



QUARTERLY

Review

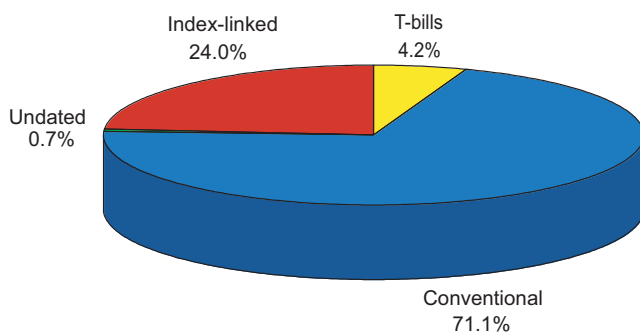
The United Kingdom Debt Management Office is an Executive Agency of HM Treasury

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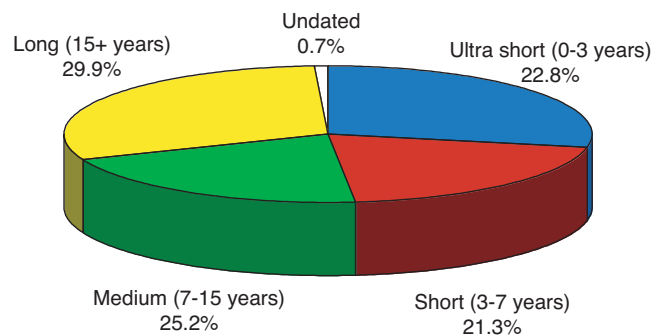
Details of the debt portfolio as of 30 September 2005

Gilt portfolio summary statistics	30 June 2005	30 September 2005
Nominal value of the gilt portfolio (including inflation uplift)	£374.55 bn	£387.61 bn
Market value of the gilt portfolio	£420.42 bn	£431.62 bn
Weighted average market yields:		
• Conventional gilts	4.15%	4.24%
• Index-linked gilts	1.52%	1.44%
Portfolio average maturity:	12.36 years	12.82 years
• Conventional gilts	11.99 years	12.15 years
• Index-linked gilts	13.43 years	13.66 years
Average modified duration:		
• Conventional gilts	7.83 years	7.81 years
• Index-linked gilts	10.91 years	11.13 years
Average coupon on conventional gilts (weighted by market value)	5.99%	5.93%
Average nominal amount outstanding of largest 20 gilts (including inflation uplift)	£13.54 bn	£13.88 bn

Composition of debt stock*



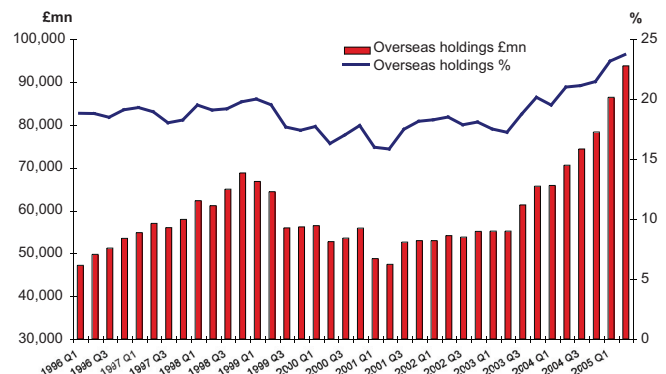
Debt portfolio maturity split*



Distribution of gilt holdings at 30 June 2005

(£ millions)	at end Q1 2005	Q2 2005
Insurance Companies and Pension Funds	225,015	233,362
Overseas	86,470	93,795
Other financial institutions	30,825	33,634
Households	33,475	35,639
Local Authorities and Public Corporations	2,998	2,367
Building Societies	1,392	1,082
Banks**	-5,960	-3,247
TOTAL	374,215	396,632

