

RECORD OF QUARTERLY MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE JANUARY-MARCH 2007 GILT AUCTION ANNOUNCEMENT

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 20 November 2006. The meetings were primarily intended to inform the allocation of the £2.5 billion of supplementary gilt issuance in the final quarter of the financial year and the choice of gilts to be issued in the scheduled auctions.

Eight gilt auctions are currently scheduled in January-March 2007: four conventional gilt auctions and four of index-linked gilts (at least three of which are scheduled to be long-dated). The conventional auctions will be held on 9 January, 22 February, 6 March and 15 March. The index-linked auctions will be held on 18 January, 25 January, 20 February and 27 March¹. **The final gilt issuance calendar for January-March 2007 will be announced by the DMO alongside any change to the DMO's financing remit after the Chancellor's Pre-Budget Report speech on Wednesday 6 December 2006.** In discussion, the following main points emerged:

GEMMs.

Supplementary issuance: Most suggested a continued bias towards long-dated issuance (conventional and index-linked) with a range of splits mentioned, from 50:50 to an exclusive focus on long conventionals. Some also suggested using some of the supplementary issuance to increase the initial size of any new short and medium conventional gilts.

Conventional: Virtually all recommended reopening the 2027 and 2046 maturities although there were isolated calls for 4¼% 2036, 4¼% 2055 or a new 30-year (a 2034 was mentioned). Views were divided, however, on the case for launching new 5- and 10-year bonds in the final quarter. Most supported the case for the launch of new bonds in one or both of the two maturity sectors but others suggested that alternatives existed, eg. 4¼% 2011 or 5% 2012 at 5-year, and 4% 2016 at 10-year, for the sector(s) where they did not suggest a new issue. There were also isolated calls for a reopening of 8¾% 2017 to aid liquidity in the futures basket.

Index-linked: Virtually all recommended the quarter begin with an auction of the 2017 maturity. Views were divided over the maturity of a new long bond, with a majority preferring a new 40-year (2046 or 2047) bond, and a substantial minority a new 30-year (2038). There were also some calls for the DMO to consider launching a new 2022 maturity bond and isolated calls for re-openings of each of the existing 8-month lagged index-linked gilts from 2016 to 2035 and the 1¼% I-L 2055.

End-investors

Supplementary issuance: A range of views was expressed from those (a majority) who advocated continued bias toward longs conventional and/or index-linked to those who suggested some be allocated to increase the initial size of any new short and medium conventional gilts.

Conventional: All supported the case for reopening the 2027 and 2046 gilts in the fourth quarter, but views were divided about the case for the launch of new 5-or 10-year bonds. Some said that 5% 2012 could serve as the 5-year benchmark and others that 4% 2016 could be reopened at least once more, but most supported the case for the launch of at least one new conventional bond.

¹ All auction dates from 20 February 2007 to end-March 2007 are subject to confirmation following the Chancellor's decision on the Budgetary timetable.

Index-linked: All supported the re-opening of the 2017 bond with most recommending the 18 January slot, most also recommended a re-opening of the 2027 although there was a range of views on the dates for this auction. Views were divided on whether to launch a new 30- or a new 40-year bond in the final quarter (with 2038 and 2046 mentioned as the likely maturity years), but almost all proposed two auctions of the new bond within the quarter to boost initial liquidity. There were also isolated calls for re-openings of the 2020, 2030 and 2055 maturities.

The next quarterly consultation meetings will be held in March 2007 (date to be confirmed).