

United Kingdom
Debt
Management
Office

Debt Management Office

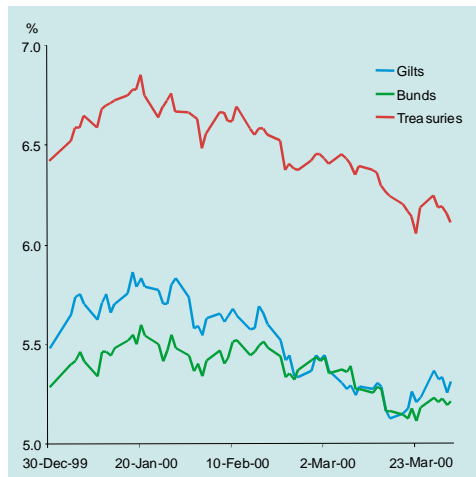
Quarterly Review

1st Quarter 2000 January - March

Economic Background

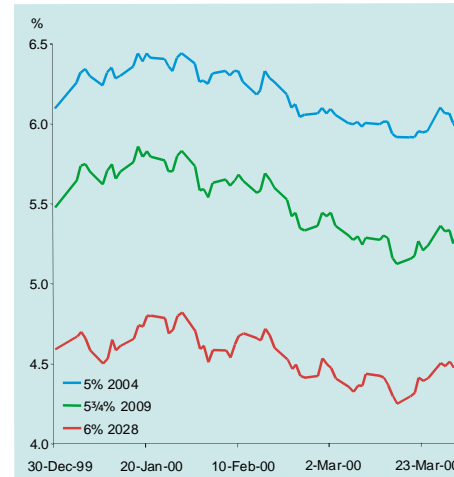
Yields on global government bonds fell across the quarter, as shown in Chart 1. In the United States, Treasury yields fell as the US Treasury began the first of its buy-back operations. Towards the end of the quarter, US leading indicators began to suggest a moderation in consumer spending ahead. In Europe, although the German economy continued to show signs of solid growth, inflationary pressures remained low. The ECB, despite increasing rates to 3.25% on 2 March, showed little appetite for large increases and bund yields fell. Increased equity market volatility further supported bonds.

Chart 1: International 10-year Government Bond Yields



Source: DMO

Chart 2: Conventional Benchmark Gilt Redemption Yields



Source: DMO

The UK also saw bond yields fall. Charts 2 and 3 show that gilt yields fell over the quarter after rising in January. The MPC increased the repo rate by 50bps, in two successive meetings, over the quarter. By the second increase, the market expected rates to remain on hold until the summer. This view reflected data suggesting an easing of manufacturing expansion, a slowdown in new mortgage applications and falling retail sales growth. Chart 4 illustrates this with 3-month rates almost unchanged over the quarter and 1-month rates falling below the repo rate. Gilt yields were further supported by strong public finance numbers, which suggested that future gilt supply would be restricted.

Spreads under US Treasuries fell slightly over the quarter, after the strong Treasuries rally. Spreads over bunds fell over the quarter. At the close of



The United Kingdom
Debt Management Office
is an Executive Agency of
HM Treasury

The DMO Quarterly Review is a new publication taking the place of the Quarterly Gilts Review. This reflects the fact that the DMO took over responsibility for managing the Exchequer's cash needs on 3 April 2000. This review now includes details of Treasury bill stocks and sales. Comments on this new publication would be welcome to Steve Whiting (020) 7862 6532.

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



Source: DMO

business on 25 February the ten-year benchmark gilt yield traded 4bps through the equivalent bund yield. This was the first time gilts had traded through bunds in this area of the curve since February 1972.

Gilt yields and spreads rose slightly towards the end of the quarter, after the Budget on 21 March. The Budget introduced the DMO's financing remit for 2000-01. This detailed £12.2bn gilt sales for the year ahead, which was greater than the market expectation. Yields also rose as new data, suggesting stronger than anticipated domestic demand, caused the market to speculate on the timing of the next increase in repo rates.

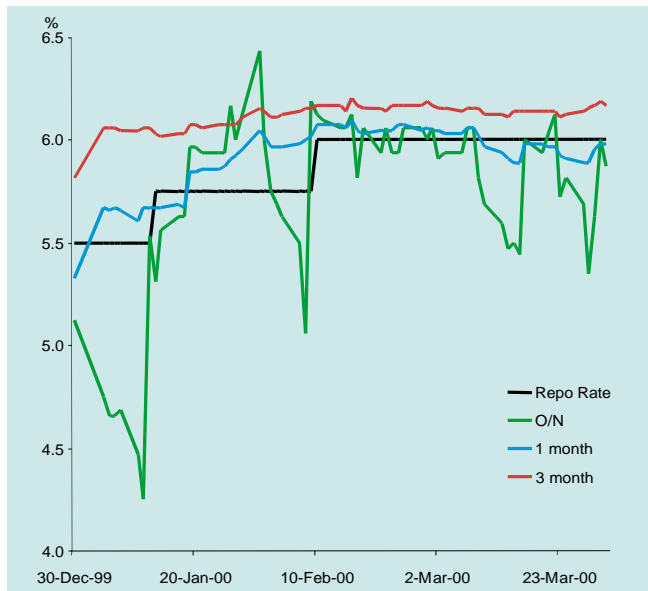
Gilt Market Operations

The DMO held an index-linked outright auction and a conventional switch auction over the quarter. On 26 January the DMO auctioned £350mn of 2½% IL Treasury 2024. The auction resulted in 2.54 times cover and cleared at a yield of 1.93%. On 9 February, the DMO switched £1,500mn (nominal) of 8% Treasury 2015 into 6% Treasury 2028. The conventional auction that had been scheduled for 29 March, had been cancelled at the time of the Pre-Budget Report in November.

