



# Quarterly REVIEW

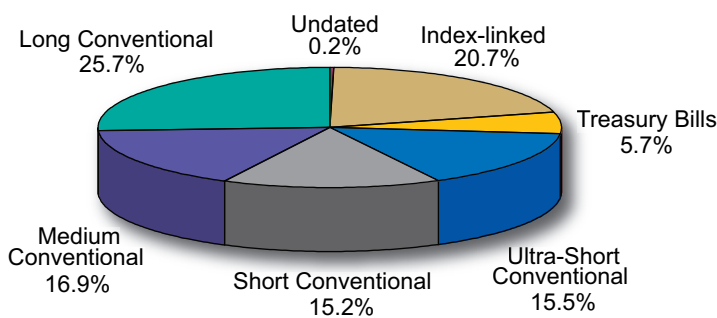
www.dmo.gov.uk

## Details of the Gilt and Treasury bill portfolio at 30 September 2011

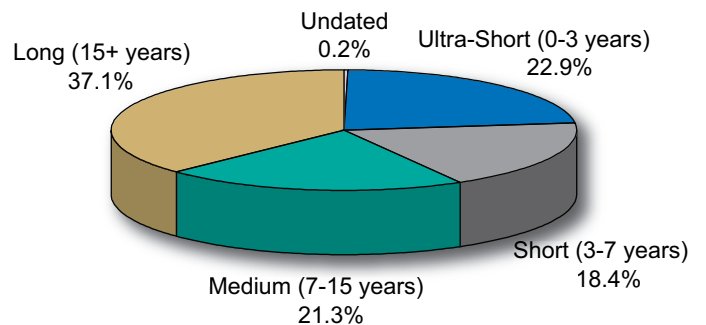
Portfolio summary statistics	30 June 2011		30 September 2011	
	Gross	Net*	Gross	Net
Nominal value of the gilt and Treasury bill portfolio - including inflation uplift	£1,150.17bn	£1,035.55bn	£1,169.05bn	£1,058.06bn
Nominal value of the gilt portfolio - including inflation uplift	£1,082.89bn	£968.27bn	£1,102.21bn	£991.22bn
• Conventional gilts - inc. undated gilts	£836.40bn	£734.97bn	£860.06bn	£760.79bn
• Index-linked gilts	£246.50bn	£233.30bn	£242.16bn	£230.43bn
Market value of the gilt and Treasury bill portfolio - including inflation uplift	£1,256.53bn	£1,127.30bn	£1,355.67bn	£1,221.33bn
Market value of the gilt portfolio	£1,189.31bn	£1,060.08bn	£1,288.89bn	£1,154.56bn
• Conventional gilts - inc. undated gilts	£902.48bn	£789.41bn	£990.22bn	£871.04bn
• Index-linked gilts	£286.83bn	£270.67bn	£298.67bn	£283.51bn
Market value weighted average portfolio yield:				
• Conventional gilts - inc. undated gilts	2.81%	2.80%	2.15%	2.14%
• Index-linked gilts	0.14%	0.16%	-0.26%	-0.23%
Market value weighted average portfolio maturity - inc TBills:	13.40 years	13.42 years	13.99 years	13.99 years
Market value weighted average portfolio maturity - exc. TBills:	14.15 years	14.26 years	14.70 years	14.79 years
• Conventional gilts - exc. undated gilts	13.11 years	13.03 years	13.58 years	13.48 years
• Index-linked gilts	17.42 years	17.83 years	18.43 years	18.80 years
Market value weighted average portfolio modified duration:				
• Conventional gilts - inc. undated gilts	8.21 years	8.17 years	8.90 years	8.85 years
• Index-linked gilts	15.99 years	16.34 years	16.22 years	16.55 years

The 'Net' holdings category excludes gilts held by the DMO.

### Composition of gilt and Treasury bill portfolio\*\*



### Gilt and Treasury bill portfolio maturity split\*\*



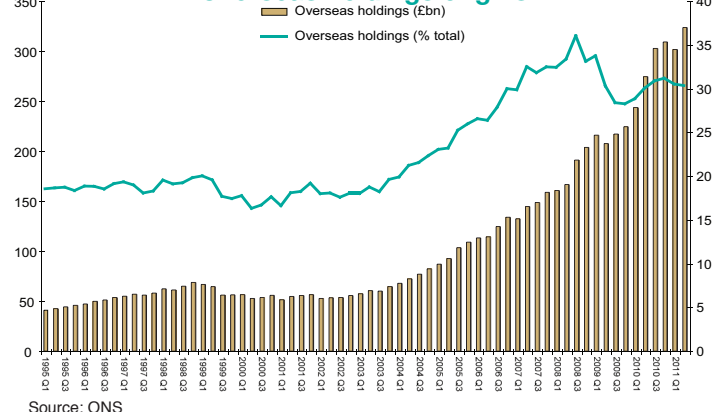
### Distribution of gilt holdings at 30 June 2011 (based on market values)

(£millions)	at end	Q1 2011	Q2 2011
Insurance companies and pension funds		292,766	301,914
Overseas		301,540	323,455
Bank of England (Asset Purchase Facility)		194,893	198,651
Monetary Financial Institutions*		102,138	124,066
Other financial institutions and other		86,058	106,876
Households		12,405	13,341
Local authorities and public corporations		1,468	1,493
<b>TOTAL</b>		<b>991,268</b>	<b>1,069,796</b>

Source: ONS & BoE. These figures can be revised retrospectively.