Overseas holdings of gilts



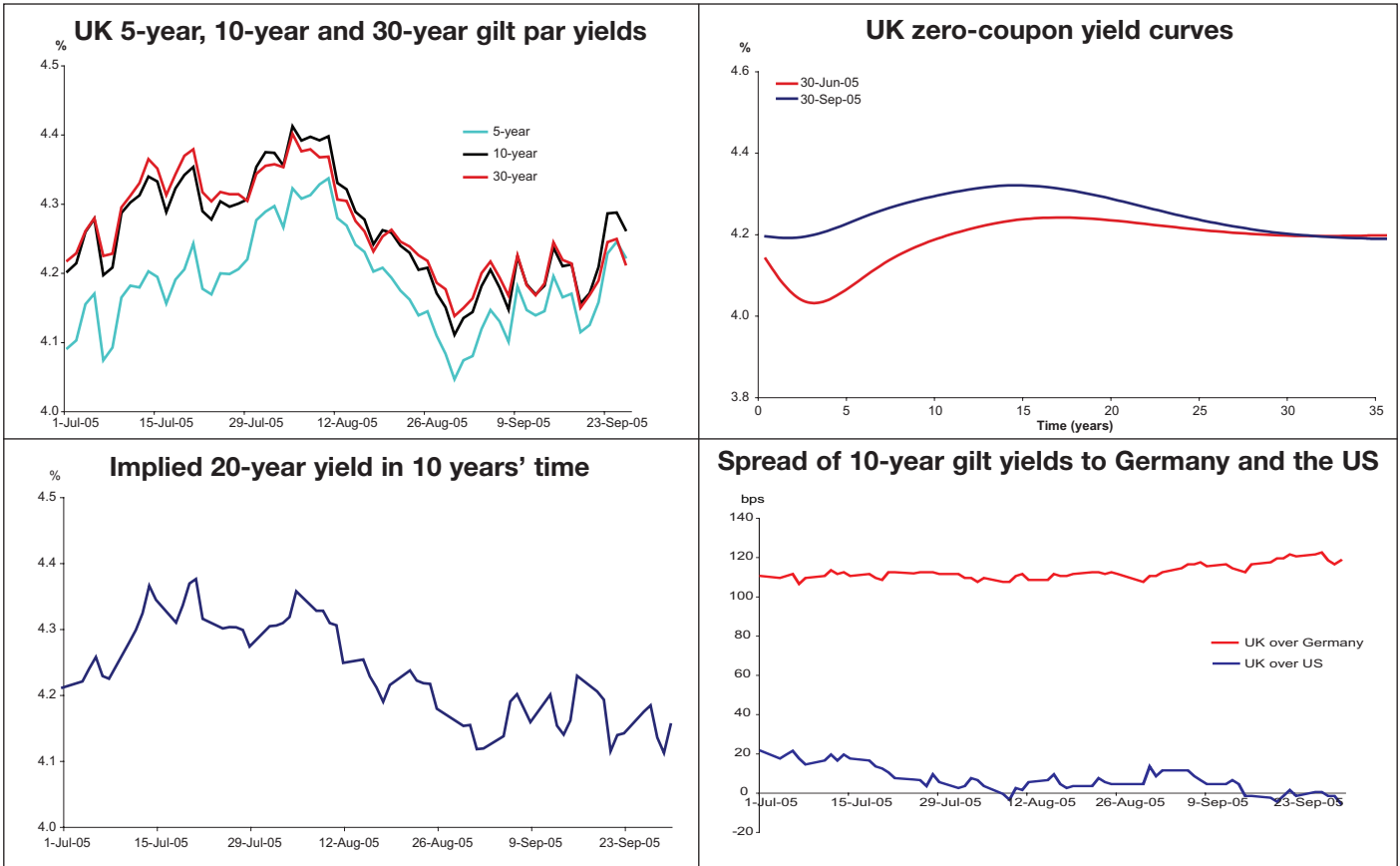
Source: ONS. Note: These figures can be revised retrospectively