Money Market Operations

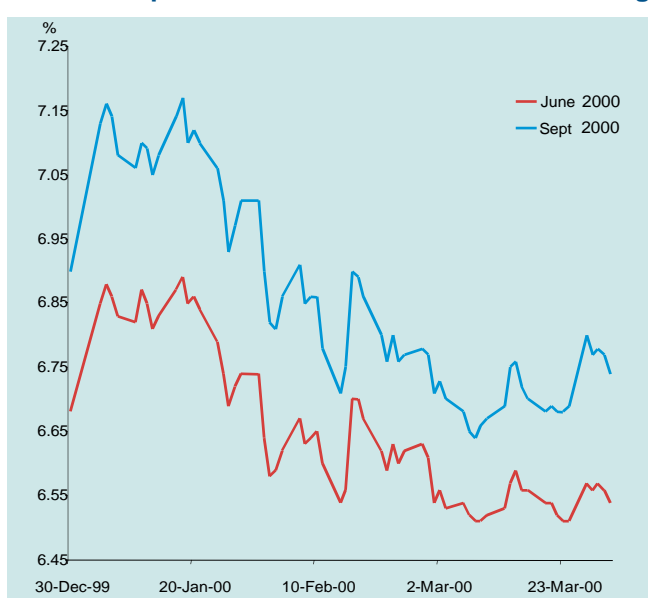
The DMO started operating in the money market as part of the transition to its taking full responsibility (on 3 April) for management of the Exchequer cash position. From January, the DMO held T-bill tenders every Friday on behalf of the Bank of England. These tenders were largely been for 3M T-bills; however, in the last few weeks 1M T-bills have also been tendered. The DMO also began limited bilateral transactions on 14 February.

Chart 4: UK Interest Rates



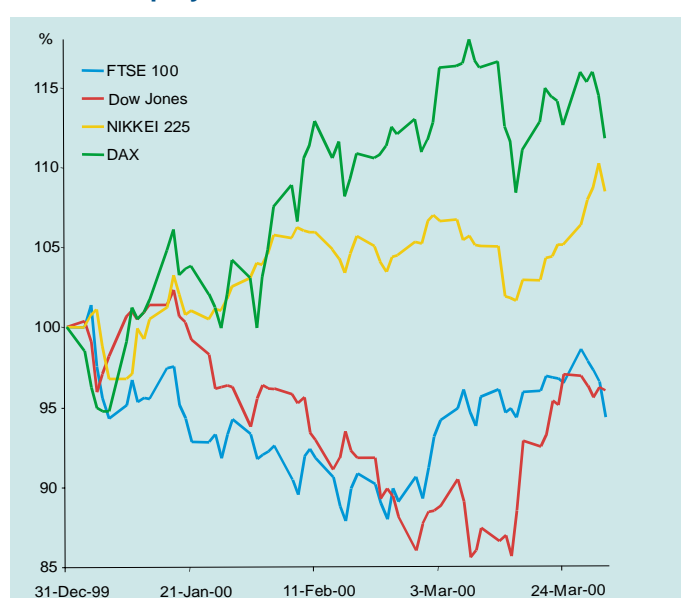
Source: Bank of England. One week to 3 month rates refer to inter-bank mid-rates.

Chart 5: Implied Interest Rates from Short Sterling



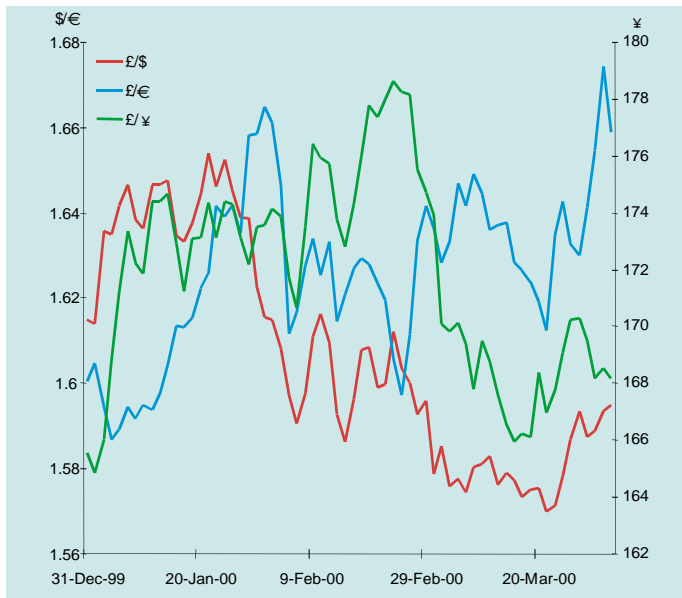
Source: Bloomberg.