\*Monetary Financial Institutions replaces Banks and Building societies, and excludes BoE holdings.

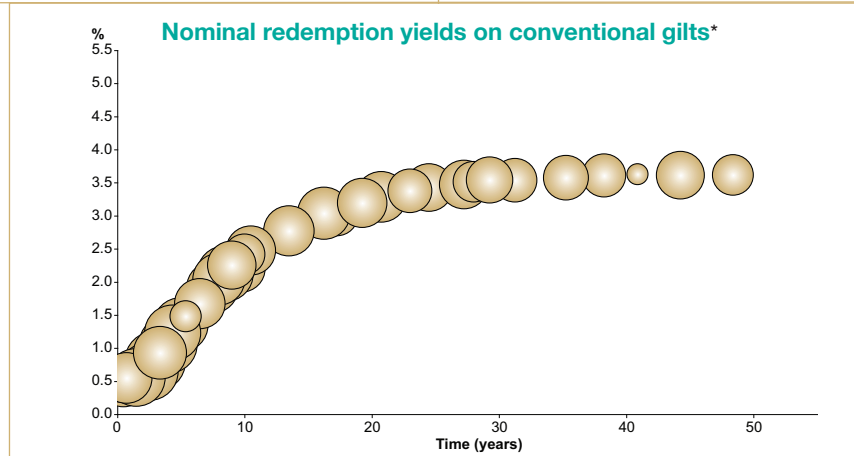
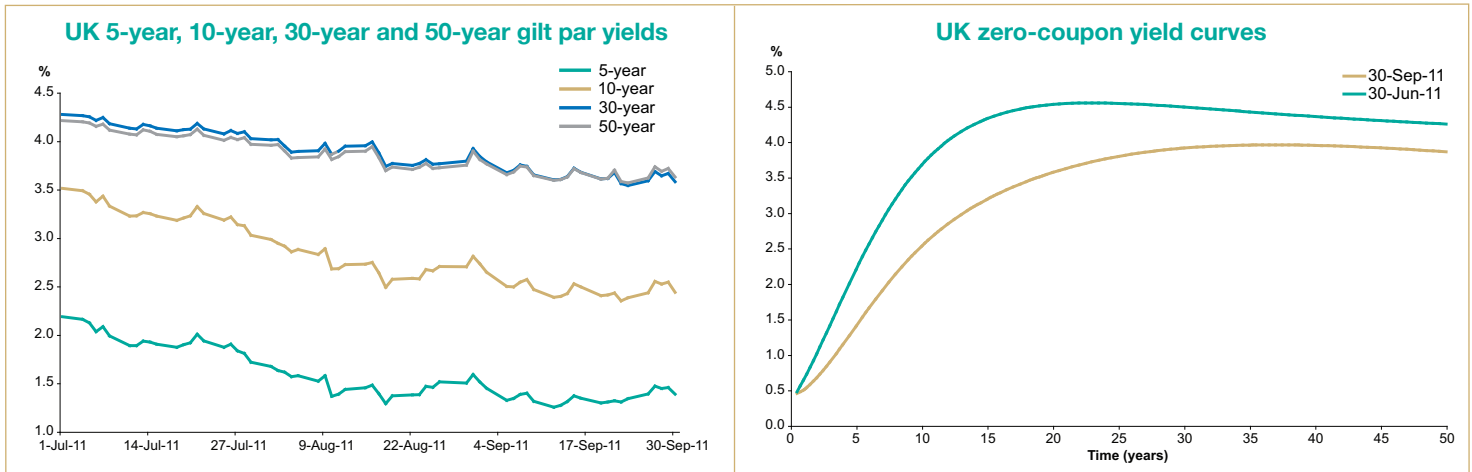
### Overseas holdings of gilts