Source: ONS

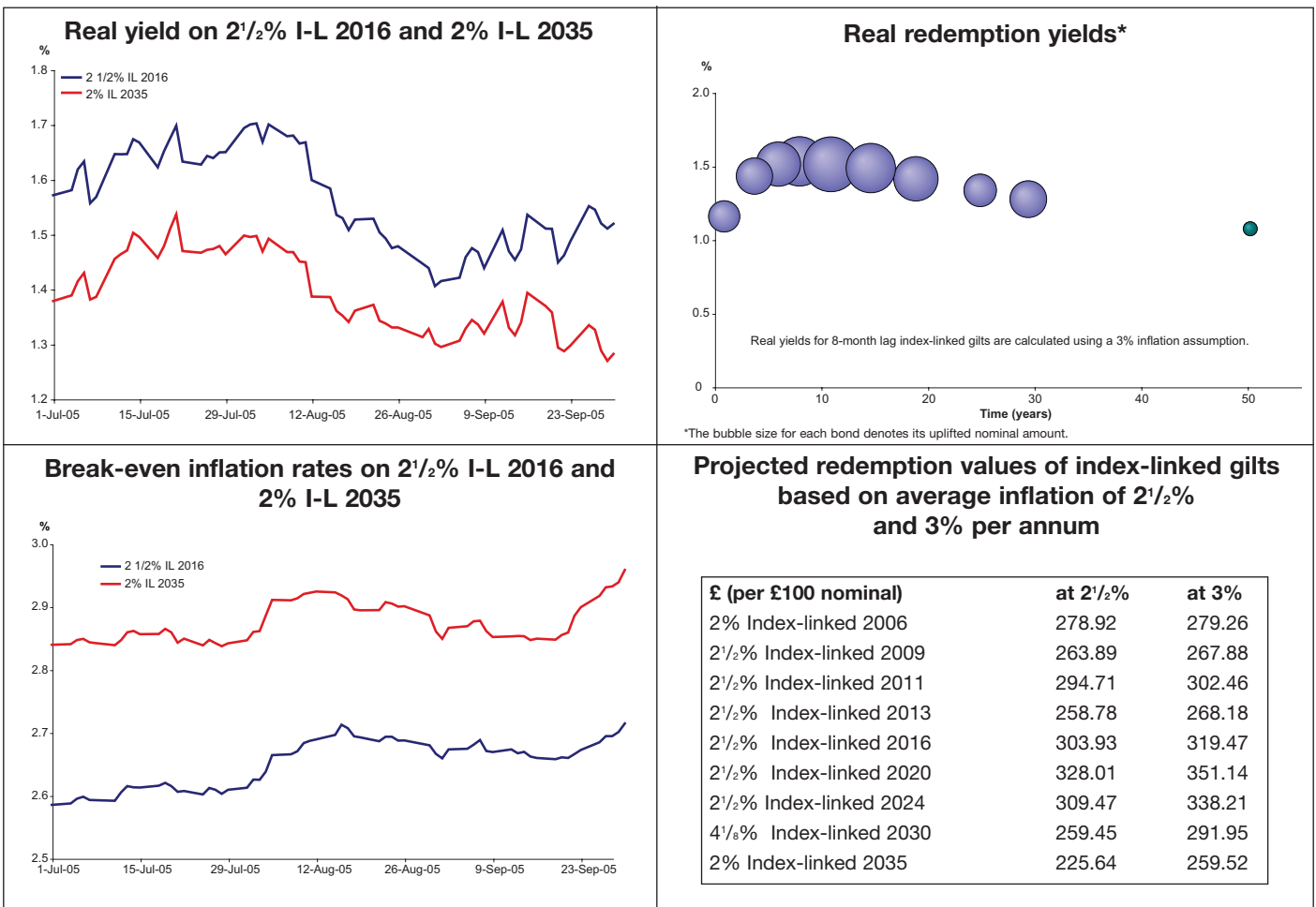
* Figures in the pie charts may not sum due to rounding.

