THE DEBT MANAGEMENT OFFICE'S REMIT 2009-10: MINUTE OF CONSULTATION MEETINGS WITH GEMMs AND INVESTORS ON 12 JANUARY 2009

The Economic Secretary to the Treasury chaired the regular annual meetings with representatives of the Gilt-Edged Market Makers (GEMMs) and gilt investors on 12 January 2009. Officials from HM Treasury and the UK Debt Management Office (DMO) were also present. These meetings are designed to provide gilt market participants with the opportunity to inform HM Treasury's decisions regarding the financing remit for the forthcoming financing year, 2009-10.

The forecast in the 2008 Pre-Budget Report for the Central Government Net Cash Requirement (CGNCR) for 2009-10 is £126 billion. Gilt redemptions in 2009-10 are now forecast to be £18 billion. On this basis, the gross financing requirement for 2009-10 would be around £144 billion (compared to £169 billion this financial year). It is expected that most of the financing requirement will be met by the sale of gilts. The DMO's financing remit for 2009-10 will be published alongside Budget 2009.

The main points discussed at the meetings are summarised below.

GEMMs: Confidence was expressed in the ability of the gilt market to cope with forecast high levels of supply. There was a general view that issuance of index-linked gilts should be increased next year. Ongoing structural demand for long-dated maturities was also cited, with some suggesting that Asset Liability Management (ALM) activity would be increasingly likely to focus on purchases of gilts rather than swaps. In this context, there was general support for the DMO consultation into supplementary distribution methods, as important in identifying methods to meet this demand.

Further down the curve a mixture of views were received on the strategy for short-dated issuance with some suggesting the need to avoid refinancing risk (by reducing short issuance and correspondingly increasing issuance of mediums which would benefit gilts in the futures basket), but some referred to possible regulatory issues which might serve to increase demand at the short-end next year (in particular those arising from the FSA consultation on banking liquidity).

The use of mini-tenders was widely supported, although there was a mixture of views about the balance between the appropriate degree of pre-commitment and the use of market reactive issuance. Given the widely-expected continued volatility in market conditions (and the potential impact of any regulatory changes) in the period ahead, some GEMMs supported the re-introduction of wider remit flexibility with a (small) proportion of overall issuance kept back to be allocated on a quarterly basis. Others saw the appropriate outcome from the DMO consultation as providing a more flexible range of issuance options for the DMO.

In general, however, the auction system was seen as working well. The general preference was for larger auction sizes, rather than for more operations (and for any issuance of new gilts to be built up quickly). Views were mixed, however, on the attractiveness of introducing a single price format for conventional gilt auctions.

Treasury bills were seen as providing only a marginal contribution (if at all) to financing in the next financial year.

Investors: Investors believed that demand for gilts remained strong, especially for index-linked and long conventional maturities, and generally recommended that issuance of these types of gilts be increased next year. The ongoing existence of significant structural demand from the pension industry was mentioned by a number of attendees, as evidenced by the highly inverted real yield curve - although some referred to current relatively unattractive real yield levels at the long-end.

Investor attendees were generally content with existing auction sizes and scheduling, but the ongoing use of mini-tenders was widely welcomed as a means of responding more flexibly to pockets of demand. More generally, the issue of flexibility in terms of remit delivery and better connecting gilt issuance with market demand was raised by many attendees. In this context the DMO consultation on supplementary distribution methods was also generally welcomed, particularly if it facilitated more long-dated issuance. Treasury bills were not seen as providing a significant additional source of financing.