Source: ONS

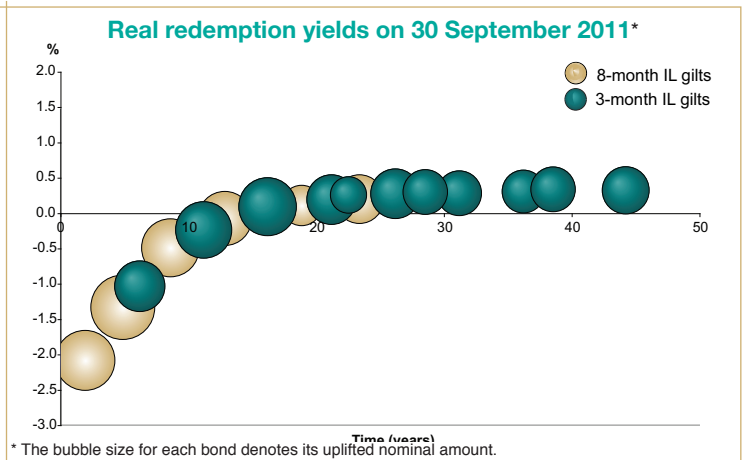
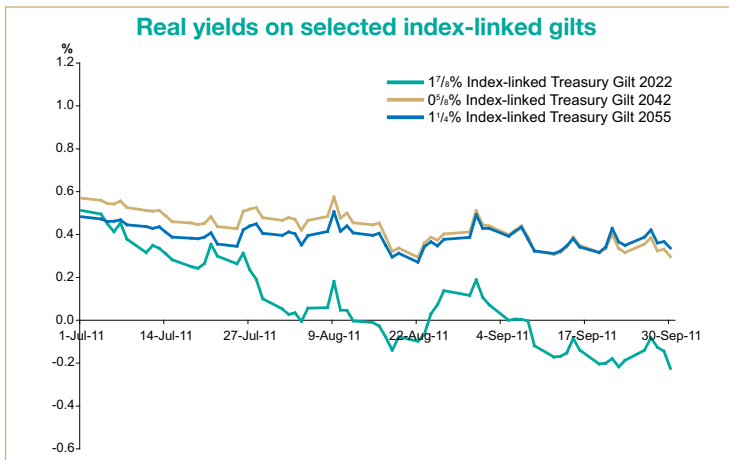
\*\* These are based on uplifted nominal values. Figures in the pie charts may not sum due to rounding.

### Conventional gilts

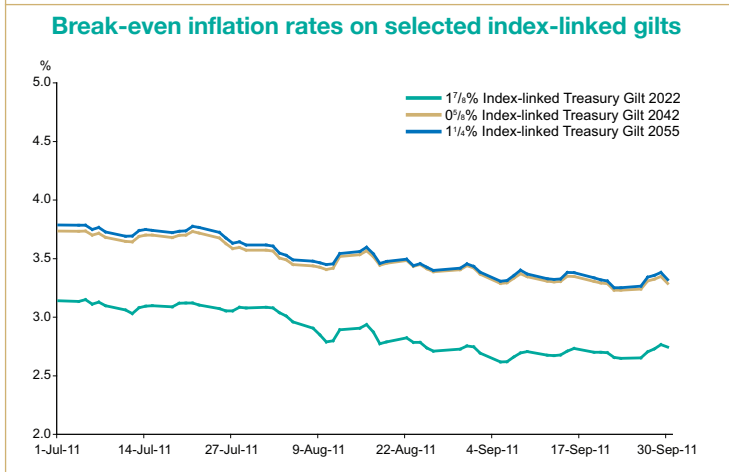


\* Rump gilts are not displayed in this chart.

### Index-linked gilts



\* The bubble size for each bond denotes its uplifted nominal amount.



### Projected redemption values of index-linked gilts based on average inflation of 2 1/2% and 3% per annum.

Gilt Name	Inflation Assumptions	
	2.50%	3.00%
Nominal Amount : £100.00		
2 1/2% Index-linked Treasury Stock 2013	273.54	275.32
2 1/2% Index-linked Treasury Stock 2016	321.27	327.98
1 1/4% Index-linked Treasury Gilt 2017	141.56	145.80
2 1/2% Index-linked Treasury Stock 2020	346.73	360.49
1 7/8% Index-linked Treasury Gilt 2022	150.87	159.22
2 1/2% Index-linked Treasury Stock 2024	327.12	347.22
1 1/4% Index-linked Treasury Gilt 2027	180.91	195.62
4 1/8% Index-linked Treasury Stock 2030	274.25	299.72
1 1/4% Index-linked Treasury Gilt 2032	182.96	202.72
0 3/4% Index-linked Treasury Gilt 2034	176.78	197.14
2% Index-linked Treasury Stock 2035	238.51	266.44
1 1/8% Index-linked Treasury Gilt 2037	222.26	252.33
0 5/8% Index-linked Treasury Gilt 2040	219.91	252.51
0 5/8% Index-linked Treasury Gilt 2042	239.39	278.47
0 3/4% Index-linked Treasury Gilt 2047	276.99	330.15
0 1/2% Index-linked Treasury Gilt 2050	285.66	344.37
1 1/4% Index-linked Treasury Gilt 2055	364.87	452.18

Data extracted from www.dmo.gov.uk report D9C on: 14/10/11.

