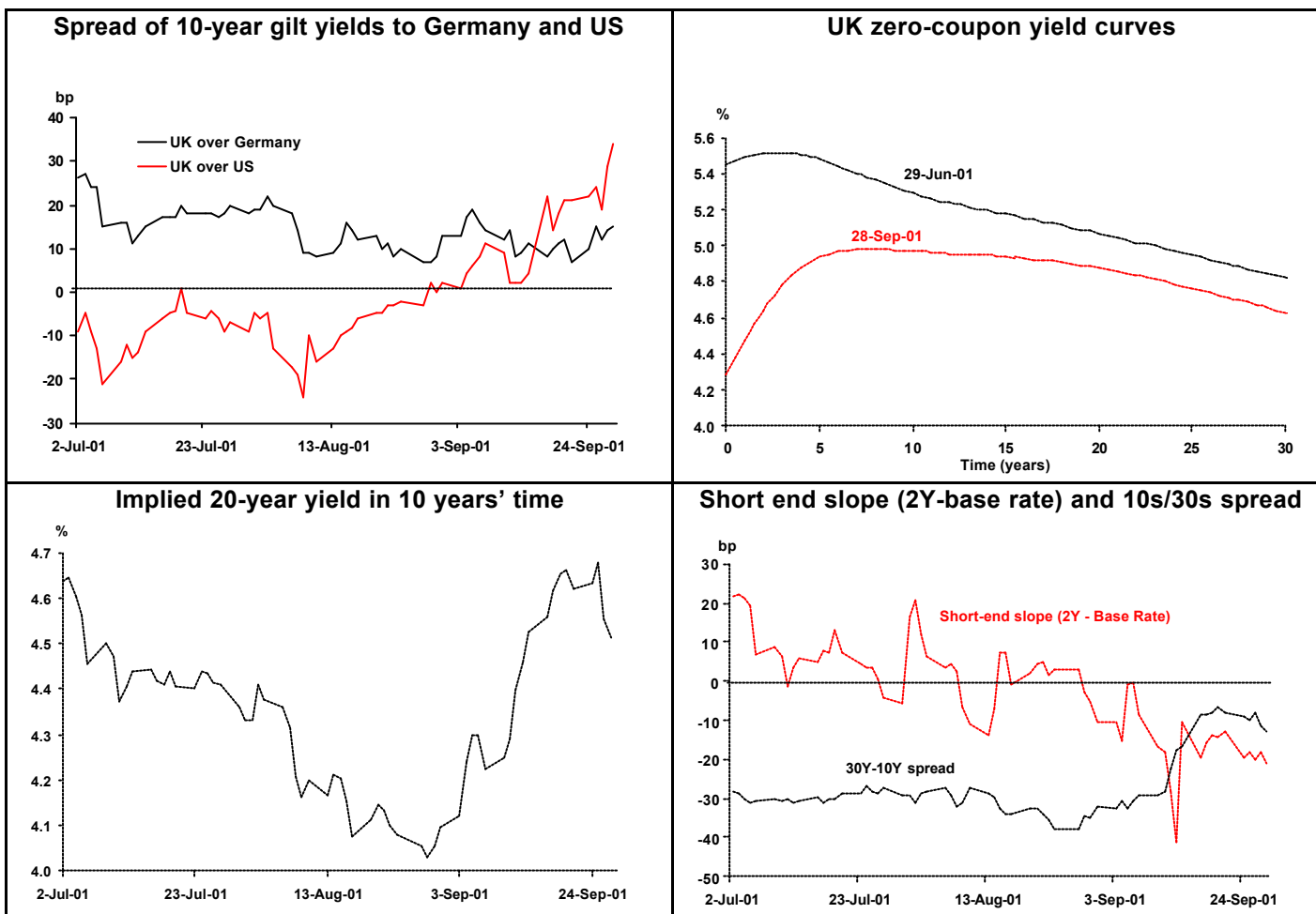




Quarterly Review

July - September 2001

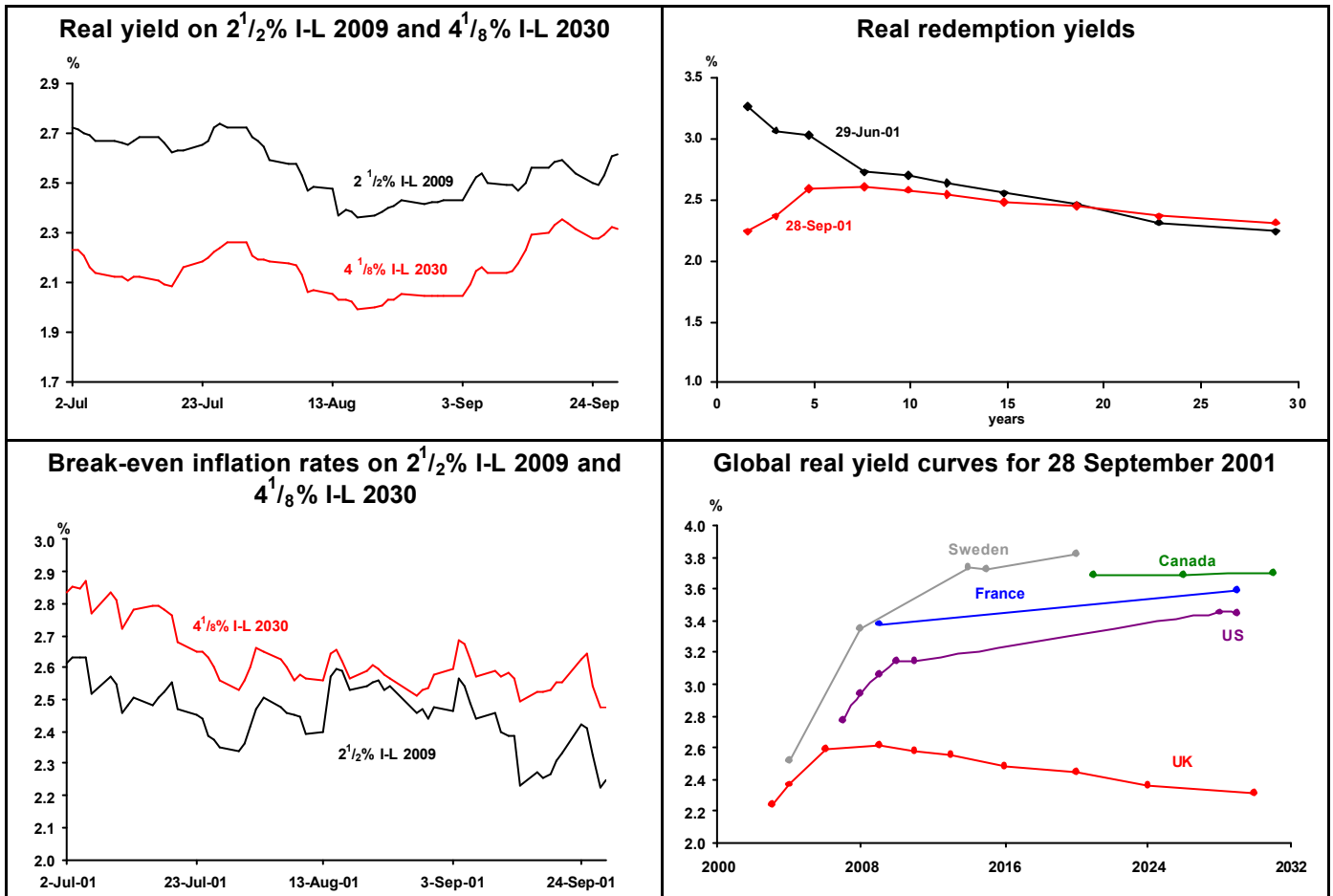
Conventional gilts



Yields at all maturities decreased during the quarter. The Bank of England lowered its repo rate twice during the period, at its scheduled August meeting and following an unscheduled meeting on 18 September. The terrorist attacks in the United States on 11 September lowered expectations of world growth. This altered interest rate sentiment, creating an expectation that the Bank would respond by moving interest rates to a lower level than had previously been anticipated. As a result, the short-end of the curve inverted sharply in late September: during the quarter the spread of 2-year yields over the Bank's repo rate fell from +21bp to -21bp. As shorter-dated gilts outperformed, this produced a curve disinversion at longer maturities. The spread of 30-year yields over 10-year yields increased 15bp to reach -13bp. This was the least inverted the 10- to 30-year sector of curve had been since June 1999. As a result of this long-end disinversion during September, the implied 20-year yield in 10 years' time increased to reach a peak of 4.68% on 25 September, having been some 65bp lower only a month before.



