THE DEBT MANAGEMENT OFFICE'S REMIT 2010-11: MINUTE OF CONSULTATION MEETINGS WITH GILT-EDGED MARKET MAKERS AND INVESTORS HELD ON 11 JANUARY 2010

The Financial Services Secretary to the Treasury (FSST) chaired the regular annual meetings with representatives of the Gilt-Edged Market Makers (GEMMs) and gilt investors on 11 January 2010. 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 2010-11.

The forecast in the 2009 Pre-Budget Report for the Central Government Net Cash Requirement (CGNCR) for 2010-11 is £174 billion. Gilt redemptions in 2010-11 are forecast to be £39 billion. On this basis, the gross financing requirement for 2010-11 would be around £213 billion (compared to £242.4 billion forecast for the current 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 2010-11 will be published alongside Budget 2010.

The FSST opened the meetings by welcoming attendees, thanking them for their professionalism and commitment to the gilt market in 2009-10 and noting the importance of fiscal consolidation.

The main points discussed at the meetings are summarised below.

GEMMs:

There was a strong opinion that the current remit and the split between auctions and supplementary issuance (in particular syndications and mini-tenders) had worked well and the use of such methods should be continued in 2010-11. Some attendees suggested the proportion of supplementary issuance could be increased, but a minority cautioned against this, emphasising the importance of precommitment and the primacy of the auction programme.

Most present called for index-linked issuance to be increased in 2010-11 – in proportionate and absolute terms – with syndications being seen as an important way of achieving this. Syndications were also seen as a way of increasing long-dated conventional issuance. Whilst the strength of demand for long-dated index-linked gilts was cited by many attendees, others reported a need for issuance along the index-linked curve. A number of GEMMs also suggested that the size of index-linked auctions could be increased.

Most attendees thought that any increase in index-linked issuance should come primarily at the expense of some medium-dated conventional issuance. Others noted the liquidity of the medium part of the curve and the ease of hedging facilitated the market absorbing such supply. The importance of maintaining short-dated conventional issuance was also noted with some attendees also citing the desirability of increasing issuance of circa 2-year conventional gilts (notwithstanding the impact on the redemption profile). Other attendees believed that 'ultra-short' supply might better come in the form of 1- year maturity Treasury bills. It was noted by some that issuance of ultra-short gilts could be substituted for an increase in the Treasury bill stock.

Investors:

Investors felt strongly that the current remit structure (including the use of mini-tenders and syndications) had worked well and should be continued. A clear preference for a greater skew towards long-dated index-linked and conventional gilt issuance was expressed and the future use of syndications was seen as an important factor in enabling this. Some calls were also made for further issuance of shorter-dated index-linked gilts and for the size of index-linked auctions to be increased.

Within conventional issuance, some investors cited the importance of greater issuance at the short-end including gilts deliverable into the new 2- and 5- year LIFFE futures contracts.

Some present also suggested that the Government continue to be receptive to the use of alternative instrument designs, (including floating rate gilts and longevity bonds) and consider the extension of Treasury bill issuance to include 9 or 12-month maturities.