Chart 6: Equity Indices



Source: Reuters. 31 December 1999 = 100.

Chart 7: Sterling Exchange Rates



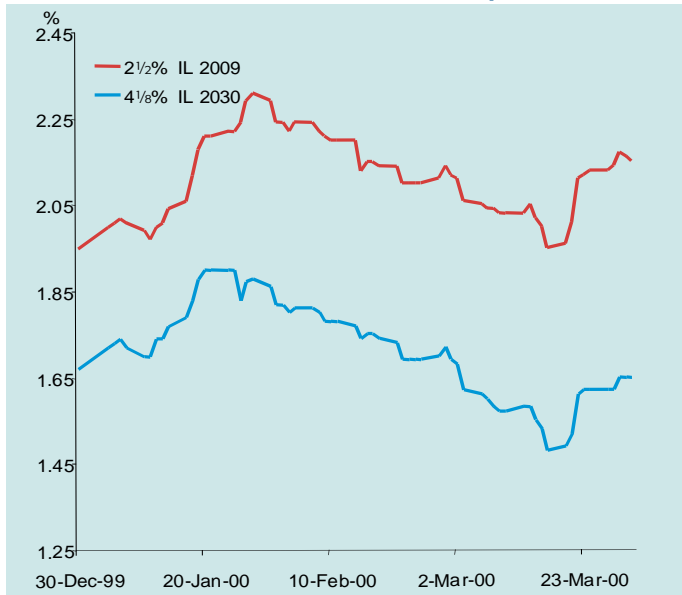
Source: Reuters.

Chart 8: Cumulative Central Government Net Cash Requirement



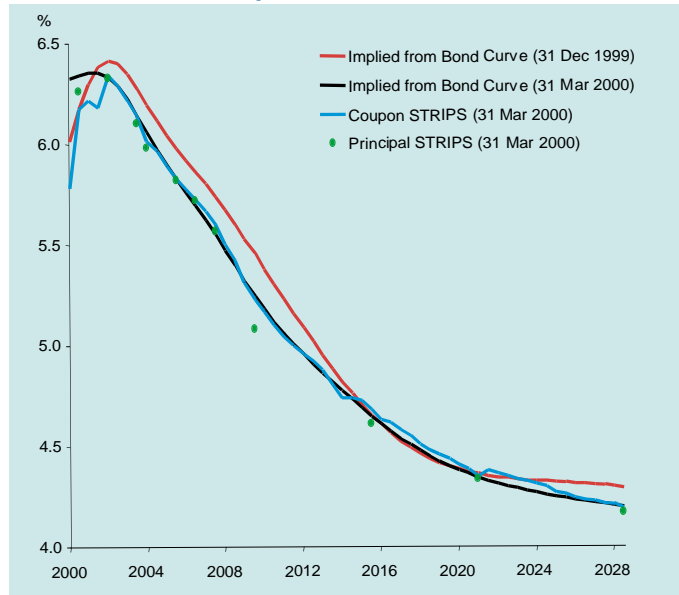
Source: HM Treasury. 1999-2000 CGNCR forecast outturn from Budget 2000.

Chart 9: Index-linked Gilt Real Redemption Yields



Source: DMO. 3% inflation assumption.

Chart 10: Zero-Coupon UK Yield Curves



Source: DMO.

1999-2000 and 2000-01 Financing Requirement (£bn)				
2000-01	1999 - 2000			2000-01
	Update 20 April 1999	Pre-Budget Report 9 November 1999	Budget 21 March 2000	Budget 21 March 2000
CGNCR Forecast	6.2	1.1	-5.8	-4.9
Net Financing for Official Reserves	2.3	2.3	2.2	3.5
Gilt Redemptions	14.9	14.9	14.9	18.6
Debt buy-backs				3.5
Gilt Sales Residual	-4.1	-4.1	-4.1	-9.5
Financing Requirement	19.3	14.2	7.2	11.2
<i>Less net financing from:</i>				
National Savings	0.1	-0.9	-1.0	-0.8
Treasury Bill and other short-term debt	1.9	0.8	-5.7	-0.2
Gross Gilt Sales Required	17.3	14.2	13.8	12.2
<i>of which</i>				
Ultra-short conventionals (1-3 years)	0	0	-	-
Short conventionals (3-7 years)	5.0	2.4	2.00*	-
Medium conventionals (7-15 years)	3.0	2.8	2.66*	2.2
Long conventionals (>15 years)	5.8	5.8-6.2	6.03*	6.5
Index-linked gilts	3.5	2.9-3.3	3.02*	3.5
Total			13.71*	

Note: figures may not sum due to rounding.
* Sales to end March 2000, net of secondary market purchases.

