

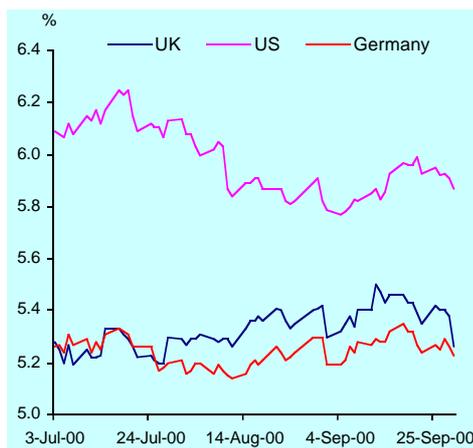
Quarterly Review

3rd Quarter 2000 July - September

Economic Background

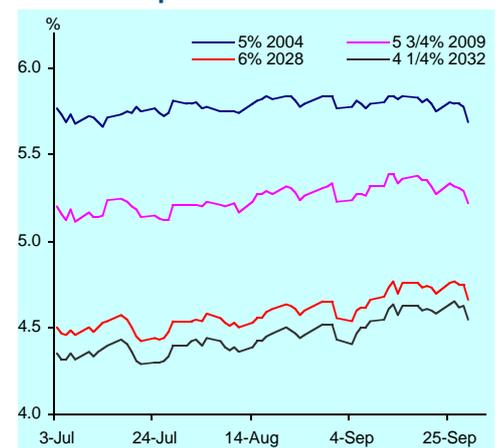
International bond yields fell during the third quarter of the year (see Chart 1), particularly in the US where concerns over a possible slowdown in growth and the fiscal surplus took the yield on the 10-year Treasury from 6.25% in mid-July to 5.75% by mid-September. Some of these gains have since been eroded as a rapid decline in US growth failed to materialise and the Treasury market began to worry about the

Chart 1: International 10-year Government Bond Yields



Source: DMO

Chart 2: Conventional Benchmark Gilt Redemption Yields



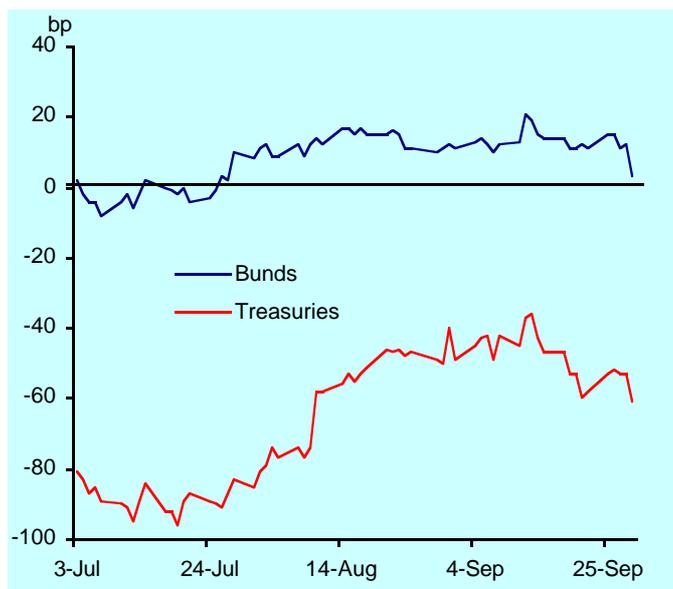
Source: DMO

tax cutting proposals of both presidential candidates. Concerns about the prospects for Eurozone growth allowed European government bonds to outperform gilts during most of the quarter. However, acute worries regarding the level of the euro and the prospects this heralded for further ECB rate increases, meant that gilts were able to restore the spread to bunds during September. The strong performance of Treasuries resulted in a significant narrowing of the spread to gilts. Standing at almost 100bp over gilts at the ten year maturity by mid-July, Treasuries had narrowed to 36bp over gilts by the start of September.

The Bank of England and the Federal Reserve both left short term rates unchanged over the quarter. This resulted in uncertainty in both countries as to whether rates had peaked. Short term rate expectations have declined in the UK over the quarter and the market does not appear to be pricing in any rate increases during the first quarter of 2001 (see chart 5). Inconclusive economic indicators and a broadly