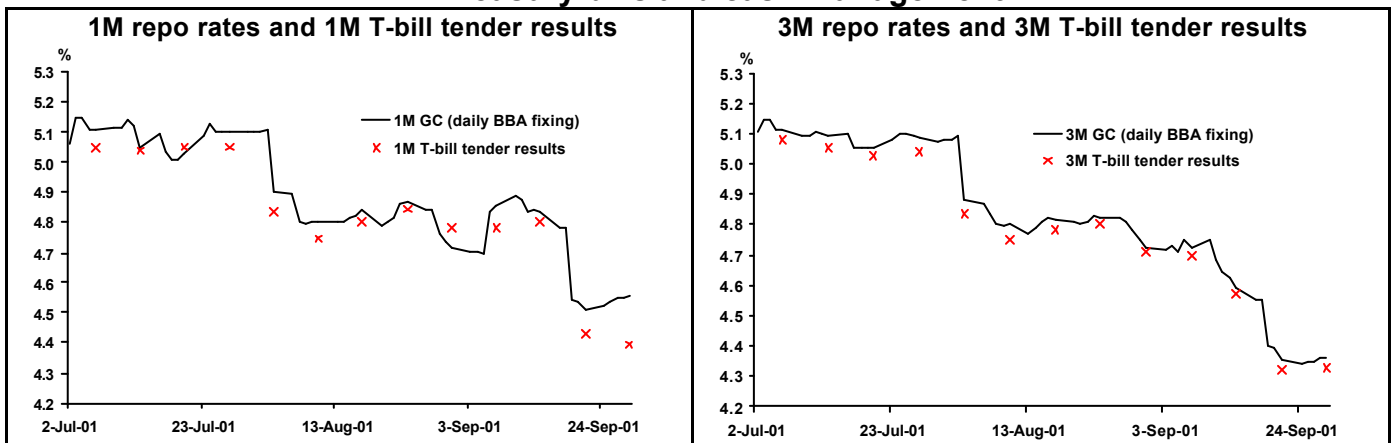
Index-linked gilts



In common with the nominal gilt curve, the real yield curve disinverted and very short dated issues significantly out-performed. The real yield on the 2¹/₂% I-L 2003 stock decreased over 100bp during the period to reach 2.24% by the end of the quarter. Index-linked gilts of all maturities underperformed conventionals as break-even inflation rates decreased by around 36bp during the quarter in both the 10- and 30-year sectors of the curve.

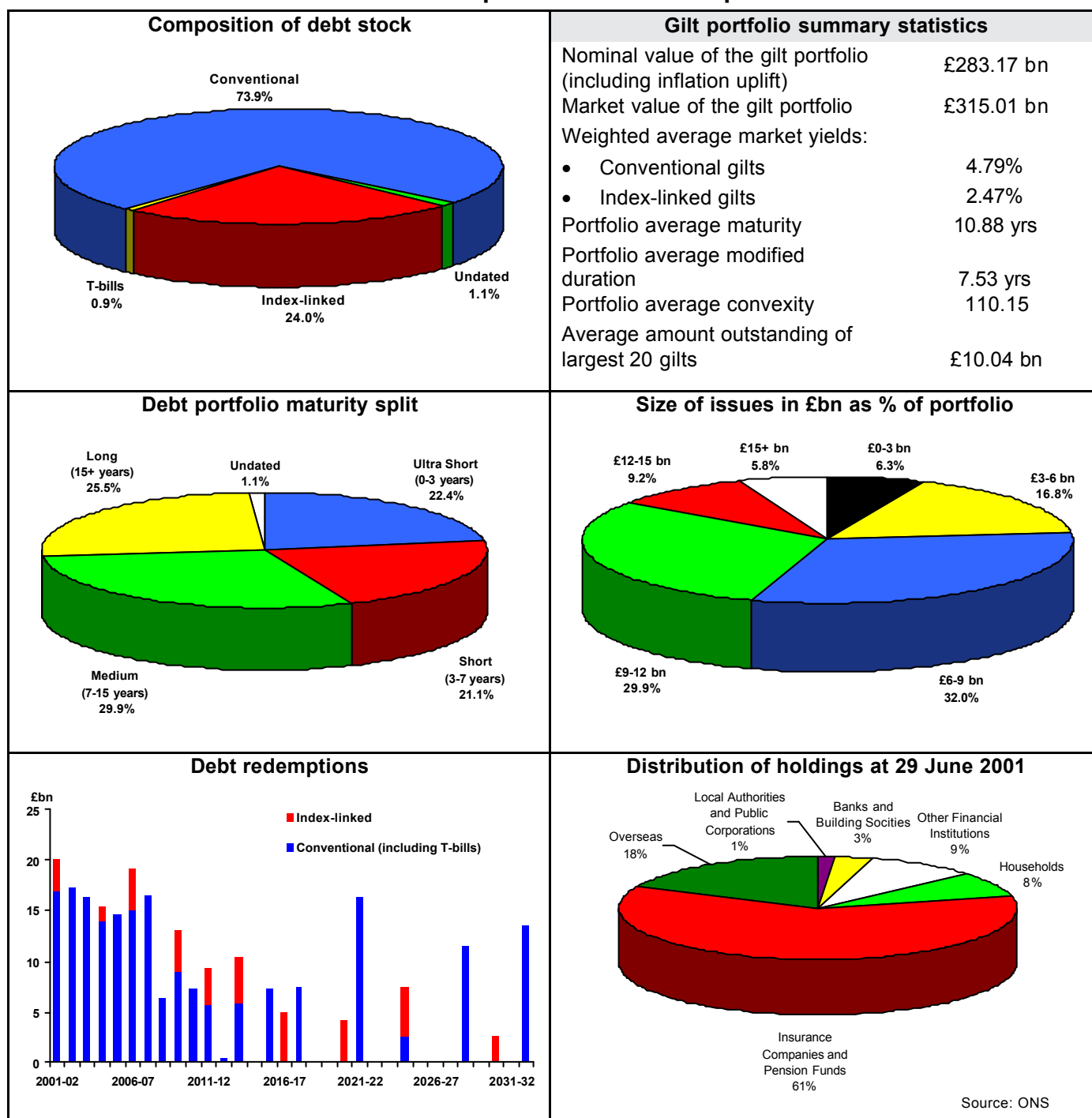
On 7 September 2001 the DMO published a consultation document on index-linked re-design. Comments on this paper are invited before 31 October 2001.