** Repo position.

Conventional gilts



Index-linked gilts



Gilt market flows (£mn)

	Gross gilt issuance (cash)	Redemption	Coupons*	Net financing from gilts after redemptions and coupons
Sep-04	3,174	0	-2,696	478
Oct-04	5,676	-1,518	-452	3,706
Nov-04	4,235	-6,120	-469	-2,354
Dec-04	2,635	0	-3,441	-806
Jan-05	6,138	0	-1,064	5,074
Feb-05	3,276	0	-658	2,618
Mar-05	3,308	0	-2,877	431
Apr-05	6,572	-4,374	-403	1,795
May-05	3,583	0	-247	3,336
Jun-05	3,853	0	-3,818	35
Jul-05	3,249	0	-876	2,373
Aug-05	2,967	0	-599	2,368
Sep-05	6,957	-2	-3,722	3,233
Oct-05	N/A	0	-176	-
Nov-05	N/A	0	-256	-
Dec-05	N/A	-10,176	-4,066	-

Figures may not sum due to rounding

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

Results of financing operations						
Operation date	Gilt	Issue amount (nominal)	Cover	Yield tail (basis points)	Average accepted price	Yield at average accepted price
14-Jul-05	4¼% 2055	£2,250mn	1.23	1	£99.50	4.27%
26-Jul-05	2½% IL 2020	£400mn	2.72	N/A ^a	£252.87	1.66%
2-Aug-05	4% 2009	£3,000mn	1.98	0	£99.18	4.25%
6-Sep-05	4¼% 2036	£2,750mn	1.62	0	£100.66	4.21%
22-Sep-05 ^b	1¼% IL 2055	£1,250mn	1.90	N/A ^b	£105.29 ^c	1.11%
27-Sep-05	4¾% 2020	£2,750mn	1.89	0	£104.59	4.32%

^a Index-linked gilts are issued through a uniform price format. ^b 1¼% IL 2055 was issued by means of a syndicated offer (see page 8)
^c This is the real clean price

Progress against the 2005-2006 financing remit at 30 September 2005

(£ mn)	Conventional gilts			Index-linked gilts	Total
	Short (0-7 years)	Medium (7-15 years)	Long (>15 years)		
Remit plans	12,100	11,100	17,900	10,000	51,100
Outright sales	5,994	5,579	10,144	5,283	27,181

2004-05 and 2005-06 financing requirements

<i>Figures may not sum due to rounding</i>	2004-05 Outturn	2005-06 Budget	2005-06 Revised 20 April 2005
(£ bn)			
CGNCR forecast	38.6	40.2	40.2
Redemptions	14.7	14.5	14.6
Financing for the Official Reserves	0.0	0.0	0.0
Debt buy-backs	0.1	0.0	0.0
Planned short-term financing adjustment	-2.9	1.3	-2.7
Gross Financing requirement	50.5	56.0	52.1
Less			
National Savings & Investments' contribution	1.9	3.5	3.5
Net financing requirement	48.6	52.5	48.6
Gilt sales planned during the year	50.1	53.5	51.1
Change in planned Treasury bill stock	1.2	-1.0	-2.5
Change in Ways and Means	0.0	0.0	0.0
DMO net cash position at end of financial year	2.9	0.2	0.2

Details of market activity

Top twenty gilts traded (by market value) in the thirteen weeks to 30 September 2005