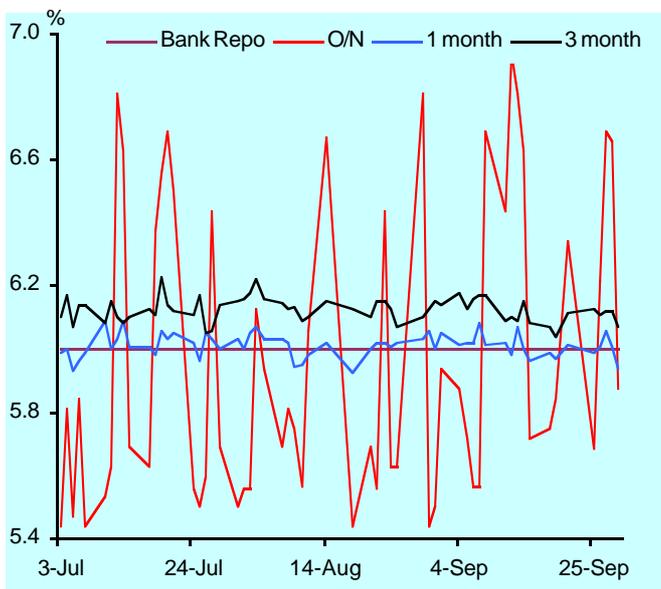


Chart 3: Spread of 10-year Gilt Yields against German Bunds and US Treasuries



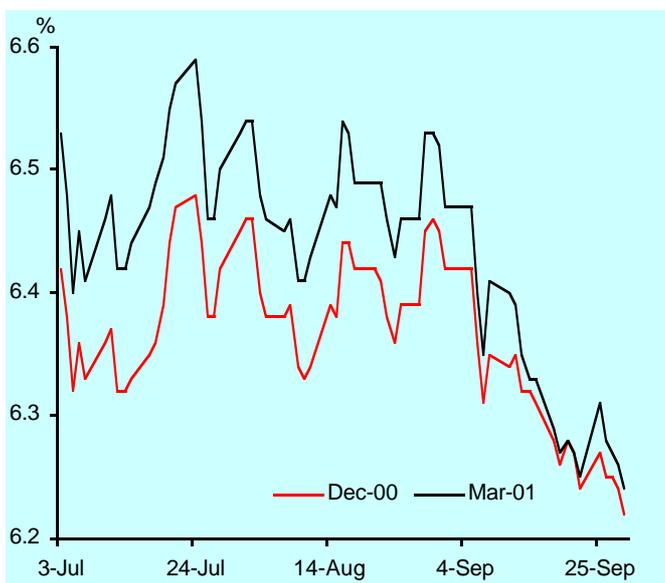
Source: DMO

Chart 4: UK Interest Rates



Source: DMO

Chart 5: Implied Interest Rates from Short Sterling Contracts



Source: Bloomberg

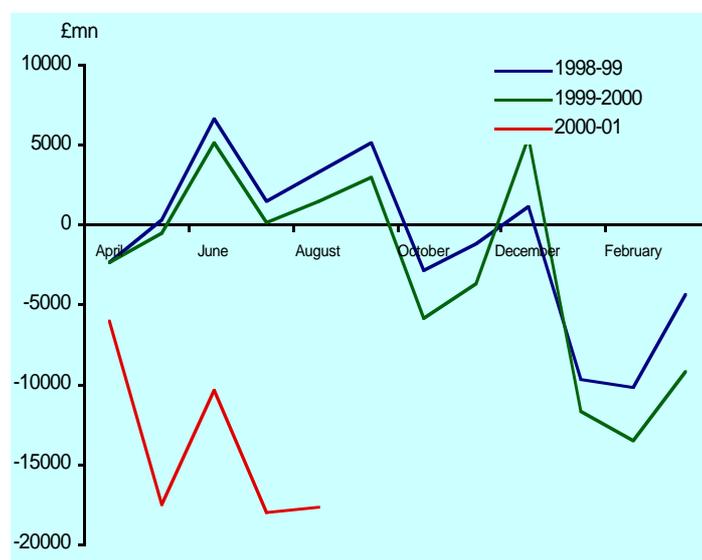
even MPC voting pattern continued to give the market mixed signals as to the future direction of rates in the UK. This uncertainty increased during September as the economic impact of fuel protests and higher oil prices at the end of the quarter remained unclear.

The Government's consultation document on the review of the Minimum Funding Requirement was released on 14 September. This offered no firm policy steer, although the perception that a proposal to shift away from a pure gilts liability discount rate, combined with continued issuance at the long end of the curve, allowed long yields to increase gently over the quarter. Taken with a reduction of short term rate expectations, the quarter as a whole saw a curve disinversion. The 2-30 year spread moved from -160bp at the start of quarter to -116bp at the end of September.

Gilt Market Operations

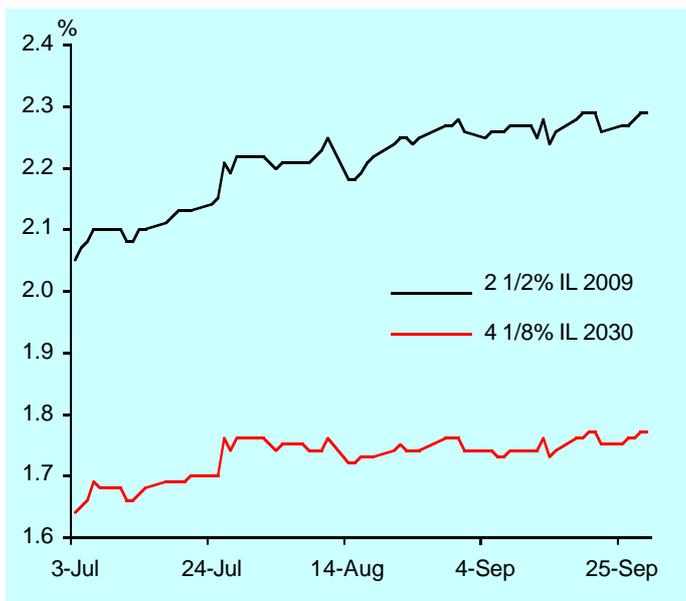
The DMO held one outright auction (£425mn nominal of the 2½% IL 2013 stock on 26 July) this quarter. The first reverse auction was held on 20 July when £800mn (cash) of the 8% 2003 and 10% 2003 stocks was bought by the DMO. All three stocks in the longer maturity basket (£900mn of the 7¾% 2006, 8½% 2007 and 9% 2008) were purchased at the 21 September reverse auction. The 27 September switch auction, out of the 8% 2015 and into 4¼% 2032, created £2.1bn of the latter. With £6.6bn of the 2032 stock outstanding, it became strippable following the switch auction.