Auction Results 1999-2000

Auction Date	Issue Amount (nominal)	Stock	Cover	Tail (bp)	Lowest Accepted Price	Yield at Lowest Accepted Price (%)
28 April 1999	£0.5bn	4 1/8% IL 2030	0.94	-*	£179.34	1.97
26 May 1999	£2.5bn	6% 2028	2.24	2	£120.20	4.72
22 June 1999	£2.5bn	5% 2004	2.01	2	£98.70	5.30
28 July 1999	£0.375bn	2 1/2% IL 2011	1.93	-*	£225.50	2.19
28 September 1999	£2.75bn	5 3/4% 2009	2.54	1	£100.30	5.71
27 October 1999	£0.35bn	2 1/2% IL 2016	2.65	-*	£204.61	2.34
24 November 1999	£2.0bn	6% 2028	1.79	2	£128.60	4.27
26 January 2000	£0.35bn	2 1/2% IL 2024	2.54	-*	£187.01	1.93

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

Taps of Gilts

Date of Tap	Issue Amount (nominal)	Stock	Price at Issue	Price when exhausted	Yield when exhausted (%)
6 August 1999	£0.4bn	6% 2028	£125.30	£125.30	4.45

Switch Auction Results

Date	Source Stock	Nominal Converted	Destination Stock	Nominal Created	Avg DP ratio ¹
21 October 1999	8% 2003	£1.0bn	5% 2004	£1.1bn	1.1201
9 February 2000	8% 2015	£1.5bn	6% 2028	£1.6bn	1.0745

¹ Average dirty price ratio

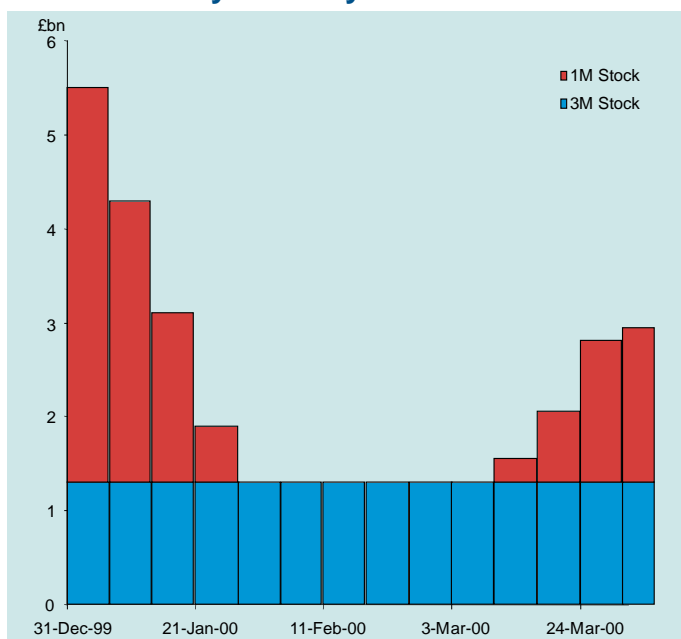
Conversions 1999-2000

Date	Source Stock	Nominal Converted	Destination Stock	Nominal Created
26 July 1999	9 1/2% 2004	£3.1bn	5% 2004	£3.8bn

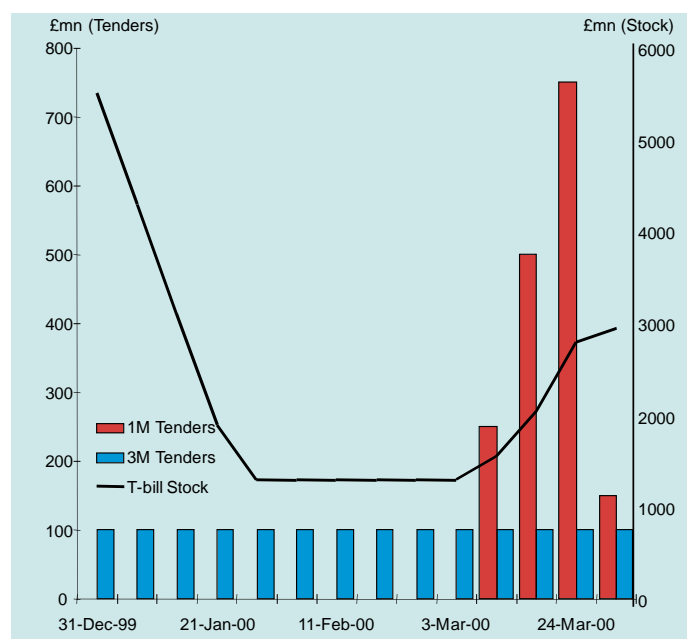
Treasury Bill Tender Results Q1 2000

Date	Issue Amount (£mn)	Average Yield (%)	Average Price	Cover	Tail (bp)
3M T-bills					
14 January	100	5.725	£98.59	9.75	3
21 January	100	5.839	£98.55	8.70	0
28 January	100	5.850	£98.55	6.30	0
4 February	100	5.886	£98.55	9.20	0
11 February	100	5.920	£98.55	5.55	0
18 February	100	5.948	£98.54	7.35	0
25 February	100	5.930	£98.53	6.06	0
3 March	100	5.950	£98.54	6.85	0
10 March	100	5.930	£98.54	7.95	0
17 March	100	5.929	£98.54	9.45	0
24 March	100	5.900	£98.55	5.70	0
31 March	100	5.929	£98.54	5.96	0
1M T-bills					
10 March	250	5.820	£99.55	6.88	0
17 March	500	5.850	£99.55	5.89	0
24 March	750	5.730	£99.55	3.99	1
31 March	150	5.800	£99.54	4.23	0

