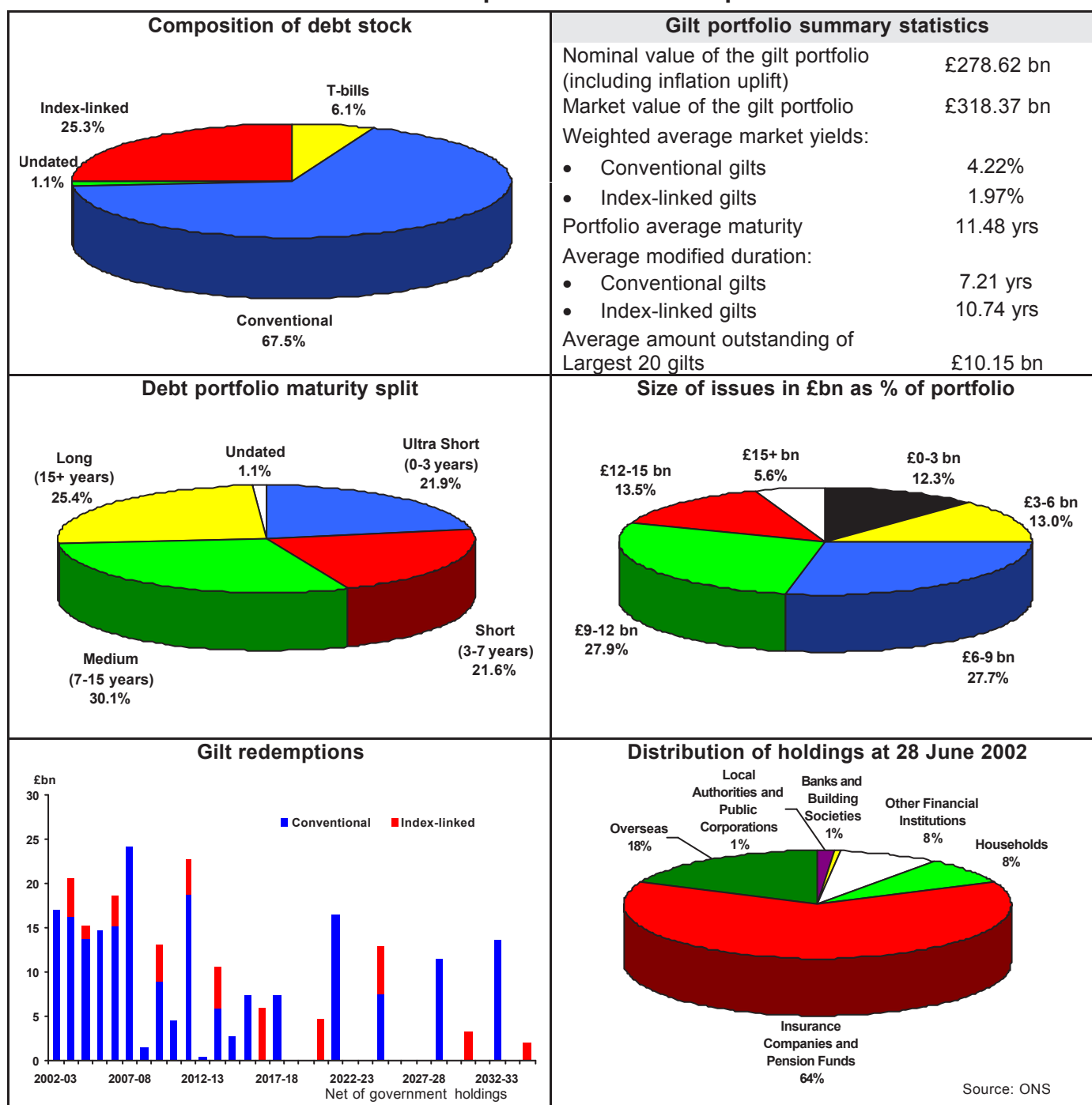
In common with conventional gilts, the short and medium sectors of the real yield curve outperformed longer maturities during the quarter. The real yield on the 2½% I-L 2013 gilt fell 15bp, finishing the period at 2.19%; while the real yield on 4⅛% I-L 2030 fell 12bp to 2.02%. Index-linked gilts across the curve underperformed conventional gilts; during the quarter the break-even inflation rate in the 2013 sector of the curve fell 51bp to 2.14% and decreased 37bp to 2.30% in the 2030 area. Break-even inflation rates fell sharply during the week of the auction of 2% I-L 2035 on 25 September: the 2013 sector of the curve fell 18bp from the previous week's peak while the 2030 area dropped by 12bp.