Chart 6: Cumulative Central Government Net Cash Requirement



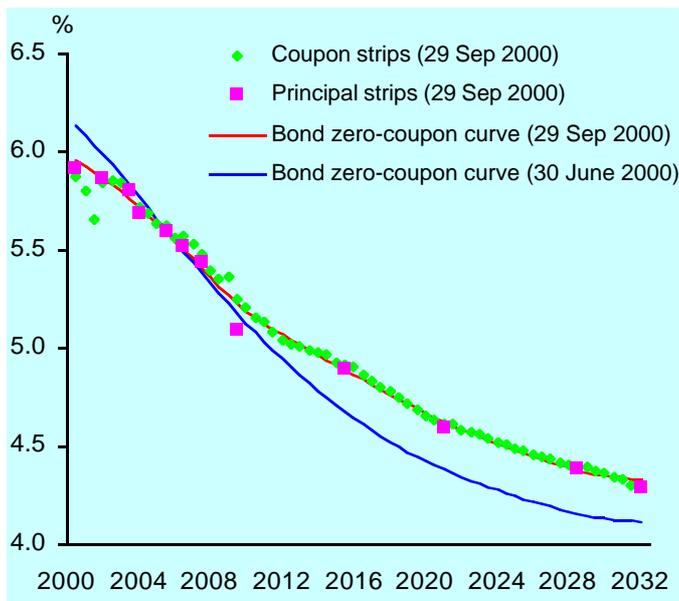
Source: ONS

Chart 7: Index-linked Gilt Real Redemption Yields



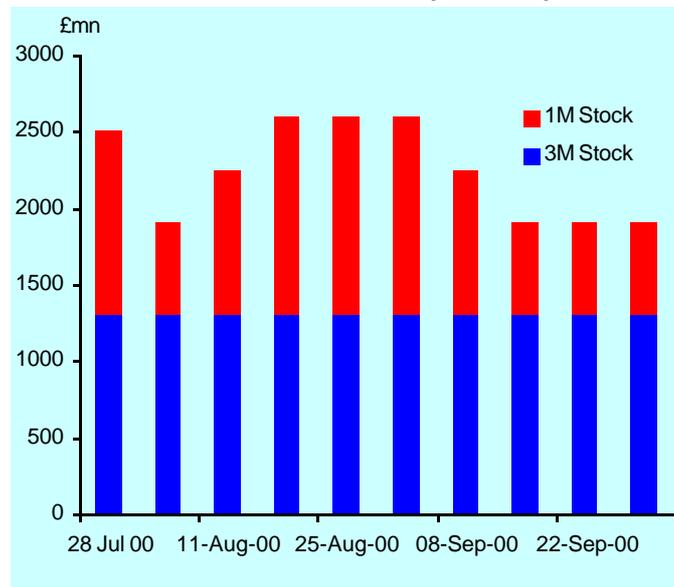
Source: DMO. 3% inflation assumption.

Chart 8: Zero-Coupon UK Yield Curves



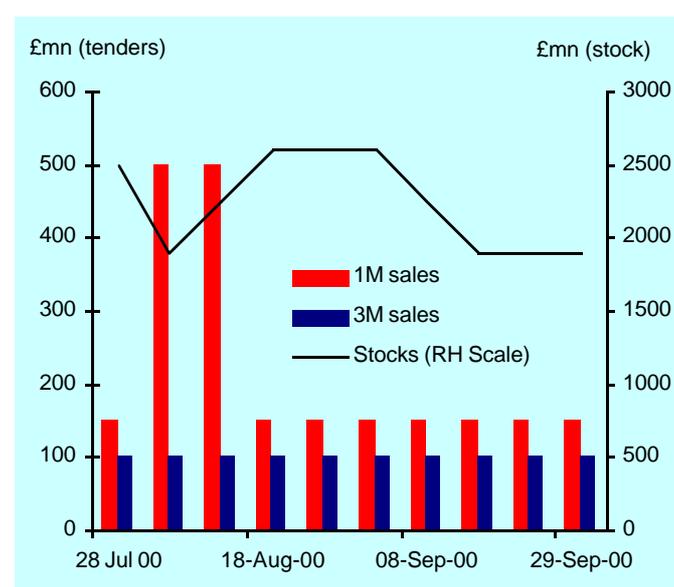
Source: DMO

Chart 9: Structured T-bill Stock by Maturity at Issue



Source: DMO

Chart 10: T-bill Stocks and Tenders in Q3 2000



Source: DMO.