## Gilt market flows (£mn)

	Gross gilt issuance (cash)	Redemptions	Coupons*	Net financing from gilts after redemptions and coupons
Apr-10	19,327	0	-220	19,107
May-10	12,425	0	-701	11,724
Jun-10	25,687	-15,617	-6,998	3,072
Jul-10	18,189	0	-1,653	16,536
Aug-10	10,758	0	-883	9,875
Sep-10	13,188	0	-9,474	3,714
Oct-10	16,834	0	-223	16,611
Nov-10	11,761	-4,480	-783	6,498
Dec-10	6,791	0	-6,846	-55
Jan-11	11,080	0	-1,769	9,311
Feb-11	9,983	0	-895	9,088
Mar-11	10,330	-18,489	-10,073	-18,232
Apr-11	12,849	0	-228	12,621
May-11	16,125	0	-650	15,475
Jun-11	17,429	0	-7,103	10,326
Jul-11	16,592	-5,190	-2,104	9,298
Aug-11	9,476	-7,991	-903	582
Sep-11	15,043	-	-9,959	5,084
Oct-11	-	-	-235	-
Nov-11	-	-	-712	-
Dec-11	-	-14,970	-7,409	-

Figures may not sum due to rounding.

\*Coupon flow numbers are for the stock of debt outstanding at end-quarter.