Treasury bills and cash management



Weekly tenders of 1-month and 3-month T-bills were maintained throughout the quarter. The size of the 3-month T-bill tenders was increased from £100mn to £200mn from 10 August onwards. This brought the stock of T-bills outstanding to £2.7bn on 1 October 2001. During the period 1-month bills were sold at an average 4.5bp premium to the repo rate and 3-month bills at an average of 3.1bp lower than the corresponding repo rate. A number of changes were announced to the arrangements for T-bill issuance on 21 September. These became effective on 5 October 2001 and are outlined on page 7.

Details of the debt portfolio as of 28 September 2001



2000-01 and 2001-02 financing requirements

Note: figures may not sum due to rounding	Budget 2000 financing requirement for 2000-01	Budget 2001 financing requirement for 2000-01	2000-01 Outturn	Budget 2001 Financing requirement for 2001-02
CGNCR forecast	-4.9	-33.3	-35.2	0.3
Replacing foreign currency debt	3.5	9.3	9.4	1.3
Redemptions	18.6	18.6	18.6	17.8
Debt buy-backs	3.5	5.5	5.7	1.0
Residual from 1999-2000	-9.5	-12.8	-12.8	na
Financing requirement	11.2	-12.7	-14.3	20.4
Less				
National Savings contribution	-0.8	-0.7	-0.6	-3.0
DMO cash deposit at Bank of England	-0.2	-0.2	-0.5	0.3
Net financing requirement	12.2	-11.8	-13.2	23.4
Change in Ways and Means	Na	-3.6	-3.6	0.0
Change in planned Treasury bill stock	Na	-6.5	-6.7	5.0
Change in levels of net short-term debt	Na	-11.7	-12.9	4.6
Gilt sales planned during year	12.2	10.0	10.0	13.5

Gilt auction results Q3 2001

Outright auction results						
Auction date	Issue amount (nominal)	Stock	Cover	Yield tail	Average accepted price	Yield at average price
25-Jul-01	£500mn	2½% I-L 2024	1.48	N/A ^a	£182.05	2.29%
26-Sep-01	£2,500mn	5% 2025	2.01	1bp	£100.25	4.98%

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

Switch auction results						
Date	Source stock	Nominal switched	Destination stock	Nominal created	DP ratio ^b	Cover ratio
19-Jul-01	2% I-L 2006	£500mn	2½% I-L 2016	£561mn	1.1228	1.27

^b Dirty Price ratio based on the common allotment price of the destination stock.

Conversion offer results					
Date	Source stock	Nominal converted	Acceptances	Destination stock	Nominal created
23-Jul-01	9% 2012	£4,958mn	92%	5% 2012	£6,761mn

Progress against 2001-02 gilts remit as at end-September 2001

(£mn)	Conventional gilts			Index-linked gilts	Total
	Short (0-7 years)	Medium (7-15 years)	Long (>15 years)		
Remit plans	0	4,750	5,000	3,750	13,500
Outright sales to date	0	2,469	2,504	1,811	6,784
Remaining	0	2,281	2,496	1,939	6,716