Treasury bills and cash management



Weekly tenders of 1-month and 3-month T-bills and monthly tenders of 6-month T-bills were maintained throughout the quarter. Weekly T-bill tender sizes for 1-month maturities peaked during late September, with one auction of £1500mn. For 3-month T-bills the tender size remained at £1000mn from mid August to end September and for six-month T-bills the tender size increased from £500mn in August to £750mn in September. This pattern of T-bill issuance increased the overall stock of T-bills from £15.95bn on 28 June to £18.10bn on 30 September. During the period 1-month bills were sold at an average 3.8bp below the corresponding repo rate and 3-month bills at an average of 3.5bp below. The 6-month T-bills yielded marginally more than the equivalent repo rate.

Details of the debt portfolio as of 30 September 2002



In the pie charts figures may not sum due to rounding

2001-02 and 2002-03 financing requirements

<i>Figures may not sum due to rounding</i>	Budget 2001 Financing requirement for 2001-02	PBR 2001 Financing requirement for 2001-02	2001-02 Outturn	Budget 2002 Financing requirement for 2002-03
CGNCR forecast	0.3	6.3	3.0	13.5
Replacing foreign currency debt	1.3	1.3	1.2	0.0
Redemptions	17.8	17.8	17.8	17.0
Debt buy-backs	1.0	0.5	0.6	0.0
Financing requirement	20.4	25.9	22.6	30.5
Less				
National Savings & Investments' contribution	-3.0	0.0	-0.2	-1.5
DMO cash deposit at Bank of England	0.3	0.3	0.4	-0.1
Net financing requirement	23.1	25.6	22.4	32.1
Change in Ways and Means	0.0	0.0	0.0	0.0
Change in planned Treasury bill stock	5.0	6.4	6.4	4.3
Change in level of DMO cash position	4.6	5.2	2.3	5.4
Gilt sales planned during year	13.5	14.0	13.7	22.4

Gilt auction results Q3 2002

Outright auction results						
Auction date	Issue amount (nominal)	Stock	Cover	Yield tail (basis points)	Average accepted price	Yield at average price
10-Jul-02	£950mn	2% I-L 2035	1.38	N/A ^a	£97.80	2.09%
24-Jul-02	£2,750mn	5% 2014	2.02	2	£101.05	4.88%
25-Sep-02	£900mn	2% I-L 2035	0.95 ^b	N/A ^a	£99.00	2.04%

^a Index-linked gilts are issued through a uniform price format
^b £74mn was unallocated and retained on the DMO's book

Conversion offer results					
Date	Source stock	Nominal converted	Acceptances	Destination stock	Nominal created
5-Aug-02	9% 2008	£4,808mn	88%	5% 2008	£5,921mn

Outturn against the 2002-03 gilts remit as at 30 September 2002

(£mn)	Conventional gilts			Index-linked gilts	Total
	Short (0-7 years)	Medium (7-15 years)	Long (>15 years)		
Remit plans	5,500	5,500	6,900	4,500	22,400
Outright sales to date	2,987	2,778	2,196	2,640	10,601
Remaining	2,513	2,722	4,704	1,860	11,799

Treasury bill tender results Q3 2002

Tender date	Stock amount (£mn)	Average yield (%)	Average price (£)	Cover	Yield tail (bp)
1 month T-bills					
5-Jul-02	1000	3.8261	99.7073	4.43	2
12-Jul-02	500	3.7947	99.7097	6.62	1
19-Jul-02	150	3.7983	99.7095	10.00	1
26-Jul-02	150	3.6900	99.7077	7.80	0
2-Aug-02	150	3.7983	99.7095	8.47	5
9-Aug-02	500	3.8375	99.7065	5.51	0
16-Aug-02	700	3.7900	99.7101	6.17	0
23-Aug-02	1000	3.8468	99.7163	6.00	0
30-Aug-02	1000	3.8685	99.7041	5.59	0
6-Sep-02	1000	3.8460	99.7058	7.40	2
13-Sep-02	1500	3.8482	99.7057	6.52	0
20-Sep-02	1200	3.8258	99.7074	5.12	1
27-Sep-02	1200	3.8196	99.7078	5.80	1
3 month T-bills					
5-Jul-02	500	3.9720	99.0194	5.30	1
12-Jul-02	500	3.9200	99.0321	7.25	0
19-Jul-02	500	3.8699	99.0444	7.95	0
26-Jul-02	500	3.7500	99.0737	7.58	0
2-Aug-02	500	3.7500	99.0737	6.94	0
9-Aug-02	700	3.7699	99.0689	7.00	0
16-Aug-02	1000	3.7898	99.0640	6.09	0
23-Aug-02	1000	3.8437	99.0611	5.98	1
30-Aug-02	1000	3.8561	99.0478	5.68	0
6-Sep-02	1000	3.8050	99.0603	9.04	1
13-Sep-02	1000	3.8487	99.0496	7.34	0
20-Sep-02	1000	3.8249	99.0554	6.78	1
27-Sep-02	1000	3.8100	99.0590	7.26	0
6 month T-bills					
2-Aug-02	500	3.7750	98.1524	7.20	1
30-Aug-02	500	3.8588	98.1122	5.90	0
27-Sep-02	750	3.8017	98.1396	6.79	2