T-bill Stock by Maturity in Q1 2000



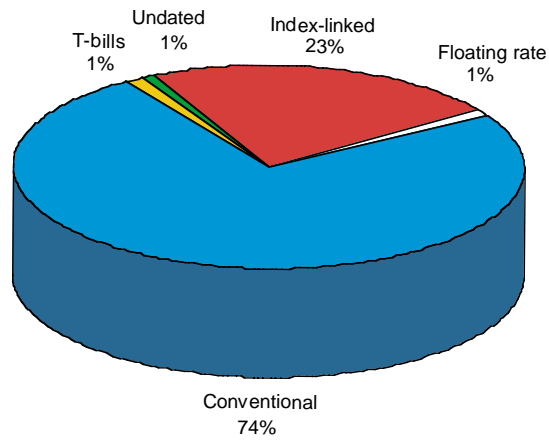
T-bill Stocks and Tenders in Q1 2000



Details of the UK Government Sterling Debt Portfolio as of 31 March 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.

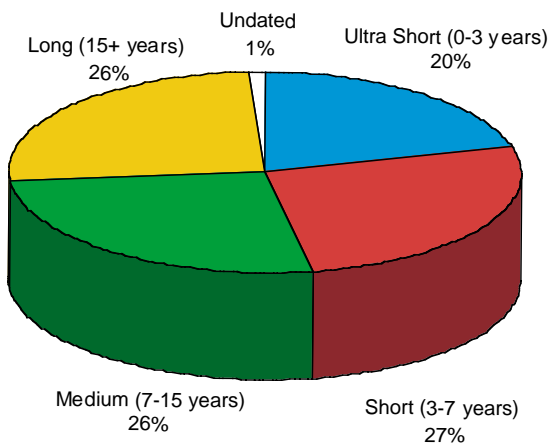
Composition of Debt Stock



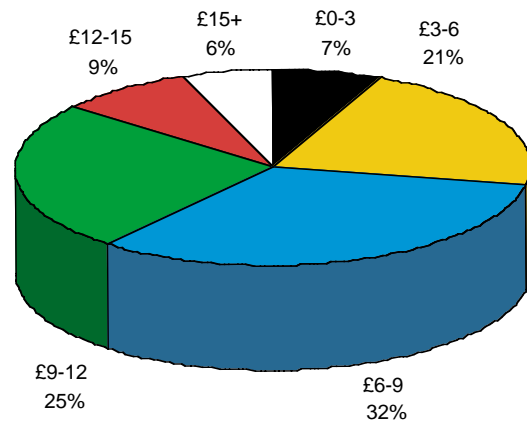
Gilt Portfolio Summary Statistics

Nominal Value of the Gilt Portfolio:	£290.64bn
Market Value of the Gilt Portfolio:	£331.91bn
Weighted Average Market Yield of the Portfolio:	5.40%
Portfolio Average Maturity:	9.89 years
Portfolio Average Modified Duration:	7.41 years
Portfolio Average Convexity:	104.7
Average Amount Outstanding of Largest 20 Gilts:	£9.60bn

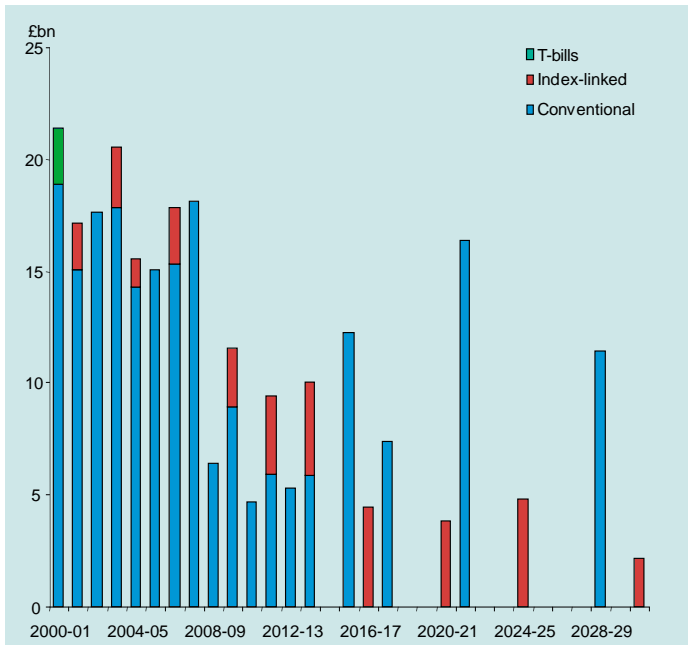
Debt Portfolio's Maturity Split



Size of Issues in £bn as Percentage of the Portfolio

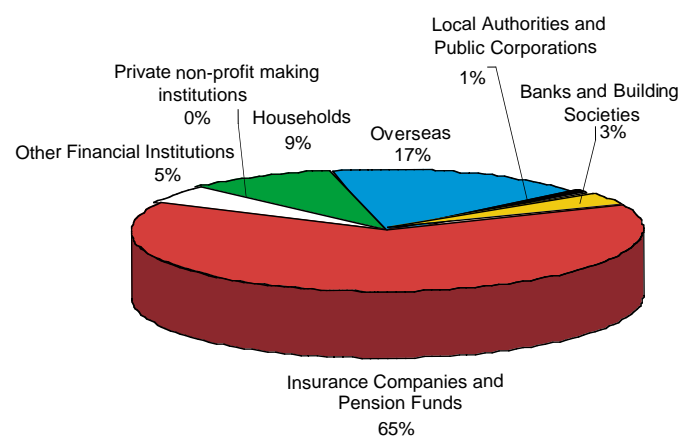


Debt Redemptions (by Financial Year)



Source: DMO. Net of Central Government holdings. 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.