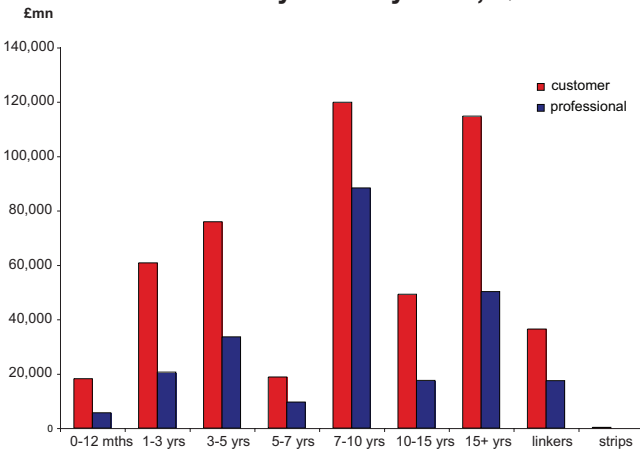
Gilt	Market value of trades (£mn)	% of value of all gilt trades	Turnover ratio ^a	Number of bargains ('000s)	Average bargain size (£mn)
5% Treasury Stock 2014	163,591	23%	12	12	13
4¾% Treasury Stock 2015	72,163	10%	5	10	7
4¼% Treasury Stock 2036	46,604	7%	3	5	10
4% Treasury Stock 2009	36,693	5%	2	6	6
5% Treasury Stock 2012	34,387	5%	2	7	5
4½% Treasury Stock 2007	33,753	5%	3	3	11
5% Treasury Stock 2008	32,659	5%	2	5	6
8% Treasury Stock 2021	26,464	4%	1	7	4
4¾% Treasury Stock 2010	23,007	3%	2	4	5
4¼% Treasury Stock 2032	22,569	3%	2	4	5
5% Treasury Stock 2025	20,906	3%	1	3	7
8½% Treasury Stock 2005	20,404	3%	2	3	7
8% Treasury Stock 2013	17,409	2%	2	1	13
6% Treasury Stock 2028	17,256	2%	1	3	6
7½% Treasury Stock 2006	14,080	2%	1	2	6
7¼% Treasury Stock 2007	11,916	2%	1	4	3
5¾% Treasury Stock 2009	11,815	2%	1	5	2
6¼% Treasury Stock 2010	8,888	1%	2	5	2
4¾% Treasury Stock 2020	8,705	1%	1	2	5
8% Treasury Stock 2015	8,610	1%	1	1	10

The top twenty gilts account for 88% of total market turnover.

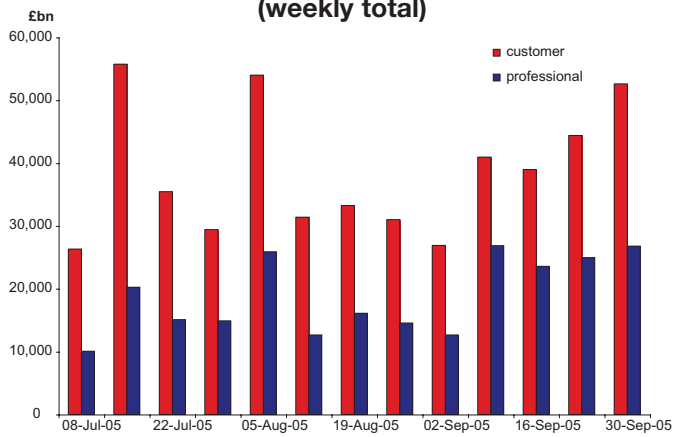
The information is based on provisional information provided by the London Stock Exchange and should only be treated as indicative.

^a The total market value of the gilt traded over the quarter relative to the market value of the outstanding gilt at the end of the quarter.