Treasury bill tender results Q3 2001

Tender date	Stock amount (£mn)	Average yield (%)	Average price (£)	Cover	Yield tail (bp)
1 month T-bills					
06-Jul	750	5.0471	99.6143	6.73	0
13-Jul	400	5.0400	99.6149	6.49	0
20-Jul	150	5.0500	99.6141	7.63	0
27-Jul	150	5.0514	99.6003	8.65	1
03-Aug	150	4.8367	99.6303	7.50	1
10-Aug	150	4.7460	99.6372	8.37	0
17-Aug	150	4.8000	99.6331	6.63	0
24-Aug	150	4.8461	99.6428	9.58	0
31-Aug	150	4.7831	99.6344	6.62	2
07-Sep	150	4.7800	99.6347	8.67	0
14-Sep	150	4.8000	99.6331	8.60	0
21-Sep	150	4.4300	99.6613	7.63	0
28-Sep	150	4.3933	99.6641	8.47	1
3 month T-bills					
06-Jul	100	5.0820	98.7488	8.80	2
13-Jul	100	5.0570	98.7549	7.39	1
20-Jul	100	5.0300	98.7615	6.80	0
27-Jul	100	5.0400	98.7590	8.65	0
03-Aug	100	4.8395	98.8078	8.06	1
10-Aug	200	4.7500	98.8296	8.75	0
17-Aug	200	4.7800	98.8223	7.53	0
24-Aug	200	4.8000	98.8303	10.85	0
31-Aug	200	4.7100	98.8394	6.85	0
07-Sep	200	4.6970	98.8425	10.30	0
14-Sep	200	4.5713	98.8732	9.35	3
21-Sep	200	4.3197	98.9345	8.23	0
28-Sep	200	4.3290	98.9322	8.78	1

Details of market turnover

Top twenty stocks traded (by market value) in the thirteen weeks to 28 September 2001

Stock	Market value of trades (£mn)	% of value of all gilt trades	Turnover Ratio ^a	Number of bargains ('000s)	Average bargain size (£mn)
9% Conversion 2011	57,772	12%	8.36	3	17
6% Treasury 2028	39,565	8%	2.91	7	6
5% Treasury 2012	31,295	6%	2.86	4	7
6½% Treasury 2003	26,426	5%	3.20	5	5
8½% Treasury 2005	24,303	5%	2.07	4	5
5¼% Treasury 2009	23,650	5%	2.56	11	2
8% Treasury 2021	23,570	5%	1.03	6	4
4¼% Treasury 2032	21,626	4%	1.73	4	5
7% Treasury 2002	20,154	4%	2.20	2	9
7½% Treasury 2006	19,850	4%	1.53	9	2
5% Treasury 2004	18,226	4%	2.46	5	4
8% Treasury 2015	18,011	4%	1.90	3	6
7¼% Treasury 2007	16,513	3%	1.35	9	2
7% Treasury 2001	15,900	3%	1.24	3	6
6¼% Treasury 2010	15,226	3%	2.94	3	4
6¾% Treasury 2004	14,244	3%	2.08	6	2
8% Treasury 2003	13,041	3%	1.77	3	4
8% Treasury 2013	12,203	3%	1.58	2	7
9% Treasury 2008	11,492	2%	1.72	2	5
9% Treasury 2012	7,318	2%	13.84 ^b	1	9
Total market	485,595			127	4

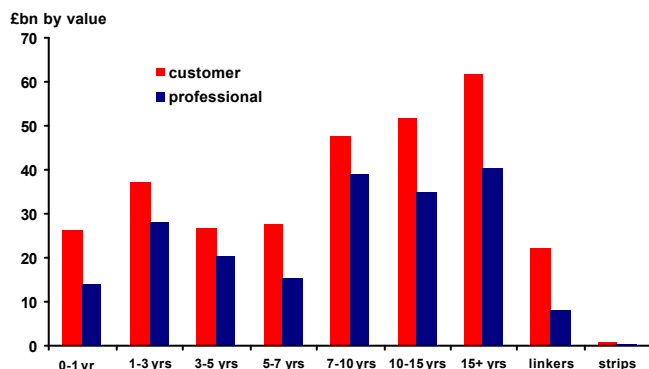
The top twenty stocks account for 89% of total market turnover.

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

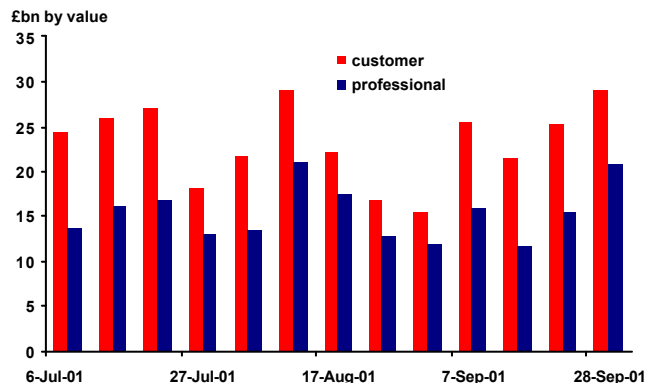
^a The total nominal value of the stock traded over the quarter relative to the nominal amount outstanding at the end of quarter.

^b The conversion of 9% Treasury 2012 into 5% Treasury 2012 during the quarter produces an unusually high turnover ratio. The equivalent ratio using the nominal value at the start of the quarter would be 1.04.