2000-01 Financing Requirement (£bn)

	Budget: 21 March	20 April	12 June	Gross Sales at Auctions- (to end Sep)	Net Central Government Gilt Purchases (to end Sep)
CGNCR forecast	-4.9	-4.9	-4.9		
Impact of Spectrum windfall	-	-	-19.5		
Replacing foreign currency debt	3.5	3.5	9.5		
Gilt redemptions	18.6	18.6	18.6		
Debt buy-backs	3.5	3.5	3.5		2.3
Gilt sales residual from 1999-2000	-9.5	-12.8	-12.8		
Financing Requirement	11.2	7.9	-5.6		
<i>Less net financing from:</i>					
National Savings	-0.8	-0.8	-0.8		
DMO cash deposit at Bank of England	-0.2	-0.2	-0.2		
Repayment of Ways & Means	-	-2.0	-2.0		
Reduction in planned T-Bill stock	-	-1.3	-2.0		
Further reductions in net short-term debt	-	-	-10.7		
Gilt Sales Planned	12.2	12.2	10.0		
Short conventionals (1-7 years)	0.0	0.0	0.0		1.9
Medium conventionals (7-15 years)	2.2	2.2	0.0		0.4
Long conventionals (>15 years)	6.5	6.5	6.5	2.4	0.0
Index-linked gilts	3.5	3.5	3.5	1.7	0.0

Note: figures may not sum due to rounding.

Gilt Auction Results Q3 2000

Outright Auction Results

Auction Date	Issue Amount (nominal)	Stock	Cover	Tail (bp)	Average Accepted Price	Yield at Average Accepted Price (%)
26 July 2000	£425mn	2½% IL 2013	1.94	-*	£195.45	2.18

*Index-linked gilts are issued through a uniform price format.

Switch Auction Results

Auction Date	Source Stock	Nominal Switched	Destination Stock	Nominal Created	Average Dirty Price Ratio
27 Sep 2000	8% 2015	£1.5bn	4¼% 2032	£2.10bn	1.3985

Reverse Auction Results

Auction Date	Max Buy-back Amount (Nominal)	Cover	Stocks	Nominal Value Purchased	Average Accepted Price	Average Yield (%)
20 Jul 2000	£800mn	4.88	8% 2003	£381.2mn	£105.40	5.93
			10% 2003	£357.0mn	£111.53	5.91
21 Sept 2000	£900mn	3.35	7¾% 2006	£130.0mn	£110.13	5.72
			8½% 2007	£463.7mn	£115.83	5.66
			9% 2008	£180.0mn	£122.04	5.57

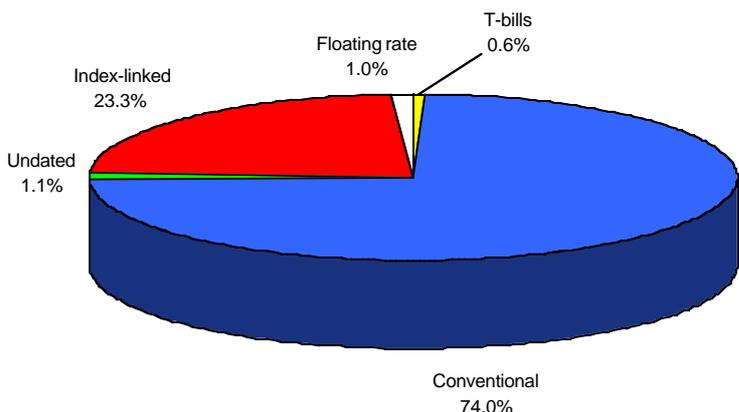
Treasury Bill Tender Results Q3 2000

Date	Stock Amount (£mn)	Average Yield (%)	Average Price	Cover	Yield Tail (bp)
3 Month T-bills					
07-Jul	100	5.9130	£98.5472	6.70	2
14-Jul	100	5.9050	£98.5492	7.25	1
21-Jul	100	5.9300	£98.5431	6.07	0
28-Jul	100	5.9295	£98.5432	6.30	0
04-Aug	100	5.9000	£98.5504	7.25	0
11-Aug	100	5.8700	£98.5576	6.50	0
18-Aug	100	5.8600	£98.5601	6.50	0
25-Aug	100	5.9000	£98.5661	4.25	0
01-Sep	100	5.8606	£98.5389	2.00	0
08-Sep	100	5.8900	£98.5528	5.75	1
15-Sep	100	5.8900	£98.5528	7.02	0
22-Sep	100	5.8300	£98.5363	6.75	0
29-Sep	100	5.8500	£98.5469	6.75	0
1 Month T-bills					
07-Jul	150	5.8300	£99.5548	5.53	0
14-Jul	150	5.8100	£99.5563	6.30	0
21-Jul	150	5.8400	£99.5540	5.73	0
28-Jul	150	5.8000	£99.5413	6.47	0
04-Aug	500	5.7600	£99.5601	6.25	0
11-Aug	500	5.8000	£99.5570	4.70	0
18-Aug	150	5.8000	£99.5570	6.00	0
25-Aug	150	5.8000	£99.5728	5.17	0
01-Sep	150	5.8500	£99.5532	2.57	0
08-Sep	150	5.8000	£99.5570	5.23	0
15-Sep	150	5.8000	£99.5570	6.63	0
22-Sep	150	5.8000	£99.5570	4.80	0
29-Sep	150	5.8100	£99.5563	6.73	0
Reverse Repo Tender					
1-Sep	1,200	5.6398	-	3.35	2

Details of the Debt Portfolio as of 29 September 2000

The following charts are based on nominal values (index-linked gilts are uplifted to account for accrued inflation). Debt statistics include gilts and T-bills.