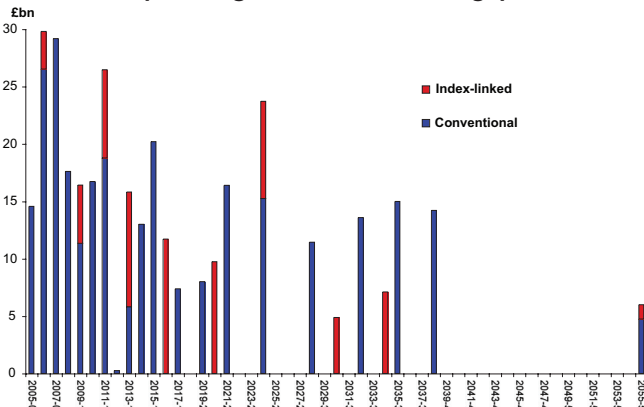
GEMM turnover by maturity band, Q3 2005



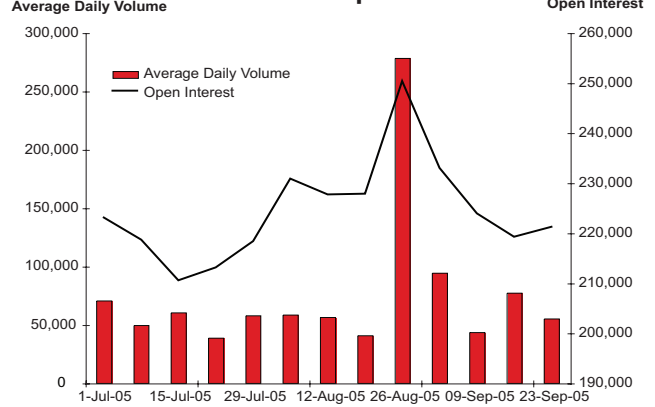
Total GEMM market turnover (weekly total)



Gilt redemptions (net of government holdings)