Distributions of Holdings of Gilts in Market Hands Q4 1999



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

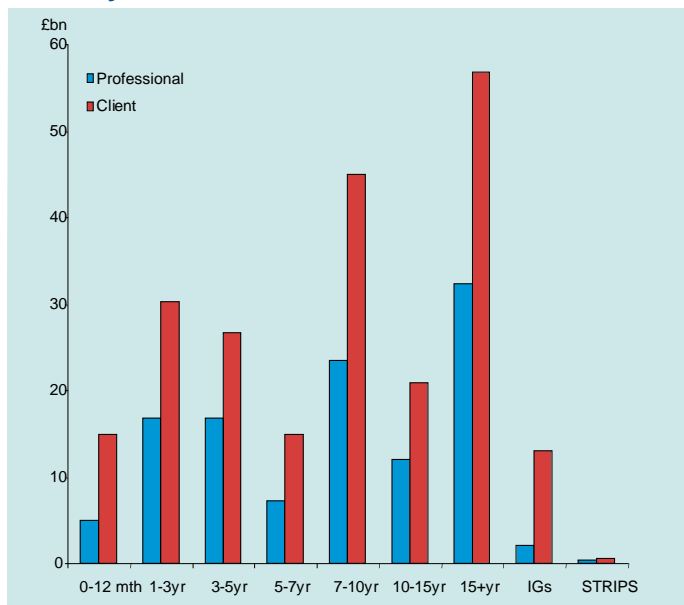
Details of GEMM Market Turnover (1st Quarter 2000)

Top Ten Stocks Traded (by Market Value) in the 13 Weeks to 31 March 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	46,527	13.3	10.6	4.4
6% Treasury 2028	37,657	10.7	7.9	4.8
8% Treasury 2021	35,042	10.0	6.5	5.4
8% Treasury 2015	20,607	5.9	4.3	4.8
7% Treasury 2002	19,745	5.6	4.0	4.9
6½% Treasury 2003	18,782	5.4	6.7	2.8
6¾% Treasury 2004	14,231	4.1	7.1	2.0
8% Treasury 2000	13,966	4.0	1.8	7.8
7% Treasury 2001	13,757	3.9	8.9	1.5
7½% Treasury 2006	13,467	3.8	2.2	6.1
Total Market	350,485	100	137.0	2.6

The top ten stocks account for 67% of total market turnover. A total of 99 different stocks (including strips) traded over the period.

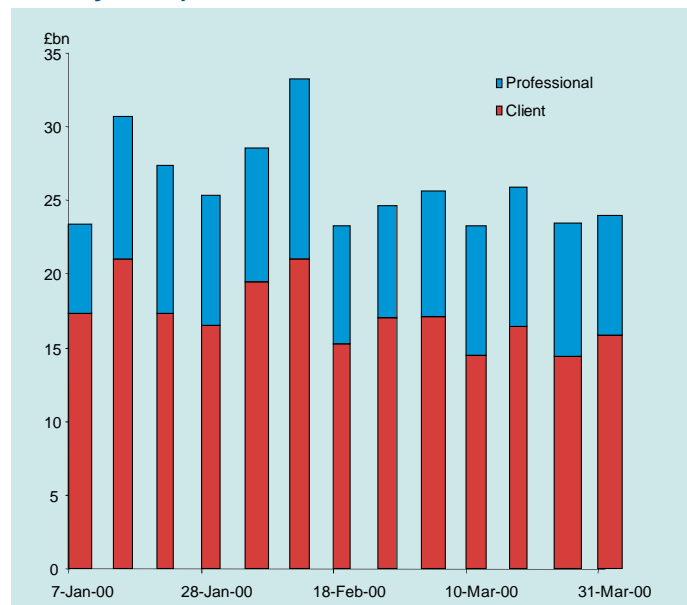
*Disclaimer: This information is based on provisional information provided by the London Stock Exchange and should only be treated as indicative.