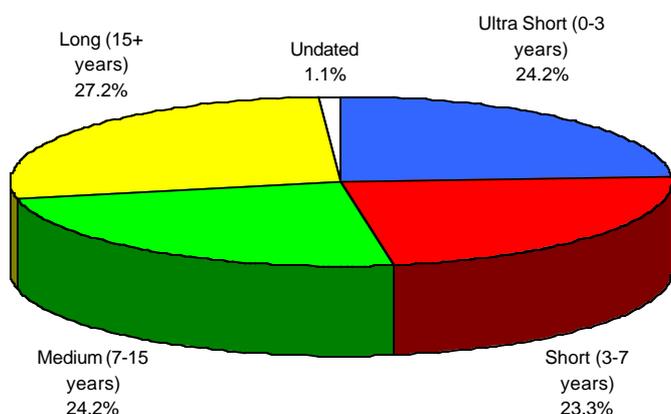
Composition of Debt Stock



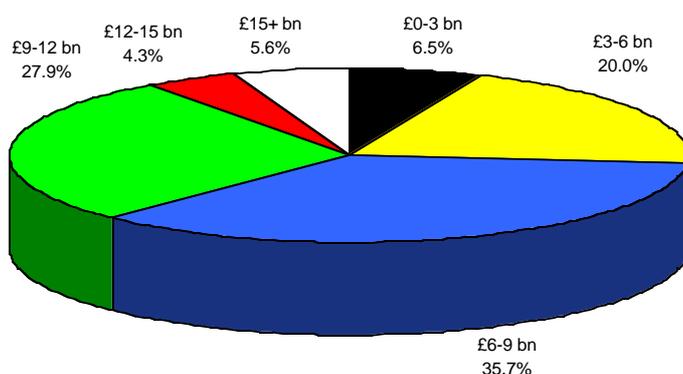
Gilt Portfolio Summary Statistics

Nominal Value of the Gilt Portfolio:	£291.70bn
Market Value of the Gilt Portfolio:	£329.77bn
Weighted Average Market Yields	
-Conventional gilts	5.39%
-Index-linked gilts	2.39%
Portfolio Average Maturity:	10.52 years
Portfolio Average Modified Duration:	7.32 years
Portfolio Average Convexity:	105.54
Average Amount Outstanding of Largest 20 Gilts:	£9.50bn

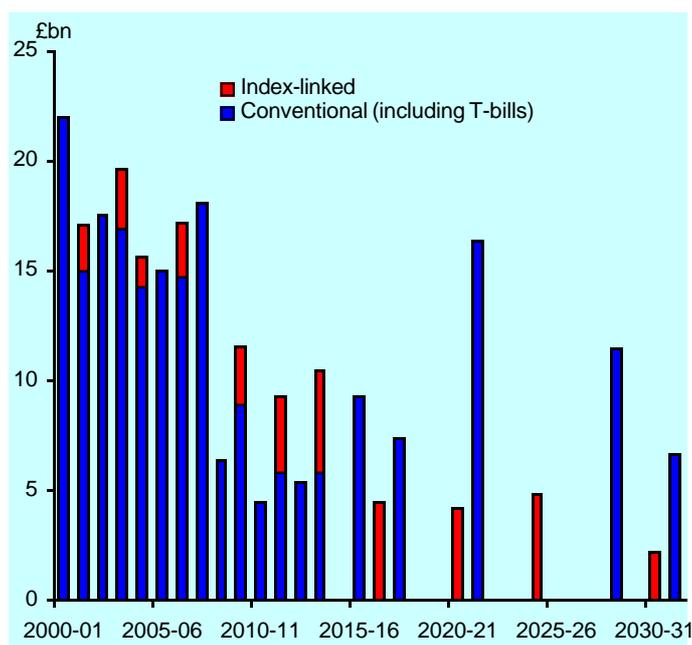
Debt Portfolio's Maturity Split



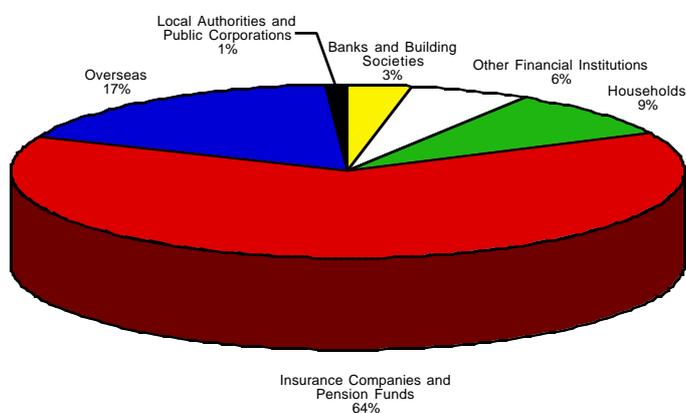
Size of Issues in £bn as Percentage of the Portfolio



Debt Redemptions (by Financial Year)



Distributions of Holdings of Gilts in Market Hands Q3 2000



Source: DMO. Double-dated issues currently above par are assumed to be called at first maturity. Index-linked gilts are not uplifted for inflation. Inflation uplift is scored in the CGNCR on maturity.

Source: ONS. Holdings of gilts are in market value terms.