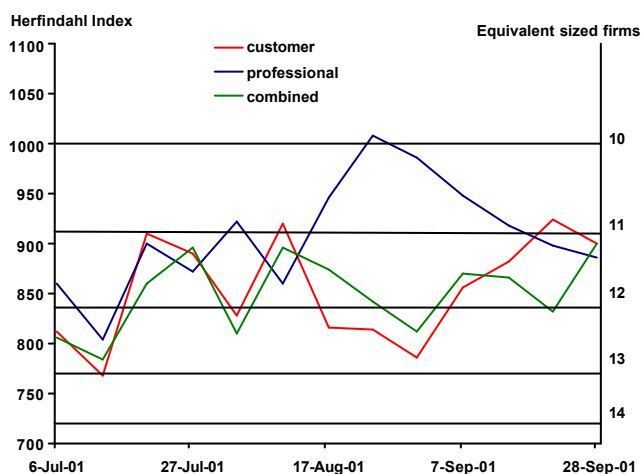
GEMM turnover by maturity band, Q3 2001



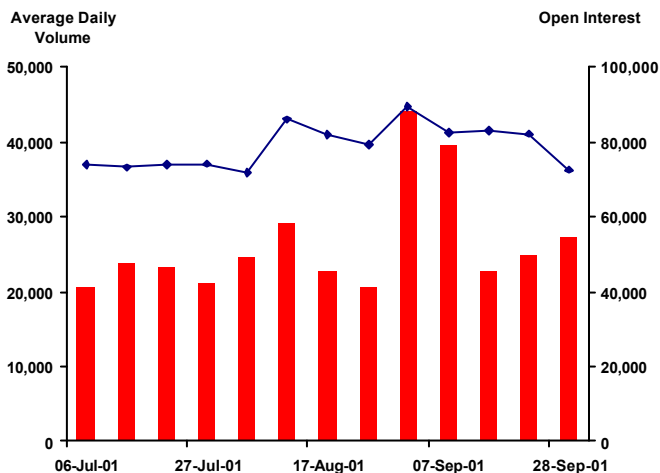
Total GEMM market turnover (weekly total)



Herfindahl index of total GEMM market turnover



Average daily turnover of the long gilt futures contract and open interest*



* Weekly average of daily turnover and end-week level of open interest

Stocks in issue at 28 September 2001 (£mn nominal)

Conventional gilts	Redemption date	Amount in issue	Amount held in stripped form	DMO/NILO* holdings
7% Treasury 2001	06-Nov-01	12750	-	1854
7% Treasury 2002	07-Jun-02	9000	456	198
9¾% Treasury 2002	27-Aug-02	6527	-	108
8% Treasury 2002-2006	05-Oct-02	2050	-	211
8% Treasury 2003	10-Jun-03	6999	-	418
10% Treasury 2003	08-Sep-03	1768	-	0
6½% Treasury 2003	07-Dec-03	7987	57	208
5% Treasury 2004	07-Jun-04	7408	35	335
3½% Funding 1999-2004	14-Jul-04	543	-	32
6¾% Treasury 2004	26-Nov-04	6500	-	373
9½% Conversion 2005	18-Apr-05	4374	-	0
8½% Treasury 2005	07-Dec-05	10373	243	192
7¾% Treasury 2006	08-Sep-06	3857	-	321
7½% Treasury 2006	07-Dec-06	11700	226	168
8½% Treasury 2007	16-Jul-07	4530	-	254
7¼% Treasury 2007	07-Dec-07	11000	143	132
5½% Treasury 2008-2012	10-Sep-08	1000	-	157
9% Treasury 2008	13-Oct-08	5441	-	0
5¾% Treasury 2009	07-Dec-09	8827	39	242
6¼% Treasury 2010	25-Nov-10	4750	-	269
9% Conversion 2011	12-Jul-11	5273	-	82
7¾% Treasury 2012-2015	26-Jan-12	800	-	243
5% Treasury 2012	07-Mar-12	10979	-	26
8% Treasury 2013	27-Sep-13	6100	-	305
8% Treasury 2015	07-Dec-15	7288	468	83
8¾% Treasury 2017	25-Aug-17	7550	-	179
8% Treasury 2021	07-Jun-21	16500	312	105
5% Treasury 2025	07-Mar-25	2500	-	0
6% Treasury 2028	07-Dec-28	11512	147	65
4¼% Treasury 2032	07-Jun-32	13580	45	2
Index-linked gilts	Redemption date	Amount in issue	Nominal including inflation uplift	DMO/NILO* holdings
2½% I-L Treasury 2003	20-May-03	2700	5866	111
4 3/8% I-L Treasury 2004	21-Oct-04	1300	1640	0
2% I-L Treasury 2006	19-Jul-06	2000	4925	15
2½% I-L Treasury 2009	20-May-09	2625	5703	26
2½% I-L Treasury 2011	23-Aug-11	3875	8894	3
2½% I-L Treasury 2013	16-Aug-13	4635	8891	17
2½% I-L Treasury 2016	26-Jul-16	5526	11585	65
2½% I-L Treasury 2020	16-Apr-20	4175	8610	0
2½% I-L Treasury 2024	17-Jul-24	5320	9320	30
4 1/8% I-L Treasury 2030	22-Jul-30	2600	3293	0
Undated gilts (non rump)	Redemption date	Amount in issue		DMO/NILO* holdings
2½% Treasury	Undated	474		0
3½% War	Undated	1909		0
Rump gilts	Redemption date	Amount in issue		DMO/NILO* holdings
10% Conversion 2002	11-Apr-02	21		12
9½% Conversion 2002	14-Jun-02	2		2
9% Exchequer 2002	19-Nov-02	83		66
11¾% Treasury 2003-2007	22-Jan-03	234		73
9¾% Conversion 2003	07-May-03	11		9
12½% Treasury 2003-2005	21-Nov-03	152		49
13½% Treasury 2004-2008	26-Mar-04	95		18
10% Treasury 2004	18-May-04	20		5
9½% Conversion 2004	25-Oct-04	307		102
10½% Exchequer 2005	20-Sep-05	23		14
9¾% Conversion 2006	15-Nov-06	6		3
8% Treasury 2009	25-Sep-09	393		68
9% Treasury 2012	06-Aug-12	403		56
12% Exchequer 2013-2017	12-Dec-13	57		2
2½% Annuities	Undated	3		0
3% Treasury	Undated	55		6
3½% Conversion	Undated	96		73
2½% Consolidated	Undated	275		42
2¾% Annuities	Undated	1		0
4% Consolidated	Undated	358		22

