

RECORD OF QUARTERLY MEETINGS WITH GILTS MARKET PARTICIPANTS AHEAD OF THE APRIL-JUNE 2005 GILT AUCTIONS ANNOUNCEMENT

The UK Debt Management Office (DMO) held meetings with with representatives of Gilt-edged Market makers (GEMMs) and gilt investors on 21 March 2005. The meetings were primarily intended to inform the choice of gilts to be auctioned in the next quarter, which will be announced by the DMO at 3.30pm on Thursday 31 March 2005.

Seven gilt auctions are scheduled in April-June 2005: four conventional auctions on 14 and 28 April, 26 May and 7 June and three index-linked auctions on 12 April, 24 May and 23 June. Views were sought on the maturity and the identity of the gilts to be auctioned on each date. The meetings noted the Chancellor's decision that ultra-long conventionals could be issued from May and that new three-month lag index-linked may be issued from Q2 FY2005-06. In discussion, the following main points emerged:

All GEMMs: There was virtual unanimity that short and medium conventional issuance should be re-openings of 4¾% 2010 and 4¾% 2020. Some suggested a reopening of the 2010s on 14 April to coincide with the redemption of 9½% 2005. 26 May was seen as the obvious date for a new ultra-long, with most favouring a 50-year issue, however, there were some calls for a 40-year. Views were mixed on the identity of a second long-dated auction, with a reopening of 5% 2025 the most popular choice, but there were also calls for reopenings of 4¼% 2032 or 4¾% 2038 or even the launch of a new 2040. Many GEMMs also advised that there was a need, later in the year, to consider reducing the size of 8% 2021, by switch auction, ahead of it falling out of the over 15-year index on 7 June 2006.

IG GEMMs: Virtually all advised auctioning the 2035 maturity on 12 April and a shorter maturity (the 2016, 2020 and 2024 maturities were most often mentioned) on 24 May (i.e. close to the recommended date of the ultra-long conventional). A wide range of gilts were mentioned for the 23 June auction, with all maturities between 2013 and 2035 being mentioned.

End investors

Conventional: 4¾% 2010 and 4¾% 2020 were also seen as the obvious candidates for the short and medium auctions in this quarter, along with virtual unanimity over the desire to see an ultra-long issued in May, with virtually all favouring a 50-year issue. For the remaining auction slot, most suggested either a re-opening of 4¾% 2038s or the launch of a new 2040 gilt. Views on scheduling of the auctions in April and June were mixed.

Index-linked: There was a wide range of views on issuance schedule – with all maturities from 2016-2035 mentioned for the April and June auctions – but with a tendency toward longs here. Most recommended a bias away from ultra-longs for the May auction.

Other issues

Both meetings discussed issuance options for ultra-longs; attendees' views were mixed on the relative merits of auctions versus syndication. The DMO's Chief Executive, Robert Stheeman, indicated that auctions remain, at this stage, the preferred issuance method for all gilts, but welcomed views from market participants on this issue. He also asked attendees to note the publication of the revised DMO price/yield formulae paper including the methodology for three-month lag index-linked gilts. He asked attendees to alert relevant personnel at their institutions

to the paper and to contact DMO (gurminder.bhachu@dmo.gsi.gov.uk) if they wished to follow up points in the paper.

Next quarterly consultation meetings: Monday 20 June 2005: 4.00pm (Investors) and 5.00pm (GEMMs and IG GEMMs).