

RECORD OF QUARTERLY MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE Q4 2008-09 GILT MARKET OPERATIONS CALENDAR

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 1 December 2008. The meetings were primarily intended to inform the choice of gilts to be issued in the scheduled gilt market operations in January-March 2009.

20 gilt auctions are scheduled in the final quarter of 2008-09: 14 of conventional gilts and 6 of index-linked gilts. The conventional auctions are split by maturity as follows: 5 short-dated, 5 medium-dated and 4 long-dated. In addition 4 mini-tenders of conventional gilts are planned: 1 of short-dated and 3 of long-dated gilts. The following main points emerged in discussion:

GEMMs

Conventional: There was general support for the maturity mix of conventional issuance suggested in the published agendas. Amongst short-dated gilts, there was widespread support for re-openings of 3¼% 2011 and 4½% 2013 and for the launch of a new 2014 maturity (with a number of recommendations for these gilts to be auctioned more than once). 5¼% 2012 was also suggested as an auction candidate by some. In the medium sector 4½% 2019 was seen as the obvious candidate to be re-opened with most recommending it be auctioned at least twice. There were also some calls for a re-opening of 4¾% 2020. In discussions about the launch of a new medium-dated gilt, views were split between a new 2017 maturity or a new gilt in the 2022/23 part of the curve (although the latter was generally the more popular choice). Amongst long-dated gilts, re-openings of the 2049 maturity were the most widely recommended. There were also a number of calls for issuance into the 30-year area of the curve, both the re-opening of 4¾% 2038 and a new gilt maturing in 2039/40. There was less support for a re-opening of 4¾% 2030. There were also isolated calls for a new ultra-long (2059/60 maturity).

General support was also expressed for the recent introduction of mini-tenders to supplement the auction programme, in particular as a means of supplying additional long-dated gilts, but some difference of view emerged about the period of notice to be given in advance of the gilt being sold at tender (most agreed with the DMO suggestion that a period of a week was appropriate, though some suggested that more notice could be given). Regardless of the notice period, 5¾% 2009 was the preferred candidate gilt to be issued at the first mini-tender (in wc 5 January).

Index-linked: There was a general preference to continue the re-opening of existing gilts (to build up liquidity) rather than the launch of a new issue in Q4. The 2032 maturity was most often cited, with a number of GEMMs recommending it be auctioned twice. The 2022, 2027, 2037, 2047 and 2055 maturities were also widely recommended. Should a new gilt be launched, however, a 2042 maturity was preferred to 2019.

Investors

Conventional: Those who expressed a specific view gave support to the maturity mix of conventional issuance suggested in the published agendas. In terms of individual maturities, re-openings of 3¼% 2011 and 4½% 2013 and the launch of a new, current coupon 2014 were recommended by those who expressed an interest in short-dated gilts. Among medium-dated gilts, 4½% 2019 was seen as an obvious candidate for re-openings, along with calls for auctions in the 4¾ 2020, and/or the launch of a new bond maturing in 2022/3. Amongst long-dated gilts, investors were also less supportive of issuance in the 20-year area of the curve, but there were calls for re-openings of 4¾% 2038 and 4¼% 2049 as well as the launch of a new 2039 or 2040 maturity. Where mentioned, investors were also supportive of the use of mini tenders.

Index-linked: Amongst those who recommended specific maturities there was significant interest in re-openings of the new 2032 maturity, further issuance of the 2055 maturity and some suggestions for the launch of a new 2040 or 2042 maturity.

The details of the auction calendar for January-March 2009 will be announced by the DMO at 3:30pm on Friday 5 December.

The DMO confirmed that the gilt market will close early on Christmas Eve and New Year's Eve, with GEMMA Reference Prices to be published at 1:00pm on those days.

The next consultation meetings with market participants will discuss the financing remit for 2009-10 and be chaired by the Economic Secretary to the Treasury. These will be held at HM Treasury on 12 January 2009.

The next quarterly consultation meetings to discuss issuance in Q1 2009-10 will be held at the DMO on Monday 23 March 2009 (subject to confirmation depending on the date of Budget 2009).