Details of market turnover

Top twenty stocks traded (by market value) in the thirteen weeks to 27 September 2002

Stock	Market value of trades (£mn)	% of value of all gilt trades	Turnover Ratio ^a	Number of bargains ('000s)	Average bargain size (£mn)
5% Treasury 2012	91,380	15%	7	12	7
9% Conversion 2011	74,453	12%	11	4	20
6% Treasury 2028	48,337	8%	3	8	6
7¼% Treasury 2007	36,161	6%	3	11	3
4¼% Treasury 2032	27,483	5%	2	6	4
8% Treasury 2015	27,201	4%	3	5	6
8% Treasury 2021	26,324	4%	1	8	3
5% Treasury 2008 ^b	25,366	4%	3	10	3
5% Treasury 2004	23,148	4%	3	5	4
6¾% Treasury 2004	20,168	3%	3	5	4
8% Treasury 2003	19,288	3%	3	3	6
5¾% Treasury 2009	19,109	3%	2	12	2
7½% Treasury 2006	19,080	3%	1	7	3
8½% Treasury 2005	17,845	3%	2	5	4
5% Treasury 2014	17,586	3%	6	1	13
6½% Treasury 2003	15,803	3%	2	4	4
8% Treasury 2013	15,563	3%	2	2	9
5% Treasury 2025	11,555	2%	1	2	6
8¾% Treasury 2017	10,237	2%	1	2	6
9¾% Treasury 2002	8,247	1%	n.a. ^c	1	10
Total market	606,280			148	4

The top twenty stocks account for 91% of total market turnover.

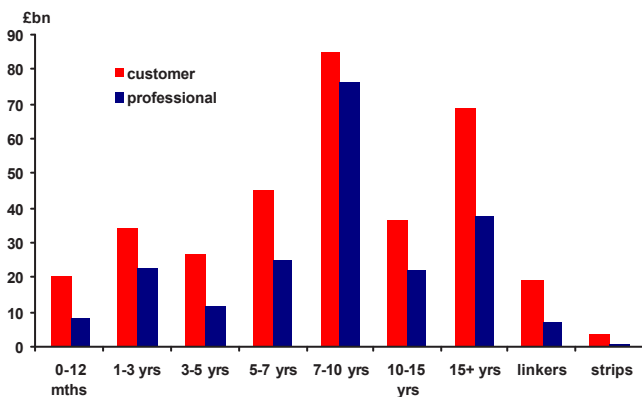
This information is based on provisional information provided by the London Stock Exchange and should only be treated as indicative.

^a The total nominal value of the stock traded over the quarter relative to the nominal amount outstanding at the end of quarter.

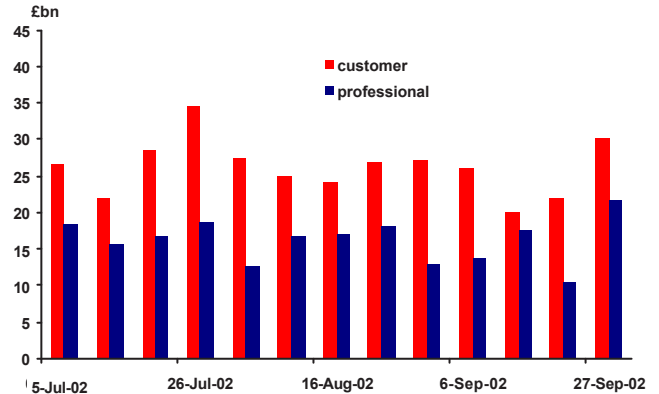
^b The conversion of 9% Treasury 2008 into 5% Treasury 2008 during the quarter boosted the turnover ratio during the period.

^c The 9¾% Treasury 2002 redeemed on 27 August 2002.

