

RECORD OF THE DMO CONSULTATION CONFERENCE CALLS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE JULY-SEPTEMBER 2021 GILT OPERATIONS CALENDAR

The DMO held conference calls with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on Monday 17 May 2021. The calls were primarily intended to inform the choice of gilts to be sold via auction and syndication in the second quarter of the financial year 2021-22 and also to seek views on inaugural green gilt issuance in the period ahead.

Nineteen gilt auctions are scheduled to be held in July to September 2021: 15 of conventional gilts and four of index-linked gilts. In addition to views on the choices of gilts for sale via auction, feedback was also sought on the choice of gilts for sale via syndication. The DMO currently plans to schedule one conventional syndication in the period June to September 2021, subject to demand and market conditions, and welcomed views on the possibility of launching a new gilt maturing in the 15- to 22-year area (or any other preferred maturity) in late June or July 2021.

The DMO also welcomed views on the possibility of green gilt issuance in the June to September 2021 period, including the maturity/maturities of any such green issue(s), and the timing and sequencing of any transaction(s).

In discussion, the following main points emerged.

GEMMs

Green gilt issuance

Most attendees recommended issuing a green gilt with a maturity in the 10- to 12-year area for the first transaction, which was expected at this stage to attract a wider and more diverse investor base than issuance of a longer maturity. However, there were also calls for a debut green gilt maturing in the 20-year area. Views on the optimal timing of the first green gilt transaction were generally divided between June, July and September 2021. There were also some calls for a second transaction with a longer maturity later in the quarter.

Conventional gilt syndication

The majority of GEMMs recommended launching a new gilt maturing in either 2038/2039 or 2043, with those preferring the former noting that it would better fit on the low coupon curve and would have a maturity that was further away from the new 0 $\frac{7}{8}$ % 2046, which was still being built up towards benchmark size. There were isolated calls for a new 2036 or 2040 maturity and some others for a new ultra-long 2073 or 2074 maturity. In terms of timing, views were broadly split between issuance in either June or July, although September was also cited in circumstances where a decision might be made to issue a new 50-year gilt.

Conventional auctions (15)

Short (five)

Two or three re-openings of 0 $\frac{3}{8}$ % 2026 were widely recommended and there was also significant support for one re-opening of 0 $\frac{1}{8}$ % 2028. Some calls were received for auctions of 0 $\frac{1}{8}$ % 2024, 0 $\frac{5}{8}$ % 2025 and 0 $\frac{1}{8}$ % 2026. There were also a number of recommendations for a new gilt maturing in January 2025 and one call for a new October 2027 maturity.

Medium (four)

Strong support was expressed for up to three auctions of 0¼% 2031 in Q2 2021-22 and for one re-opening of 0% 2035. There were also isolated calls for an auction of 4¾% 2030 and a re-opening of 0% 2029, and for the launch of a new July 2029 and a new 2036 maturity gilt.

Long (six)

A number of attendees noted strong demand currently for ultra-long gilts in the over 40-year maturity area. Two re-openings of 1¼% 2051 were widely recommended and strong support was also expressed for auctions of 0% 2046, 0½% 2061 and especially 1% 2071. There were also a number of calls for a new 20-year maturity to be auctioned in the quarter, with only isolated calls for issuance at other maturities.

Index-linked auctions (4)

Support was expressed for re-openings of IL 2031 and IL 2051 and also an auction of IL 2039 (which is due to be launched via syndication in the week commencing 24 May 2021), alongside a few calls for auctions of IL 2065 and IL 2068.

Investors

Green gilt issuance

Views were mixed on the preferred maturity for the inaugural green gilt issue, with a number of participants preferring the launch of a bond in the 10-year area for the first transaction, as a means to engage a wide range of investors, while others suggested that a longer maturity (25- to 30-year) would be of more interest to liability driven investors (LDI) and the pension fund sector. It was suggested that a transaction in the 10-year area could take place in June or July following publication of the UK government's green financing framework, with a longer-dated green gilt transaction to follow later in the financial year.

Conventional gilt syndication

A number of participants considered that a bond in the 2038/2039 maturity area looked to be appropriate to fill a gap in the low coupon curve, although there were a few calls for issuance of a longer maturity gilt (2051, 2061 or the 35-year area) to meet current demand for higher duration assets.

Conventional auctions (15)

Short (five)

Where views were expressed, a number of re-openings of 0% 2026 were widely recommended. There were also calls for re-openings of other gilts, including 0% 2024, 1½% 2026, 0% 2028 and for a new gilt maturing in October 2024 or January 2025.

Medium (four)

Re-openings of 0¼% 2031 were widely supported. Other suggested candidates included 0% 2035, and new 2028, 2029 and 2032 maturities.

Long (six)

Ongoing demand for ultra-long maturities was cited, with auctions of 0½% 2061 and 1⅝% 2071 recommended alongside re-openings of 0⅞% 2046 and 1¼% 2051.

Index-linked auctions (four)

Where recommendations were made, re-openings of IL 2031 and IL 2051 were frequently cited as candidates, as was the new IL 2039 planned for launch via syndication in the week commencing 24 May 2021. A number of suggestions for the supply of longer dated maturities were also made, including IL 2056, IL 2065 and IL 2068, with some participants pointing to the need for a new 50-year maturity index-linked gilt at some stage.

Timetable

The DMO will announce details of the gilt operations calendar for July to September 2021 at 7.30am on Friday 28 May 2021.

The next consultations to discuss gilt issuance in October to December 2021 are currently scheduled to be held at 3.30pm (investors) and 5.00pm (GEMMs) on Monday 23 August 2021.