Details of Gilt Market Turnover (3rd Quarter 2000)

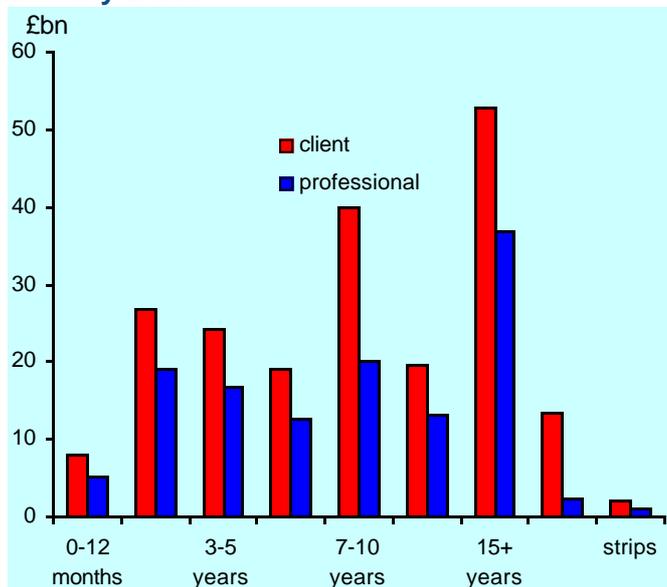
Top Ten Stocks Traded (by Market Value) in the 13 Weeks to 29 September 2000*

Stock	Market Value of Trades (£mn)	% of Value of all Gilt Trades	Number of Bargains ('000's)	Average Bargain Size (£mn)
5¾% Treasury 2009	51,455	12	13	4
6% Treasury 2028	38,256	9	8	5
8% Treasury 2021	31,976	8	7	5
7% Treasury 2002	25,447	6	5	6
8½% Treasury 2005	23,036	6	4	5
8% Treasury 2015	22,334	5	4	5
7¼% Treasury 2007	20,734	5	9	2
9% Conversion 2011	18,857	5	3	7
6½% Treasury 2003	17,569	4	6	3
7% Treasury 2001	14,274	3	4	3
Total Market	415,776		130	3

The top ten stocks account for 63% of total market turnover.

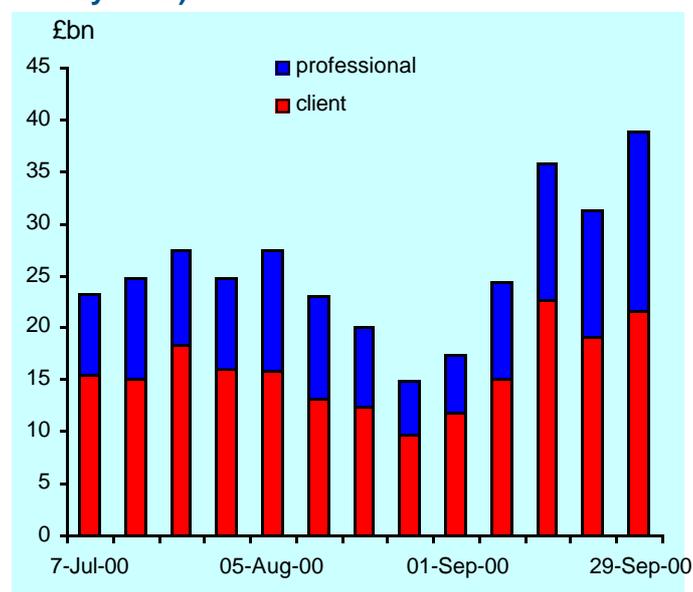
*Disclaimer: This information is based on provisional information provided by the London Stock Exchange and should only be treated as indicative.

GEMM Market Turnover (£bn nominal) by Maturity Band



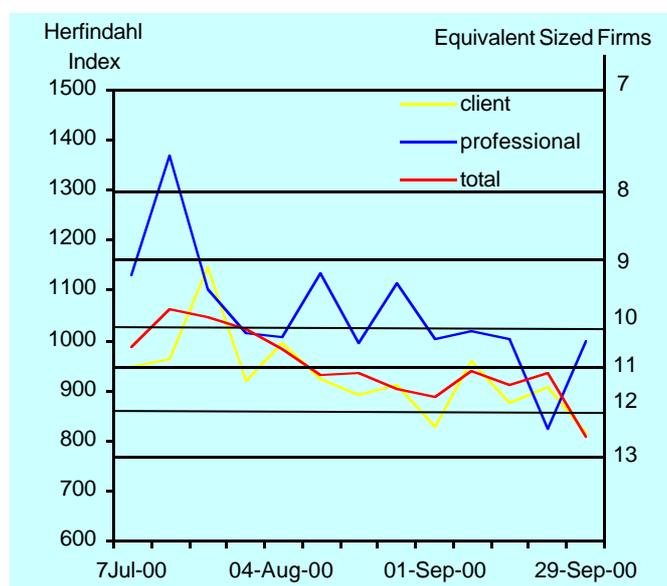
Source: DMO

Total GEMM Market Turnover (£bn nominal, weekly total)