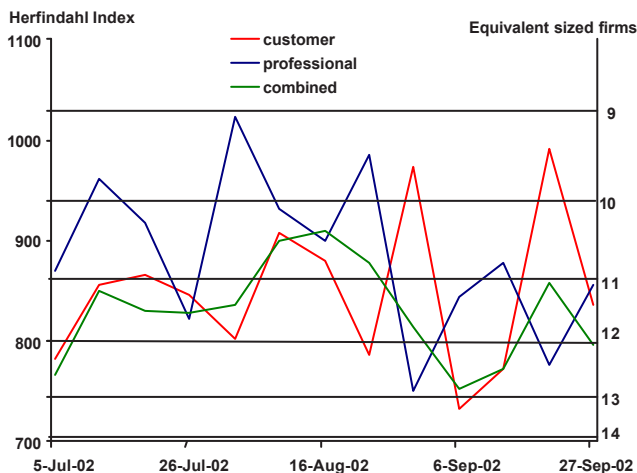
GEMM turnover by maturity band, Q3 2002



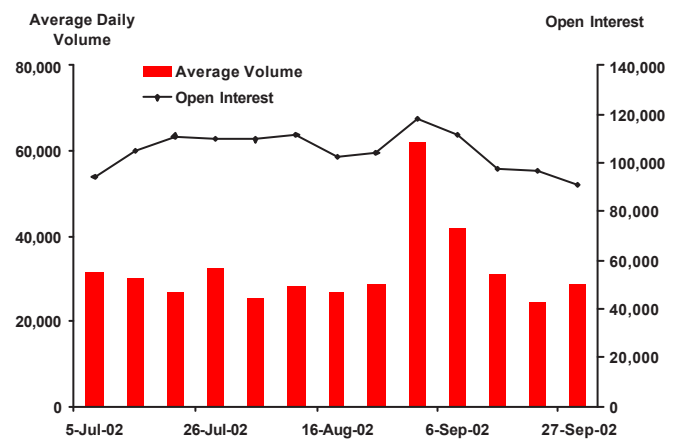
Total GEMM market turnover (weekly total)



Herfindahl index of total GEMM market turnover



Average daily turnover of the long gilt futures contract and open interest*



* Weekly average of daily turnover and end-week level of open interest
Source: LIFFE

Stocks in issue at 30 September 2002 (£mn nominal)

Conventional gilts	Redemption date	Amount in issue	Amount held in stripped form	DMO/CRND* Holdings
8% Treasury 2002-2006	5-Oct-02	2,064	-	369
8% Treasury 2003	10-Jun-03	7,102	-	521
10% Treasury 2003	8-Sep-03	1,872	-	104
6½% Treasury 2003	7-Dec-03	8,095	38	316
5% Treasury 2004	7-Jun-04	7,504	7	465
3½% Funding 1999-2004	14-Jul-04	561	-	50
6¼% Treasury 2004	26-Nov-04	6,597	-	470
9½% Conversion 2005	18-Apr-05	4,469	-	95
8½% Treasury 2005	7-Dec-05	10,486	191	305
7¾% Treasury 2006	8-Sep-06	3,955	-	432
7½% Treasury 2006	7-Dec-06	11,807	225	275
8½% Treasury 2007	16-Jul-07	4,638	-	362
7¼% Treasury 2007	7-Dec-07	11,103	134	241
5% Treasury 2008	7-Mar-08	8,971	0	123
5½% Treasury 2008-2012	10-Sep-08	1,026	-	183
5¾% Treasury 2009	7-Dec-09	8,937	22	357
6¼% Treasury 2010	25-Nov-10	4,958	-	477
9% Conversion 2011	12-Jul-11	5,396	-	205
7¾% Treasury 2012-2015	26-Jan-12	806	-	340
5% Treasury 2012	7-Mar-12	13,346	0	229
8% Treasury 2013	27-Sep-13	6,181	-	386
5% Treasury 2014	7-Sep-14	2,800	-	51
8% Treasury 2015	7-Dec-15	7,377	399	172
8¾% Treasury 2017	25-Aug-17	7,751	-	380
8% Treasury 2021	7-Jun-21	16,741	268	346
5% Treasury 2025	7-Mar-25	7,672	0	176
6% Treasury 2028	7-Dec-28	11,756	172	309
4¼% Treasury 2032	7-Jun-32	13,829	173	251
Index-linked gilts	Redemption date	Amount in issue	Nominal including inflation uplift	DMO/CRND* Holdings
2½% I-L Treasury 2003	20-May-03	2,734	6,016	197
4 3/8% I-L Treasury 2004	21-Oct-04	1,338	1,710	96
2% I-L Treasury 2006	19-Jul-06	2,037	5,081	42
2½% I-L Treasury 2009	20-May-09	2,673	5,882	74
2½% I-L Treasury 2011	23-Aug-11	3,942	9,164	70
2½% I-L Treasury 2013	16-Aug-13	4,722	9,174	104
2½% I-L Treasury 2016	26-Jul-16	6,055	12,857	169
2½% I-L Treasury 2020	16-Apr-20	4,668	9,751	68
2½% I-L Treasury 2024	17-Jul-24	5,401	9,583	111
4 1/8% I-L Treasury 2030	22-Jul-30	3,171	4,068	71
2% I-L Treasury 2035	26-Jan-35	1,850	1,847	74
Undated gilts (non rump)	Redemption date	Amount in issue		DMO/CRND* Holdings
2½% Treasury	Undated	493		22
3½% War	Undated	1,939		30
Rump gilts	Redemption date	Amount in issue		DMO/CRND* Holdings
9% Exchequer 2002	19-Nov-02	83		67
11¼% Treasury 2003-2007	22-Jan-03	234		81
9¾% Conversion 2003	7-May-03	12		10
12½% Treasury 2003-2005	21-Nov-03	152		53
13½% Treasury 2004-2008	26-Mar-04	96		25
10% Treasury 2004	18-May-04	20		6
9½% Conversion 2004	25-Oct-04	307		138
10½% Exchequer 2005	20-Sep-05	24		16
9¾% Conversion 2006	15-Nov-06	6		3
9% Treasury 2008	13-Oct-08	687		56
8% Treasury 2009	25-Sep-09	393		89
9% Treasury 2012	6-Aug-12	403		136
12% Exchequer 2013-2017	12-Dec-13	58		8
2½% Annuities	Undated	3		0
3% Treasury	Undated	53		6
3½% Conversion	Undated	93		73
2½% Consolidated	Undated	275		47
2¾% Annuities	Undated	1		0
4% Consolidated	Undated	358		37