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



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

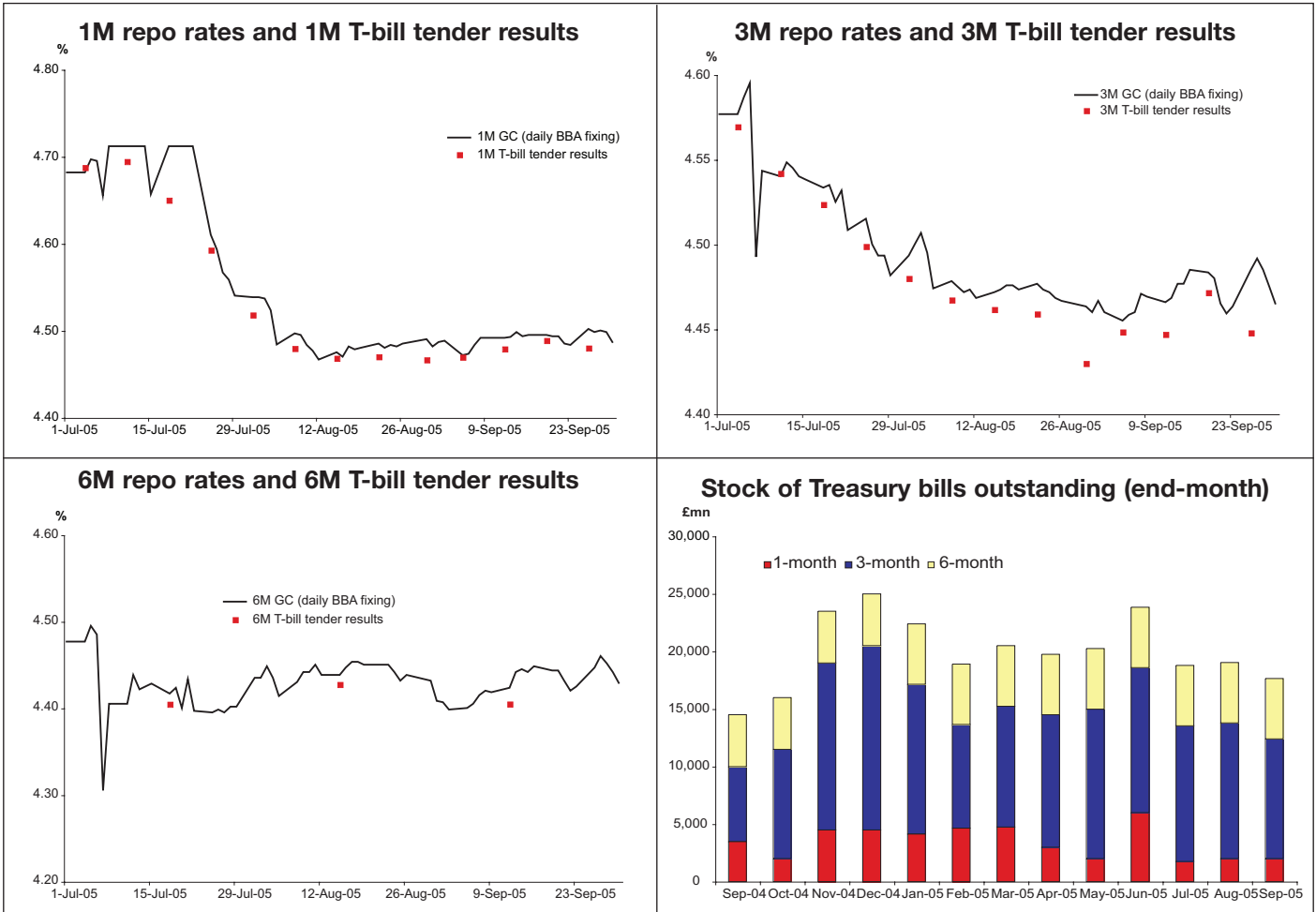
Source: LIFFE

Gilts in issue at 30 September 2005 (£mn nominal)

Conventional gilts	Redemption date	Amount in issue	Amount held in stripped form	DMO/CRND* Holdings
8½% Treasury Stock 2005	07-Dec-05	9,821	141	301
7¾% Treasury Stock 2006	08-Sep-06	4,064	-	549
7½% Treasury Stock 2006	07-Dec-06	12,133	147	601
4½% Treasury Stock 2007	07-Mar-07	11,817	113	342
8½% Treasury Loan 2007	16-Jul-07	4,766	-	498
7¼% Treasury Stock 2007	07-Dec-07	11,409	110	549
5% Treasury Stock 2008	07-Mar-08	14,613	23	558
5½% Treasury Stock 2008/2012	10-Sep-08	1,026	-	183
4% Treasury Stock 2009	07-Mar-09	16,616	8	396
5¾% Treasury Stock 2009	07-Dec-09	11,753	79	674
4¾% Treasury Stock 2010	07-Jun-10	12,505	3	270
6¼% Treasury Stock 2010	25-Nov-10	5,095	-	614
9% Conversion Loan 2011	12-Jul-11	5,545	-	354
7¾% Treasury Loan 2012/2015	26-Jan-12	804	-	339
5% Treasury Stock 2012	07-Mar-12	13,714	112	603
8% Treasury Stock 2013	27-Sep-13	6,352	-	557
5% Treasury Stock 2014	07-Sep-14	13,410	2	417
4¾% Treasury Stock 2015	07-Sep-15	13,359	83	367
8% Treasury Stock 2015	07-Dec-15	7,581	143	376
8¾% Treasury Stock 2017	25-Aug-17	7,965	-	594
4¾% Treasury Stock 2020	07-Mar-20	8,069	0	74
8% Treasury Stock 2021	07-Jun-21	17,203	288	808
5% Treasury Stock 2025	07-Mar-25	15,847	140	605
6% Treasury Stock 2028	07-Dec-28	12,080	240	633
4¼% Treasury Stock 2032	07-Jun-32	14,211	648	633
4¼% Treasury Stock 2036	07-Mar-36	15,338	255	342
4¾% Treasury Stock 2038	07-Dec-38	14,643	142	400
4¼% Treasury Gilt 2055	07-Dec-55	4,750	-	1
3½% War Loan	Undated	1,939	-	31
Index-linked gilts	Redemption date	Amount in issue	Nominal including inflation uplift	DMO/CRND* Holdings
2% I-L Treasury Stock 2006	19-Jul-06	2,109	5,734	109
2½% I-L Treasury Stock 2009	20-May-09	3,208	7,694	184
2½% I-L Treasury Stock 2011	23-Aug-11	4,496	11,392	224
2½% I-L Treasury Stock 2013	16-Aug-13	6,623	14,025	331
2½% I-L Treasury Stock 2016	26-Jul-16	7,471	17,291	411
2½% I-L Treasury Stock 2020	16-Apr-20	6,165	14,037	266
2½% I-L Treasury Stock 2024	17-Jul-24	5,954	11,516	315
4⅞% I-L Treasury Stock 2030	22-Jul-30	4,510	6,306	211
2% I-L Treasury Stock 2035	26-Jan-35	7,222	7,859	249
1¼% I-L Treasury Gilt 2055	22-Nov-55	1,250	1,250	0
Rump gilts	Redemption date	Amount in issue		DMO/CRND* Holdings
9¾% Conversion Stock 2006	15-Nov-06	1		0
9% Treasury Loan 2008	13-Oct-08	528		13
8% Treasury Stock 2009	25-Sep-09	256		7
9% Treasury Stock 2012	06-Aug-12	245		18
12% Exchequer Stock 2013/2017	12-Dec-13	19		0.1
2½% Treasury Stock	Undated	468		9
4% Consolidated Loan	Undated	287		1
2½% Consolidated Stock	Undated	205		4
3½% Conversion Loan	Undated	19		5
3% Treasury Stock	Undated	45		0
2½% Annuities	Undated	2		0.4
2¾% Annuities	Undated	0.7		0