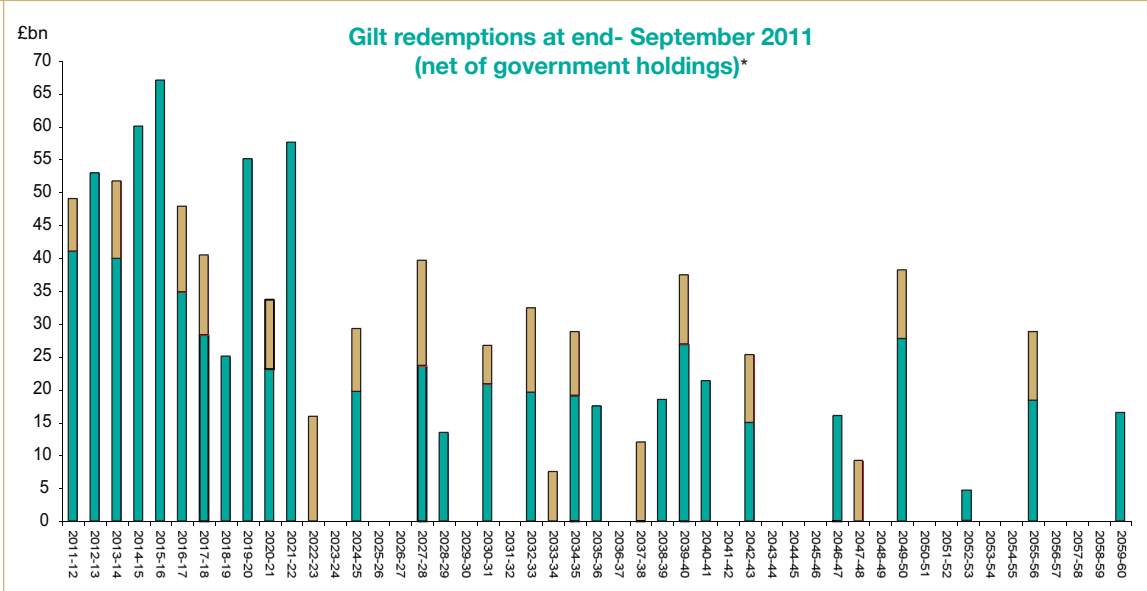
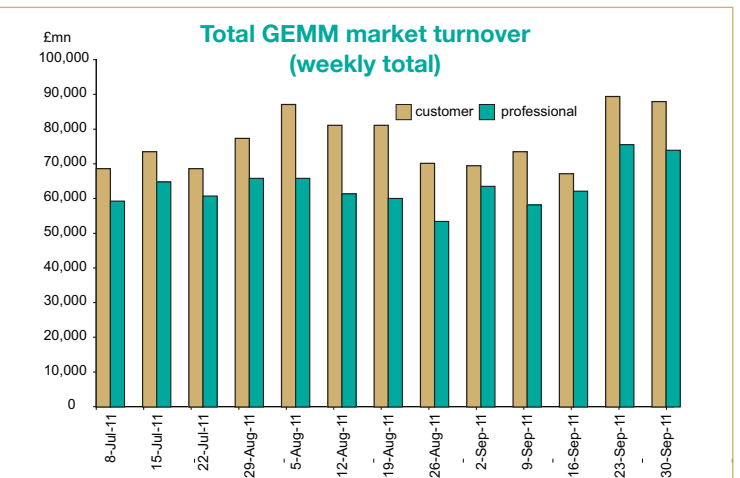
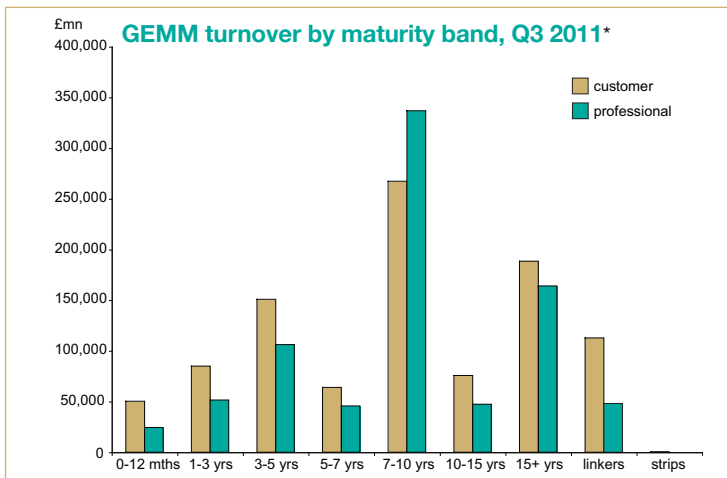
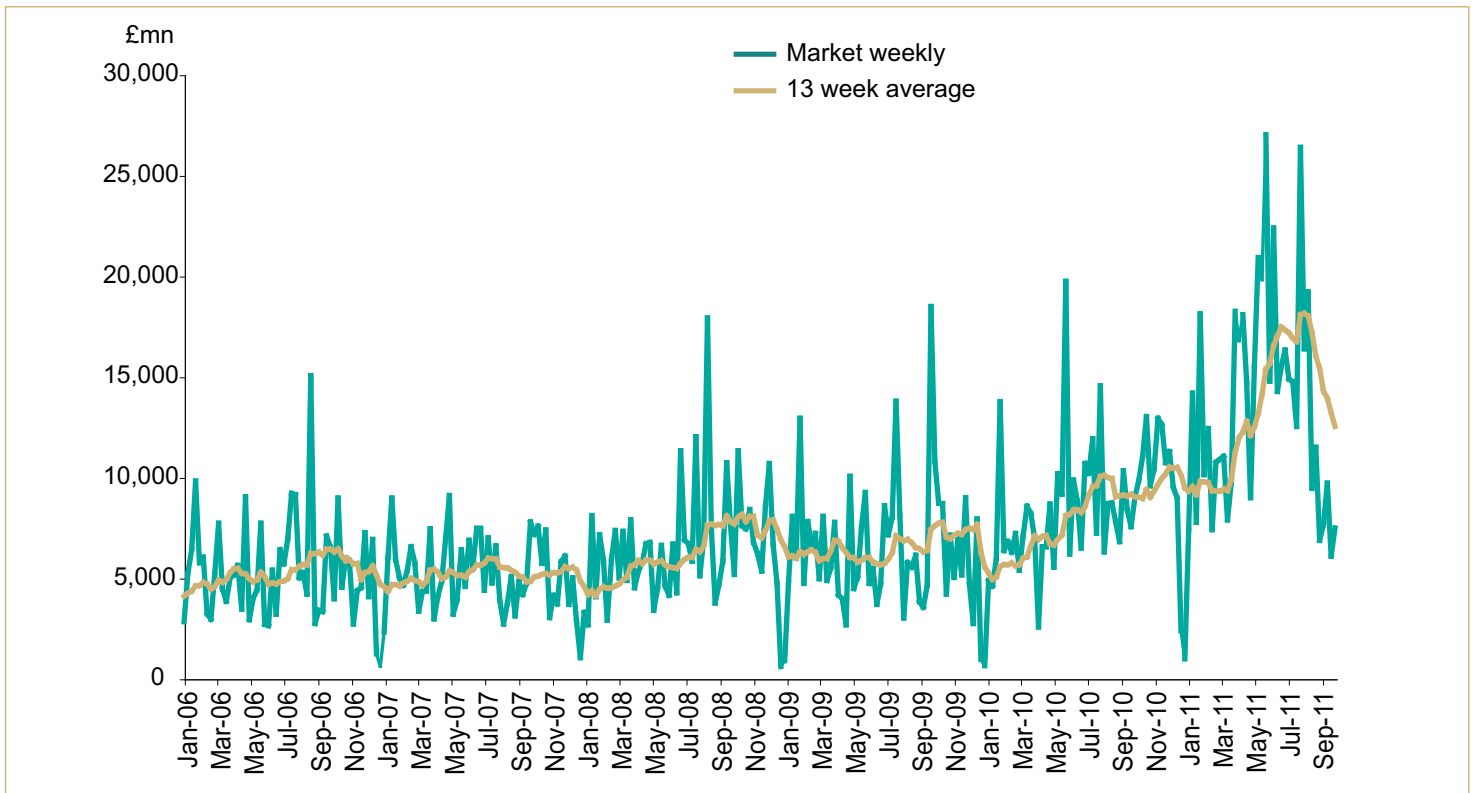
## 2010-11 and 2011-12 financing requirements

(£bn)	2010-11 (Budget 2011)	2010-11 (Outturn)*	2011-12
<b>CGNCR forecast</b>	<b>141.2</b>	<b>139.7</b>	<b>120.4</b>
Redemptions	38.6	38.6	49.0
Financing for the Official Reserves	6.0	6.0	6.0
Debt buy-backs	0.2	0.2	0.0
Planned short-term financing adjustment	-26.3	-26.3	-8.6
<b>Gross financing requirement</b>	<b>159.7</b>	<b>158.1</b>	<b>166.8</b>
Less			
National Savings & Investments' contribution	0.0	0.1	2.0
<b>Net financing requirement</b>	<b>159.4</b>	<b>158.0</b>	<b>164.8</b>
<b>Gilt sales planned during the year</b>	<b>166.4</b>	<b>166.4</b>	<b>167.5</b>
Change in planned Treasury bill stock	-0.9	0.3	-2.8
Change in Ways and Means	0.0	0.0	0.0
DMO net cash position at end of financial year	6.5	9.1	0.5

Figures may not sum due to rounding.