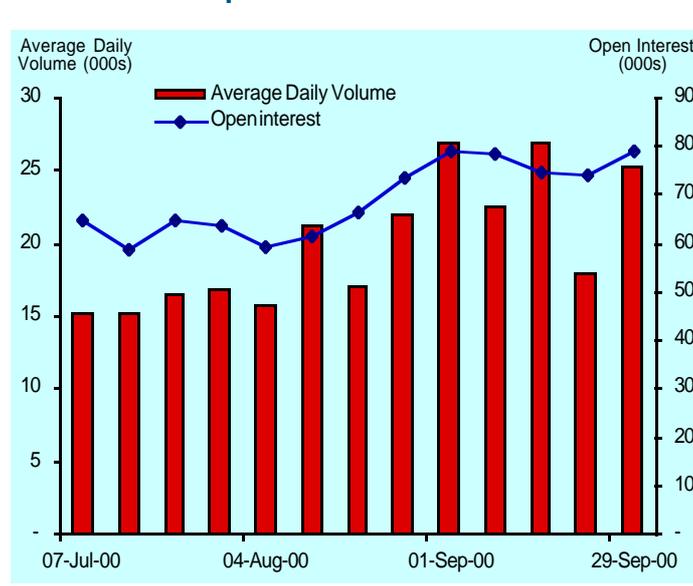
Source: DMO

Herfindahl Index of Total GEMM Market Turnover



Source: DMO

Average Daily Turnover of the Long Gilt Futures Contract and Open Interest



Source: London International Financial Futures Exchange

Stock in Issue at 29 September 2000 (£mn nominal)

Conventional Gilts	Redemption Date	Amount in Issue	Amount Held in Stripped form	Central Government Holdings* (DMO and NILO) at 29 Sep 2000
8% Treasury 2000	07-Dec-00	9,800	84	1373
10% Treasury 2001	26-Feb-01	4,406	-	148
11½% Treasury 2001-2004	19-Mar-01	1,620	-	142
Floating Rate 2001	10-Jul-01	3,000	-	16
7% Treasury 2001	06-Nov-01	12,750	-	958
7% Treasury 2002	07-Jun-02	9,000	146	141
9¾% Treasury 2002	27-Aug-02	6,527	-	47
8% Treasury 2002-2006	05-Oct-02	2,050	-	162
8% Treasury 2003	10-Jun-03	7,219	-	418
10% Treasury 2003	08-Sep-03	2,149	-	0
6½% Treasury 2003	07-Dec-03	7,987	43	115
5% Treasury 2004	07-Jun-04	7,408	92	79
3½% Funding 1999-2004	14-Jul-04	543	-	32
6¾% Treasury 2004	26-Nov-04	6,500	-	373
9½% Conversion 2005	18-Apr-05	4,842	-	0
8½% Treasury 2005	07-Dec-05	10,373	277	188
7¾% Treasury 2006	08-Sep-06	3,870	-	261
7½% Treasury 2006	07-Dec-06	11,700	196	132
8½% Treasury 2007	16-Jul-07	6,933	-	216
7¼% Treasury 2007	07-Dec-07	11,000	308	91
5½% Treasury 2008-2012	10-Sep-12	1,000	-	86
9% Treasury 2008	13-Oct-08	5,441	-	0
5¾% Treasury 2009	07-Dec-09	8,827	312	242
6¼% Treasury 2010	25-Nov-10	4,750	-	269
9% Conversion 2011	12-Jul-11	5,273	-	82
7¾% Treasury 2012-2015	26-Jan-12	800	-	187
9% Treasury 2012	06-Aug-12	5,361	-	0
8% Treasury 2013	27-Sep-13	6,100	-	305
8% Treasury 2015	07-Dec-15	9,287	532	83
8¾% Treasury 2017	25-Aug-17	7,550	-	179
8% Treasury 2021	07-Jun-21	16,500	399	105
6% Treasury 2028	07-Dec-28	11,512	193	65
4¼% Treasury 2032	07-Jun-32	6,644	0	1
2½% Treasury	Undated	474	-	0
3½% War	Undated	1,909	-	0

Index-linked Gilts	Redemption Date	Amount in Issue	Nominal Including Inflation Uplift	Central Government Holdings* (DMO and NILO) at 29 Sep 2000
2½% IL Treasury 2001	24-Sep-01	2,150	4,576	39
2½% IL Treasury 2003	20-May-03	2,700	5,711	30
4¾% IL Treasury 2004	21-Oct-04	1,300	1,597	8
2% IL Treasury 2006	19-Jul-06	2,500	5,995	12
2½% IL Treasury 2009	20-May-09	2,625	5,553	26
2½% IL Treasury 2011	23-Aug-11	3,475	7,766	9
2½% IL Treasury 2013	16-Aug-13	4,635	8,657	17
2½% IL Treasury 2016	26-Jul-16	4,495	9,175	45
2½% IL Treasury 2020	16-Apr-20	4,175	8,384	0
2½% IL Treasury 2024	17-Jul-24	4,820	8,222	30
4⅛% IL Treasury 2030	22-Jul-30	2,150	2,651	0

"Rump" Gilts	Redemption Date	Amount in Issue	Central Government Holdings* (DMO and NILO) at 29 Sep 2000
9½% Conversion 2001	12-Jul-01	3	3
9¾% Conversion 2001	10-Aug-01	35	28
10% Conversion 2002	11-Apr-02	21	11
9½% Conversion 2002	14-Jun-02	2	2
9% Exchequer 2002	19-Nov-02	83	66
11¾% Treasury 2003-2007	22-Jan-03	234	70
9¾% Conversion 2003	07-May-03	11	9
12½% Treasury 2003-2005	21-Nov-03	152	43
13½% Treasury 2004-2008	26-Mar-04	95	13
10% Treasury 2004	18-May-04	20	5
9½% Conversion 2004	25-Oct-04	307	83
10½% Exchequer 2005	20-Sep-05	23	13
9¾% Conversion 2006	15-Nov-06	6	3
8% Treasury 2009	25-Sep-09	393	35
12% Exchequer 2013-2017	12-Dec-13	57	2
2½% Annuities	Undated	3	0
3% Treasury	Undated	55	4
3½% Conversion	Undated	97	74
2½% Consolidated	Undated	275	39
2¾% Annuities	Undated	1	0
4% Consolidated	Undated	358	17

Double-dated issues currently above par are assumed to be called at first maturity.