It is assumed that double-dated issues currently above par will be called at the first maturity date.

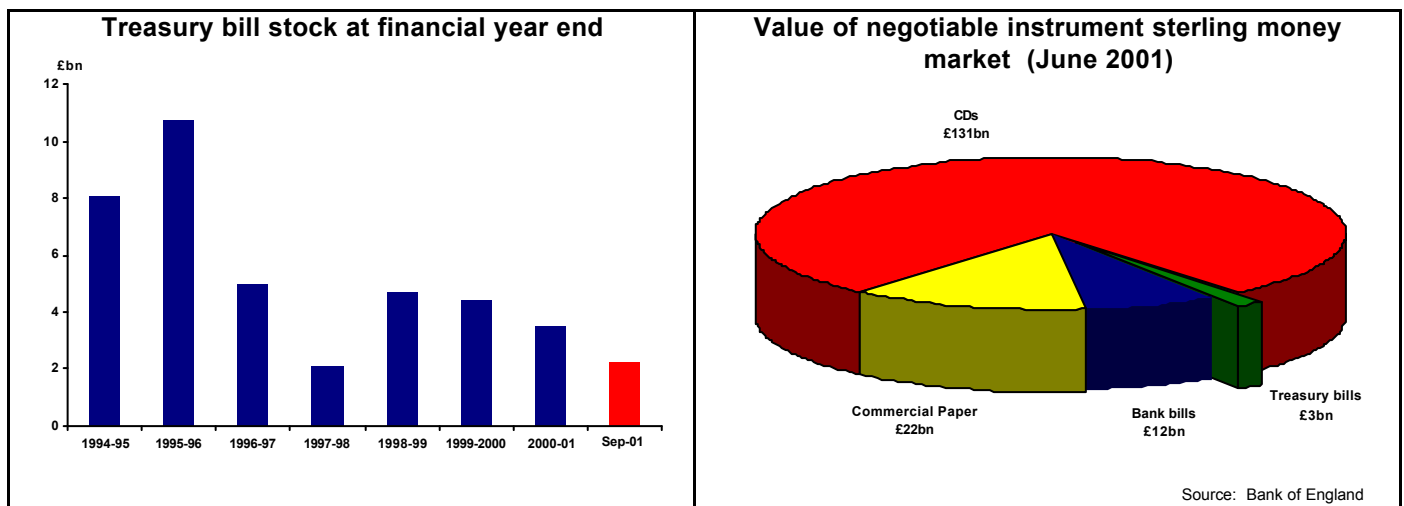
* Includes holdings by the National Investments and Loans Office (NILO) and the DMO. Excludes local authority, public corporations and Bank of England holdings.

Treasury bill update

The DMO expects Treasury bills to play an increasing role in its cash management operations in the future and to represent a larger component of the UK Government's stock of marketable debt. As announced at Budget time in March this year, the DMO expects to increase the stock of Treasury bills by £5.0 billion to £8.3 billion during 2001-02. To facilitate this, the DMO has changed the arrangements relating to the issuance by tender of Treasury bills. These changes took effect from 5 October 2001.