\* as updated on 21 April 2011

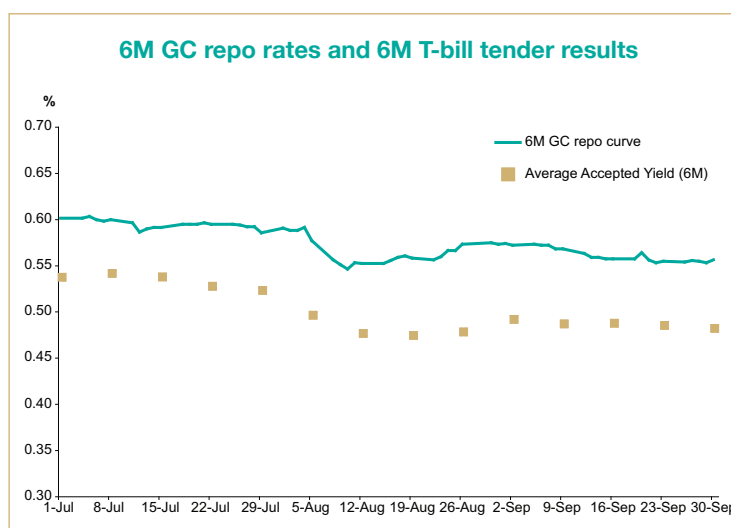
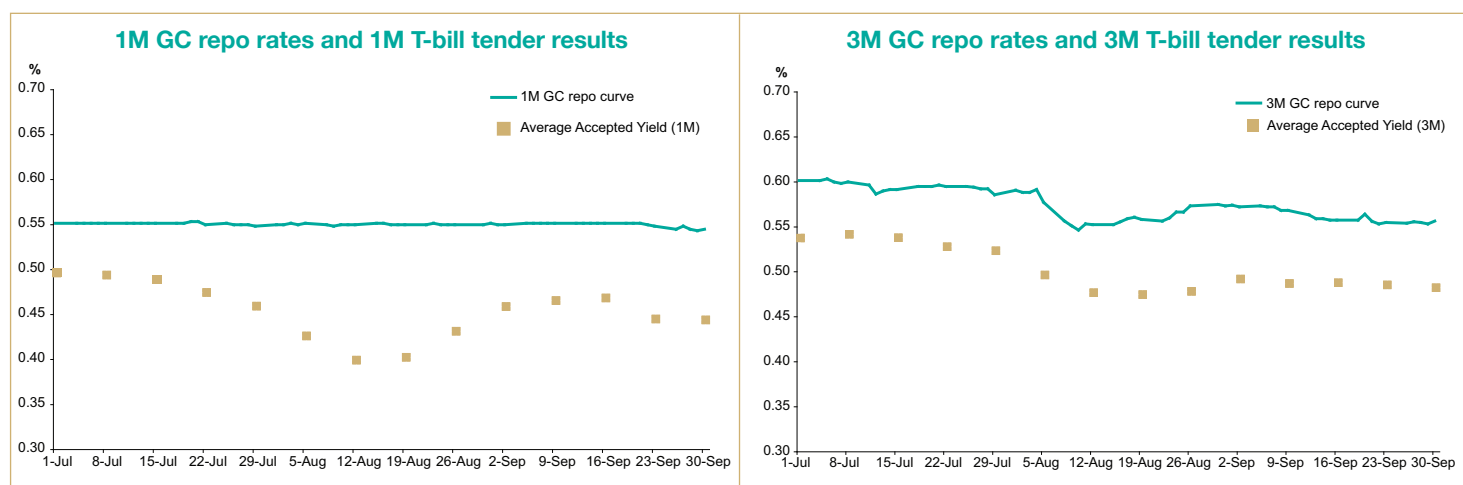
### Index-linked gilt market turnover 2006-2011



\*Professional Turnover is defined as turnover with counterparties who are Broker Dealers (BDs), other Gilt-edged Market Makers (GEMMs), DMO or Bank of England. Customers are all others (including businesses with related entities).

\* The 'Net' holdings category excludes gilts held by the DMO.

## Money market operations



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Comments on this publication would be welcomed by the Policy Team.

