

## RECORD OF QUARTERLY MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE JULY-SEPTEMBER 2006 GILT AUCTION ANNOUNCEMENT

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 22 May 2006. The meetings were primarily intended to inform the allocation of the £2.5 billion of supplementary gilt issuance in the second quarter of the financial year and the choice of gilts to be issued in the scheduled auctions.

Eight gilt auctions are currently scheduled in July-September 2006: four conventional gilt auctions (one each of short- and medium- and two of long-dated gilts) and four of index-linked gilts (at least three of which are scheduled to be long-dated). The conventional auctions will be held on 4 July, 1 August, 5 September and 21 September. The index-linked auctions will be held on 11 July, 25 July, 23 August, and 27 September. **The final gilt issuance calendar for July-September 2006 will be announced by the DMO at 3:30pm on Wednesday 31 May 2006.** In discussion, the following main points emerged:

**All GEMMs:** There was a consensus that the supplementary gilt issuance should be directed towards longer maturities, with most favouring a split between conventional and index-linked gilts. Views were divided between adding auction(s), particularly in the index-linked sector, and increasing the sizes of the currently scheduled auctions.

In terms of the core programme for conventional gilts, all attendees recommended a reopening of 4¼% 2046 at least once in the quarter, with 4 July and 5 September the preferred dates for the long auctions. Those who did not advocate two new auctions of this bond suggested the launch of a new gilt in the 20-30-year maturity band, or a reopening of an existing long. All respondents were agreed on the choice of 4¼% 2011 and 4% 2016 as other auction candidates, but views on sequencing differed.

**IL GEMMs:** Most favoured an auction of the IL2017 on 11 July, but views expressed on the maturity and scheduling of long index-linked auctions were very mixed. Virtually all recommended a reopening of the 2027 maturity at least once and there were also a number of calls for the launch of a new 40-year index-linked gilt towards the end of the quarter. There were also calls for a reopening of the 2030 or 2035 maturities. Others pointed to a relative lack of liquidity in some of the older shorter-dated bonds, with various calls received for re-openings of the 2013, 2016, 2020, 2024 issues, either as part of the core programme or as supplementary issuance.

### End investors

Here too, most attendees favoured directing supplementary issuance to longer maturities (both conventional and index-linked, although there were some calls for all to be directed at index-linked). Views were again divided as to whether this should be achieved through adding auctions or by increasing the size of already scheduled auctions.

Conventional: There was a general consensus to build up 4¼% 2046 to benchmark status, with most recommending two further auctions of the bond. Some attendees expressed a desire to see the addition of a third long conventional auction in the quarter, to ensure a regular flow of supply here, with 6% 2028, a new 20-year gilt or even a third auction of 2046s suggested. 4¼% 2011 and 4% 2016 were seen as the obvious candidates for short and medium issuance.

Index-linked: With one exception, all advised a medium maturity auction on 11 July, with IL 2017 seen as the favoured choice. The 2027 gilt was the most popular choice for the auction on 23 August – the date of a key index extension – with a number of attendees suggesting that the size of this auction be increased because of the extension. Others suggested the addition of one or more index-linked auctions to the existing calendar to accommodate the supplementary issuance, and a number called for the introduction of a new 40-year maturity towards the end of the quarter. Other candidates mentioned variously were re-openings of existing 2020, 2024 and 2055 maturities, along with further re-openings of the 2027 gilt.

**The next quarterly consultation meetings will be held on Monday 21 August 2006, at 3:30pm (Investors) and 5:00pm (GEMMs and IL GEMMs).**