*Includes holdings by the National Investments and Loans Office (NILO) and the DMO. Excludes local authority, public corporation and Bank of England.

Announcements, Events and Contacts

Last Quarter

Date	Notice	Title
11 July	Press Notice	Details of Reverse Gilt Auction on 20 July
18 July	Press Notice	Details of sale by Auction of £425 million of 2½% IL Treasury Stock 2013
20 July	Press Notice	Reverse Gilt Auction held on 20 July - Result
26 July	Press Notice	Sale by Auction of £425 million of 2½% IL Treasury Stock 2013 - Result
18 August	Press Notice	Publication of the 1999-2000 Gilt Review
25 August	Screen Announcement	Details of ad hoc reverse repo tender on 1 September
12 September	Screen Announcement	Addition of CDs to eligible list of cash management instruments
12 September	Press Notice	Details of Reverse Gilt Auction on 21 September
19 September	Press Notice	Details of Gilt Switch Auction: 8% Treasury Stock 2015 into 4¼% Treasury Stock 2032
21 September	Press Notice	Reverse Gilt Auction held on 21 September - Result
27 September	Press Notice	Gilt Switch Auction: 8% Treasury Stock 2015 into 4¼% Treasury Stock 2032 - Result
29 September	Press Notice	Gilt-edged Auctions: October - December 2000
29 September	Press Notice	Structured Treasury bill tenders: October - December 2000

Dates of Forthcoming Gilt Auctions and Announcements

03	Oct	Announcement of size and terms of 11 October reverse auction
04	Oct	Announcement of early redemption of 11½% Treasury Stock 2001/04 on 19 March 2001
11	Oct	Reverse Auction (2003-05 maturity bracket)
17	Oct	Announcement of size of 4½% IL Treasury 2030 Stock Auction on 25 October
25	Oct*	2030 Sale by Auction of 4½% IL Treasury Stock
14	Nov	Announcement of size of 21 November auction of 4¼% Treasury Stock 2032
14	Nov	Announcement of size of Reverse Auction on 23 November
21	Nov*	2032 Sale by Auction of 4¼% Treasury Stock
23	Nov*	Reverse Auction (2006-08 maturity bracket)
28	Nov	Announcement of size of Switch Auction of 8% Treasury Stock 2015 into 4¼% Treasury Stock
06	Dec	2032

* subject to confirmation following the Chancellor's decision on the Budgetary timetable

Structured Treasury Bill Tenders

Will be held on every Friday during the quarter.

Contacts

Name	Position	Telephone No.
Mike Williams	Chief Executive	020 7862 6533
Jo Whelan	Deputy Chief Executive	020 7862 6531
Jim Juffs	Head of Operations & Resources	020 7862 6520
Hamish Watson	Chief Gilts Dealer	020 7862 6530
Martin Duffell	Senior Gilts Dealer	020 7862 6517
Mike Ness	Chief Money Market Dealer	020 7862 6522
Nick Fisher	Money Market Dealer	020 7862 6518
Richard Batley	Economic Analyst	020 7862 6524
Allison Holland	Policy Advisor	020 7862 6534
Steve Whiting	Press Officer	020 7862 6532
Mark Deacon	Quantitative Analyst & Website Administrator	020 7862 6516
Gurminder Bhachu	Quantitative Analyst	020 7862 6512
David Cuthbert	Operations Manager	020 7862 6542
Switchboard no.		020 7862 6500
Fax no.		020 7862 6509

Other Events

Date	Event
11 Dec	GEMMs and End-Investors Quarterly Consultation Meetings

Information	Reuters/Bridge/ADP	Telerate	Bloomberg	Topic3/ASCII Broadcast
Index	DMO/INDEX		DMO<GO>	
Announcements	DMO/GILTS1 to 7	22550 to 22556	DMO1<GO>	44700 to 44714
Shop window general info	DMO/GILTS8	6515	DMO2<GO>	44715
Shop window 1	DMO/GILTS9	6516	DMO3<GO>	44716
Shop window 2	DMO/GILTS10	6517	DMO4<GO>	44717
Shop window 3	DMO/GILTS11	6518	DMO5<GO>	44718
Benchmark prices	DMO/GILTS12 DMO/BENCH1	22557	DMO10<GO>	44719
GEMMA ref prices (Conventionals)	GEMMA01 to 07	47216 to 47222	DMO6<GO>	44800 to 44804
GEMMA ref prices (Index-linked)	GEMMA08	47223	DMO6<GO>	44805
GEMMA ref prices (STRIPS)	GEMMA13 to 19	21291 to 21297	DMO7<GO>	44850 to 44854
Cash announcements	DMO/CASH01	15700	DMO9<GO>	44660
T-bill tender information	DMO/CASH11	15710	DMO9<GO>	44670
Ad-hoc tender information	DMO/CASH16	44675	DMO9<GO>	15715

DMO website: www.dmo.gov.uk

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