Updated data, press releases and other information are available on the DMO website at [www.dmo.gov.uk](http://www.dmo.gov.uk)

## DMO Website: Useful Website Links

### What's New

[http://www.dmo.gov.uk/ceLogon.aspx?page=Press\\_New&rptcode=D8D](http://www.dmo.gov.uk/ceLogon.aspx?page=Press_New&rptcode=D8D)

### Events calendar

[http://www.dmo.gov.uk/ceLogon.aspx?page=Events\\_Calendar&rptCode=D5J](http://www.dmo.gov.uk/ceLogon.aspx?page=Events_Calendar&rptCode=D5J)

### Gilt market

#### Gilt prices page

[www.dmo.gov.uk/index.aspx?page=Gilts/Daily\\_Prices](http://www.dmo.gov.uk/index.aspx?page=Gilts/Daily_Prices)

#### Gilts in issue

[http://www.dmo.gov.uk/index.aspx?page=Gilts/Gilts\\_In\\_Issue](http://www.dmo.gov.uk/index.aspx?page=Gilts/Gilts_In_Issue)

#### Summary of results from all DMO gilt operations

[http://www.dmo.gov.uk/ceLogon.aspx?page=Summary\\_of\\_results&rptCode=D2.1prof7](http://www.dmo.gov.uk/ceLogon.aspx?page=Summary_of_results&rptCode=D2.1prof7)

#### Cash sales versus the remit (updated after each operation)

[http://www.dmo.gov.uk/ceLogon.aspx?page=Current\\_Remmit&rptCode=D4E](http://www.dmo.gov.uk/ceLogon.aspx?page=Current_Remmit&rptCode=D4E)

#### Gilt issuance history

[http://www.dmo.gov.uk/index.aspx?page=Gilts/Gilts\\_In\\_Issue](http://www.dmo.gov.uk/index.aspx?page=Gilts/Gilts_In_Issue)

#### Overseas holdings data

[http://www.dmo.gov.uk/ceLogon.aspx?page=Gilts/Overseas\\_Holdings&rptCode=D5N](http://www.dmo.gov.uk/ceLogon.aspx?page=Gilts/Overseas_Holdings&rptCode=D5N)

### Index-linked gilts

#### Index-Linked Gilts in issue

<http://www.dmo.gov.uk/reportView.aspx?rptCode=D1D&rptName=75321885&reportpage=D1D>

#### Published cash flows

[http://www.dmo.gov.uk/ceLogon.aspx?page=Nominal\\_IL&rptCode=D5I](http://www.dmo.gov.uk/ceLogon.aspx?page=Nominal_IL&rptCode=D5I)

#### Daily index ratios

<http://www.dmo.gov.uk/ceLogon.aspx?page=D10C&rptcode=D10C>

### Money Markets

#### Treasury bill prices

[http://www.dmo.gov.uk/ceLogon.aspx?page=tbills/Daily\\_Prices\\_Yields&rptCode=D3A](http://www.dmo.gov.uk/ceLogon.aspx?page=tbills/Daily_Prices_Yields&rptCode=D3A)

#### Summary of Treasury bills tender results

[www.dmo.gov.uk/index.aspx?page=tbills/tbill\\_tenders](http://www.dmo.gov.uk/index.aspx?page=tbills/tbill_tenders)

#### Treasury bill issuance history

[http://www.dmo.gov.uk/ceLogon.aspx?page=tbills/Portfolio\\_Composition&rptcode=D2.2G](http://www.dmo.gov.uk/ceLogon.aspx?page=tbills/Portfolio_Composition&rptcode=D2.2G)

### Guarantee Schemes

<http://www.dmo.gov.uk/index.aspx?page=CGS/CGSIntro>

### Key Documents

#### Historical copies of the Quarterly Review

[www.dmo.gov.uk/index.aspx?page=publications/Quarterly\\_Reviews](http://www.dmo.gov.uk/index.aspx?page=publications/Quarterly_Reviews)

#### Historical copies of the Annual Review

[http://www.dmo.gov.uk/index.aspx?page=publications/Annual\\_Reviews](http://www.dmo.gov.uk/index.aspx?page=publications/Annual_Reviews)

#### Operational Notice – Gilt market

[http://www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/opnot20091120.pdf&page=operational\\_rules/Document](http://www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/opnot20091120.pdf&page=operational_rules/Document)

#### Operational Notice – Cash market

[http://www.dmo.gov.uk/documentview.aspx?docname=publications/moneymarkets/cmopnot180210.pdf&page=money\\_markets/publication](http://www.dmo.gov.uk/documentview.aspx?docname=publications/moneymarkets/cmopnot180210.pdf&page=money_markets/publication)

#### Guidebook – GEMMs

[http://www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/guidebook150811.pdf&page=operational\\_rules/Document](http://www.dmo.gov.uk/documentview.aspx?docname=publications/operationalrules/guidebook150811.pdf&page=operational_rules/Document)

#### Debt & Reserves Management Report 2011-12

[http://www.dmo.gov.uk/documentview.aspx?docname=remit/drmr1112.pdf&page=Remit/full\\_details](http://www.dmo.gov.uk/documentview.aspx?docname=remit/drmr1112.pdf&page=Remit/full_details)