GEMM Market Turnover (£bn nominal) by Maturity Band



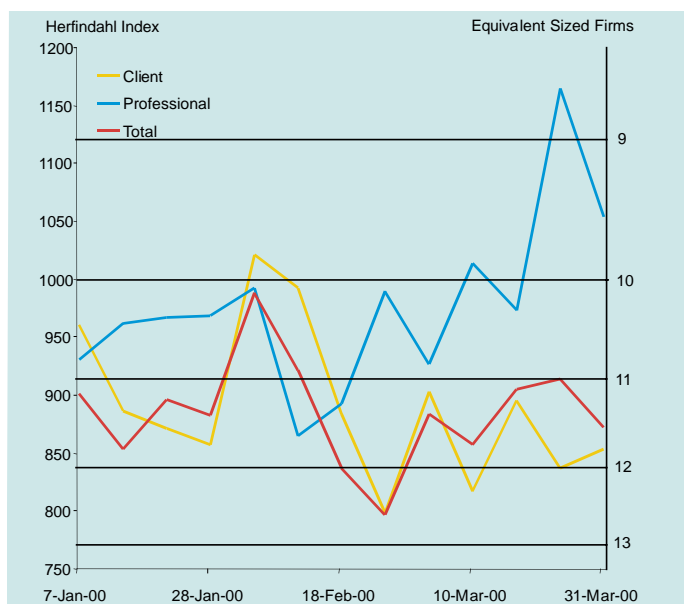
Source: DMO

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



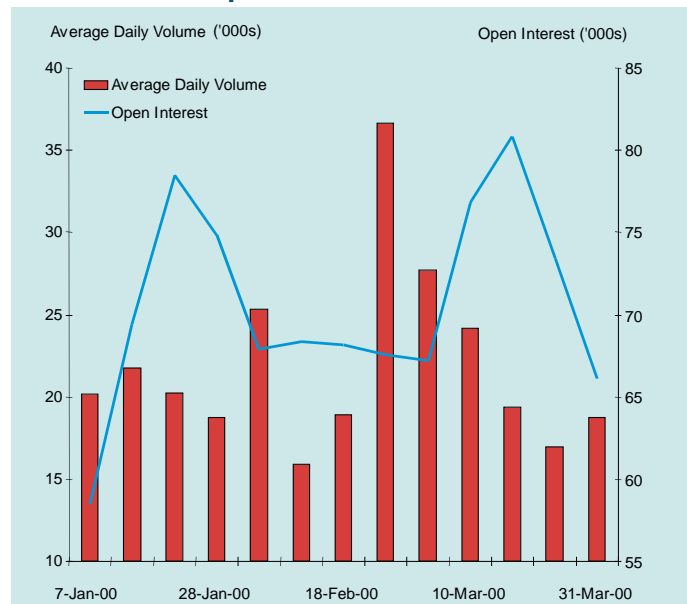
Source: DMO

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 31 March 2000 (£mn nominal)				
Conventional Gilts	Redemption Date	Amount in Issue (£mn)	Amount held in Stripped form (£mn)	Central Government Holdings* (DMO and NILO) at 31 Dec 1999
13% Treasury 2000	14-Jul-00	3,171	-	96
8% Treasury 2000	07-Dec-00	9,800	88	219
10% Treasury 2001	26-Feb-01	4,406	-	15
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	-	709
7% Treasury 2002	07-Jun-02	9,000	206	69
9¾% Treasury 2002	27-Aug-02	6,527	-	12
8% Treasury 2002-2006	05-Oct-02	2,050	-	80
8% Treasury 2003	10-Jun-03	7,600	-	418
10% Treasury 2003	08-Sep-03	2,506	-	0
6½% Treasury 2003	07-Dec-03	7,987	94	32
5% Treasury 2004	07-Jun-04	7,408	1	62
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	465	188
7¾% Treasury 2006	08-Sep-06	4,000	-	261
7½% Treasury 2006	07-Dec-06	11,700	304	132
8½% Treasury 2007	16-Jul-07	7,397	-	216
7¼% Treasury 2007	07-Dec-07	11,000	294	91
5½% Treasury 2008-2012	10-Sep-08	1,000	-	58
9% Treasury 2008	13-Oct-08	5,621	-	0
5¾% Treasury 2009	07-Dec-09	8,827	81	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	-	177
9% Treasury 2012	06-Aug-12	5,361	-	0
8% Treasury 2013	27-Sep-13	6,100	-	305
8% Treasury 2015	07-Dec-15	12,287	179	86
8¾% Treasury 2017	25-Aug-17	7,550	-	179
8% Treasury 2021	07-Jun-21	16,500	448	113
6% Treasury 2028	07-Dec-28	11,512	294	65
2½% Treasury	Undated	474	-	0
3½% War	Undated	1,909	-	99
Index-linked Gilts	Redemption Date	Amount in Issue (£mn)	Nominal Including Inflation Uplift (£mn)	Central Government Holdings* (DMO and NILO) at 31 Dec 1999
2½% I-L Treasury 2001	24-Sep-01	2,150	4,535	36
2½% I-L Treasury 2003	20-May-03	2,700	5,660	14
4¾% I-L Treasury 2004	21-Oct-04	1,300	1,583	0
2% I-L Treasury 2006	19-Jul-06	2,500	5,941	0
2½% I-L Treasury 2009	20-May-09	2,625	5,503	26
2½% I-L Treasury 2011	23-Aug-11	3,475	7,696	0
2½% I-L Treasury 2013	16-Aug-13	4,200	7,774	7
2½% I-L Treasury 2016	26-Jul-16	4,495	9,092	45
2½% I-L Treasury 2020	16-Apr-20	3,800	7,562	0
2½% I-L Treasury 2024	17-Jul-24	4,820	8,148	10
4½% I-L Treasury 2030	22-Jul-30	2,150	2,627	0
"Rump" Gilts	Redemption Date	Amount in Issue (£mn)		Central Government Holdings* (DMO and NILO) at 31 Dec 1999
13¾% Treasury 2000-2003	25-Jul-00	53		4
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		65
11¾% Treasury 2003-2007	22-Jan-03	234		48
9¾% Conversion 2003	07-May-03	11		9
12½% Treasury 2003-2005	21-Nov-03	152		41
13½% Treasury 2004-2008	26-Mar-04	95		9
10% Treasury 2004	18-May-04	20		5
9½% Conversion 2004	25-Oct-04	307		45
10½% Exchequer 2005	20-Sep-05	23		13
9¾% Conversion 2006	15-Nov-06	6		2
8% Treasury 2009	25-Sep-09	393		17
12% Exchequer 2013-2017	12-Dec-13	57		1
2½% Annuities	Undated	3		0
3% Treasury	Undated	55		2
3½% Conversion	Undated	108		75
2½% Consolidated	Undated	275		21
2¾% Annuities	Undated	1		0
4% Consolidated	Undated	358		11