As part of these changes, the DMO has established a list of primary participants in the Treasury bill market. These are banks or financial institutions that have agreed to place bids at Treasury bill tenders on behalf of other parties, subject to their own due diligence and controls. On request, the primary participants will also provide their customers with secondary dealing levels for Treasury bills. A current version of the list of primary participants will be displayed on the DMO's web site at www.dmo.gov.uk. The DMO's cash management counterparties and a limited number of wholesale market participants who have established a telephone bidding relationship with the DMO are also eligible to bid directly in Treasury bill tenders.

Further details of the arrangements for Treasury bill tenders are contained in the newly published UK Treasury Bills Information Memorandum and the updated Exchequer Cash Management Operational Notice, which are also available on the web site. The other key changes are that the closing time of the weekly Treasury bill tender will be 11am (previously 12.30pm); that individual bids must be of a minimum size of £500,000 (previously £1 million); and that successful bidders in tenders will be able to arrange with the DMO to take delivery of their Treasury bills via Euroclear or, as currently, CMO.



Weekly 1-month Treasury bill issuance in the last year has ranged from £150mn to £750mn. The weekly tenders of 3-month bills have, since 10 August, been for £200mn; previously they had been for £100mn. Treasury bill tenders take place on the last working day of each week (usually a Friday), the amount on offer at the tender having been announced at the end of the previous week's tender. Trades settle on the following business day.

Around 30% of the outstanding value of the sterling money market consists of negotiable instruments, the remainder being approximately equally composed of secured (gilt repo) lending and unsecured interbank lending. At end-June 2001 Treasury bills comprised 1.8% of the outstanding market value of sterling money market negotiable instruments (see chart 3). This proportion has decreased over recent years, as the capitalisation of the money market as a whole has increased and the stock of Treasury bills has declined.

The Treasury bill market is likely to undergo further significant changes when sterling money market instruments (MMIs) are dematerialised, currently scheduled to occur in 2002. This will allow the integration of Treasury bill settlement into CREST so that holders will not need to maintain CMO accounts separately from their CREST accounts; it will also open the way for the wider use of Treasury bills as repo market collateral and offer other flexibilities, including fungibility and re-opening of issues. Further information on these proposed changes is available on the Bank of England's web site www.bankofengland.co.uk and on CRESTCo's web site www.crestco.co.uk.

Updated data, press releases and other information are available the wire services listed below and on the DMO web site at www.dmo.gov.uk.

Calendar for Q4 2001

Date	October	November	December
1			
2		T-bill tender	
3			
4			
5	T-bill tender		
6			
7			T-bill tender
8			
9		T-bill tender	
10			
11			
12	T-bill tender		
13			
14			T-bill tender
15			
16	Announcement of size of 2½% I-L 2016 auction to be held on 24 October*	T-bill tender	
17			GEMM and end-investor consultation meetings with DMO
18			Publication of consultation meeting minutes
19	T-bill tender		
20		Announcement of size of 5% 2025 auction to be held on 28 November*	
21			Publication of gilts issuance calendar for Q1 2002 and T-bill tender
22			
23		T-bill tender	
24	Auction of 2½% I-L 2016*		
25			
26	T-bill tender		
27			
28		Auction of 5% 2025 stock*	Calendar of T-bill issuance for Q1 2002 and T-bill tender
29			
30		T-bill tender	
31			

* subject to confirmation following the Chancellor's decisions on the Budgetary timetable

DMO wire services

Information Index	Reuters/Bridge/ADP	Telerate	Topic	Bloomberg
	DMO/INDEX			DMO<GO>
Announcements	DMO/GILTS1 to 7	22550 to 22556	44700 to 44710	DMO1<GO>
Shop window general info	DMO/GILTS8	6515	44715	DMO2<GO>
Shop window 1	DMO/GILTS9	6516	44716	DMO3<GO>
Shop window 2	DMO/GILTS10	6517	44717	DMO4<GO>
Shop window 3	DMO/GILTS11	6518	44718	DMO5<GO>
Benchmark prices	DMO/BENCH1	22557	44720 to 44721	DMO10<GO>
GEMMA ref prices (Conventionals)	GEMMA01 to 07	47216 to 47222	44800 to 44809	DMO6<GO>
GEMMA ref prices (IL)	GEMMA08	47223	44805	DMO6<GO>
GEMMA ref prices (Strips)	GEMMA13 to 19	21291 to 21297	44850 to 44859	DMO7<GO>
Cash announcements	DMO/CASH01	15700 to 15709	44660 to 44669	DMO9<GO>
T-bill tender information	DMO/CASH11	15710 to 15711	44670 to 44671	DMO9<GO>
Ad-hoc tender information	DMO/CASH16	15715 to 15716	44675 to 44676	DMO9<GO>

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Updated data, press releases and other information are available on the DMO web site at www.dmo.gov.uk

Comments on this publication and the web site would be welcomed by either Richard Batley or Mark Deacon.