It is assumed that double-dated issues currently trading above par will be called at the first maturity date.

* Includes holdings by the Commissioners for the Reduction of the National Debt (CRND) and the DMO. Excludes local authority, public corporations and Bank of England holdings.

Calendar for Q4 2002

Date	October	November	December
1		T-bill tender	
2			
3			
4	T-bill tender		
5			
6			T-bill tender
7			
8		T-bill tender	
9			GEMM and end-investor consultation meetings with DMO
10			Publication of consultation meeting minutes
11	T-bill tender		
12			
13			T-bill tender
14			
15	Announcement of size of 5% 2014 auction to be held on 22 October and size of 2½% I-L 2013 auction to be held on 24 October*	T-bill tender	
16			
17			
18	T-bill tender		
19		Announcement of size of 5% 2025 auction to be held on 27 November*	
20			Publication of gilts issuance calendar for Q1 2003 and T-bill tender
21			
22	Auction of 5% 2014*	T-bill tender	
23			
24	Auction of 2½% I-L 2013*		
25	T-bill tender		
26			
27		Auction of 5% 2025*	Calendar of T-bill issuance for Q1 2003 and T-bill tender
28			
29		T-bill tender	
30			
31			

* subject to confirmation following the Chancellor's decisions on the Pre-Budget Report timetable

DMO wire services

Information	Reuters/Bridge/ADP	Telerate	Topic	Bloomberg
Index	DMO/INDEX			DMO<GO>
Announcements	DMO/GILTS1 to 7	22550 to 22556	44700 to 44710	DMO1<GO>
Shop window general info	DMO/GILTS8	6515	44715	DMO2<GO>
Shop window 1	DMO/GILTS9	6516	44716	DMO3<GO>
Shop window 2	DMO/GILTS10	6517	44717	DMO4<GO>
Shop window 3	DMO/GILTS11	6518	44718	DMO5<GO>
Benchmark prices	DMO/BENCH1	22557	44720 to 44721	DMO10<GO>
GEMMA ref prices (Conventionals)	GEMMA01 to 04	47216 to 47219	44800 to 44802	DMO6<GO>
GEMMA ref prices (I-L)	GEMMA08	47223	44805	DMO6<GO>
GEMMA ref prices (Strips)	GEMMA13 to 21	21291 to 21299	44850 to 44863	DMO7<GO>
Cash announcements	DMO/CASH01	15700 to 15709	44660 to 44669	DMO9<GO>
T-bill tender information	DMO/CASH11	15710 to 15711	44670 to 44671	DMO9<GO>
Ad-hoc tender information	DMO/CASH16	15715 to 15716	44675 to 44676	DMO9<GO>

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Comments on this publication and the web site would be welcomed by either Theo Thomas or Mark Deacon.