Double-dated issues currently above par are assumed to be called at first maturity.
*Includes holdings by National Investments and Loans Office (NILO) and DMO. Excludes local authority, public corporation and Bank of England holdings

Announcements, Events and Contacts

Last Quarter

Date	Notice	Title
6 January	Press Notice	UK Government Cash Management
18 January	Press Notice	Index-linked Gilt Auction: 2½% Index-linked Treasury 2024: Initial Announcement
24 January	Press Notice	Publication of a Consultation Paper on the Secondary Market for Gilts
26 January	Press Notice	Sale by Auction of £350mn of 2½% Index-linked Treasury 2024: Result
1 February	Press Notice	Gilt Switch Auction: 8% Treasury 2015 into 6% Treasury 2028: Initial Announcement
9 February	Press Notice	Gilt Switch Auction: 8% Treasury 2015 into 6% Treasury 2028: Result
22 February	Press Notice	Publication of DMO Response to the Consultation on the DMO's Special Gilt Repo Operations
21 March	Publication	Debt Management Report 2000-01 (including DMO's remit)
24 March	Press Notice	Transfer of Exchequer Cash Management Responsibility to the Debt Management Office
31 March	Press Notice	Structured Sterling Treasury Bill Tenders: April to June 2000
31 March	Press Notice	Gilt-Edged Auctions: April to June 2000

Auction and Tender dates

Date	Event
7 April	T-bill tender
14 April	T-bill tender
20 April	T-bill tender
25 April	Announcement of Size of Auction of 2½% IL Treasury 2020
28 April	T-bill tender
3 May	Auction of 2½% IL Treasury 2020
5 May	T-bill tender
12 May	T-bill tender
16 May	Announcement of Size of Auction of a new current coupon stock, maturing on 7 June 2032
19 May	T-bill tender
24 May	Auction of new 2032 stock
26 May	T-bill tender
2 June	T-bill tender
9 June	T-bill tender
13 June	Announcement of Size of Switch Auction of 8% Treasury 2015 into new 2032 stock
16 June	T-bill tender
22 June	Switch Auction of 8% Treasury 2015 into new 2032 stock
23 June	T-bill Tender
30 June	T-bill tender

Contacts

Name	Position	Telephone No.
Mike Williams	Chief Executive	020 7862 6533
Paul Mills	Head of Policy	020 7862 6521
Jo Whelan	Head of Markets	020 7862 6531
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
Jim Juffs	Head of Operational Control	020 7862 6520
Steve Whiting	Press Officer	020 7862 6532
Mark Deacon	Quantitative Analyst	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
April	Publication of DMO Corporate Overview and Business Plan 2000-01
19 June	GEMMs Quarterly Consultation
20 June	End-Investors Quarterly Consultation

Information	Reuters/Bridge/ADP	Telerate	Bloomberg	Topic3/ASCII Broadcast
Index	DMO/INDEX		DMO<GO>	
Announcements	DMO/GILTS1 to 7	22550 to 22556		44700-44714
Shop window general info	DMO/GILTS8	6615		44715
Shop window 1	DMO/GILTS9	6516		44716
Shop window 2	DMO/GILTS10	6517		44717
Shop window 3	DMO/GILTS11	6518		44718
				Stock ID
				ISIN code
GEMMA ref prices (Conventionals)	GEMMA01 to 07	47216 to 47222		44800 to 44804 44806 to 44809
GEMMA ref prices (Index-linked)	GEMMA08	47223		44805 44811
GEMMA ref prices (STRIPS)	GEMMA13 to 19	21291 to 21297		44850 to 44854 44855 to 44859
Cash announcements	DMO/CASH01	15700		44660
T-bill tender information	DMO/CASH11	15710		44670
Ad-hoc tender information	DMO/CASH16	44675		15715
DMO website: www.dmo.gov.uk		Address: DMO, Cheapside House, 138 Cheapside, London EC2V 6BB.		

The *United Kingdom Debt Management Office* is an Executive Agency of HM Treasury