#### Gilt prospectuses

<http://www.dmo.gov.uk/ceLogon.aspx?page=Prospectuses&rptcode=D8E>

#### Formulae for calculating gilt price from yields

<http://www.dmo.gov.uk/documentview.aspx?docname=/giltsmarket/formulae/yldeqns.pdf&page=Gilts/Formulae>

### Public Works Loan Board (PWLB)

<http://www.dmo.gov.uk/index.aspx?page=PWLB/Introduction>

## DMO FINANCING REMIT 2011-12

The DMO's financing remit for 2011-12 was published on 23 March 2011 alongside the Budget 2011. The remit was subsequently updated to reflect the outturn of the CGNCR for 2010-11, on 21 April 2011. Planned gilt sales were reduced by £1.5 billion<sup>1</sup>, compared to the plans published at Budget 2011, to £167.5 billion. The main points of the updated remit are summarised below.

### Debt issuance by the DMO

The DMO currently plans to raise £164.2 billion in 2011-12 split as follows:

- Gilt sales: £167.5 billion
- Net Treasury bill sales: -£3.3 billion

### Planned gilt sales

The gilt sales target of £164.2 billion will be met through a combination of:

- £131.3 billion in 47 outright auctions;
- £31.6 billion by a supplementary programme of syndicated offerings;
- £4.6 billion in a supplementary series of gilt mini-tenders.

### Gilt sales split by type and operation

Planned gilt sales by type, maturity and issuance method are summarised below. The planning assumption is that supplementary issuance methods will be used exclusively to issue long-dated conventional and index-linked gilts. Total financing achieved by supplementary methods (and the split between methods) will be dependent on market and demand conditions at the time the transactions are conducted.

- £57.4 billion short-dated conventional gilts in 12 auctions;
- £34.7 billion medium-dated conventional gilts in 10 auctions;
- £21.0 billion long-dated conventional gilts in 10 auctions;
- £16.4 billion long dated conventional gilts in a combination of syndicated offerings and mini-tenders;
- £18.2 billion index-linked gilts in 15 auctions
- £19.8 billion index-linked gilts in a combination of syndicated offerings and mini-tenders.

### Illustrative financing projections

The table below shows annual illustrative gross financing projections from 2012-13 to 2015-16 using updated projections of the CGNCR plus the latest estimate of gilt redemptions in these years. These are not gilt sales forecasts and, in particular, make no assumption about any contribution to financing from NS&I and the sales of Treasury bills.

	2012-13	2013-14	2014-15	2015-16
CGNCR projections	105	80	46	33
Gilt redemptions	53	47	60	52
Financing for the reserves	6	6	6	0
<b>Financing requirement</b>	<b>164</b>	<b>133</b>	<b>112</b>	<b>85</b>
CGNCR change since				
Autumn Forecast (AF) 2010	14	10	7	6
Financing for the reserves change				
since AF 2010	6	6	6	na
Redemption change since AF 2010	0	0	0	12

Figures may not sum due to rounding.

<sup>1</sup> Planned sales of short conventional gilts were reduced by £0.6 billion, sales of mediums by £0.2 billion, sales of longs by £0.3 billion and planned sales of index-linked gilts by £0.4 billion.

## CONSULTATION ON CPI-LINKED GILTS

The DMO launched a public consultation on 29 June 2011 to help build an evidence base to inform a decision by Government on whether to issue gilts whose cash flows would be linked to the Consumer Prices Index (CPI). The formal period of the consultation closed on 22 September 2011.

In coming to a decision on whether to issue a new type of instrument, the expected benefits, costs and risks for both the Government as issuer and the gilt market will be taken into account. In particular the Government will assess the case for CPI-linked gilts with reference to:

- consistency with meeting the debt management objective and the principles on which UK debt management is based;
- the impact on liquidity and the good functioning of the gilt market;
- the likely scale of demand for a new type of gilt; and
- the cost and resource commitment needed for implementation in comparison with the size of potential demand

Other factors that will need to be taken into account in reaching a decision on the launch of CPI-linked gilts include:

- the depth of investor demand for such instruments both in an absolute context and also relative to RPI-linked gilts and the extent to which potential investors would be prepared to pay a premium for such gilts. In particular, given that the UK pensions sector represents a key investor group for index-linked gilts, it will be important to understand the extent to which the shift to CPI as the statutory minimum for regulating occupational pension schemes will affect the preferred choice for pension fund Liability Driven Investment (LDI) purposes;
- the Government's assessment of the impact of any CPI-linked issuance on the smooth functioning of the market in inflation-linked UK Government debt: for example the Government is not inclined to issue a new type of debt instrument that is likely to appeal only to a very limited group of investors (or for a temporary period); and
- the potential risks associated with the introduction of CPI-linked gilts, including risks of market fragmentation and liquidity (and how these risks might be managed).

The DMO, liaising with HM Treasury, is considering carefully the responses to the consultation and will publish a response in due course.

The consultation document can be accessed at:

<http://www.dmo.gov.uk/documentview.aspx?docname=publications/giltmarket/consultationpapers/cons20110629.pdf&page=Gilts/Consultation>