It is assumed that double-dated issues (which have not been called) currently trading above par will be redeemed at the first maturity date.
* Includes holdings by the Commissioners for the Reduction of the National Debt (CRND) and the DMO. Excludes holdings by local authorities, public corporations and the Bank of England.

Money market operations



Treasury bill tender results Q3 2005

Tender date	Tender amount (£mn)	Average yield (%)	Average price (£)	Cover	Yield tail (bp)
1 month T-bills					
1-Jul-05	500	4.6874	99.6417	6.68	0
8-Jul-05	500	4.6945	99.6412	6.25	2
15-Jul-05	500	4.6500	99.6446	4.44	0
22-Jul-05	250	4.5926	99.6489	6.08	1
29-Jul-05	500	4.5181	99.6423	5.81	2
5-Aug-05	500	4.4795	99.6575	7.74	0
12-Aug-05	500	4.4684	99.6584	7.61	1
19-Aug-05	500	4.4701	99.6583	6.53	1
26-Aug-05	500	4.4666	99.6707	6.89	0
2-Sep-05	500	4.4697	99.6583	7.01	1
9-Sep-05	500	4.4790	99.6576	6.79	0
16-Sep-05	500	4.4887	99.6568	6.29	0
23-Sep-05	500	4.4802	99.6575	6.62	1
30-Sep-05	500	4.4864	99.6570	6.26	0
3 month T-bills					
1-Jul-05	800	4.5694	98.8736	7.62	1
8-Jul-05	800	4.5419	98.8803	5.09	1
15-Jul-05	800	4.5236	98.8848	5.96	1
22-Jul-05	800	4.4988	98.8908	6.92	1
29-Jul-05	800	4.4800	98.8954	5.61	1
5-Aug-05	800	4.4673	98.8985	6.41	0
12-Aug-05	800	4.4617	98.8999	5.87	1
19-Aug-05	800	4.4590	98.9005	6.44	1
26-Aug-05	800	4.4299	98.9195	7.23	0
2-Sep-05	800	4.4484	98.9031	6.41	1
9-Sep-05	800	4.4470	98.9035	7.07	0
16-Sep-05	800	4.4716	98.8975	6.25	0
23-Sep-05	800	4.4479	98.8794	7.37	0
30-Sep-05	800	4.4498	98.8909	6.92	1
6 month T-bills					
15-Jul-05	750	4.4047	97.8509	6.66	1
12-Aug-05	750	4.4276	97.8400	6.23	1
9-Sep-05	750	4.4049	97.8508	6.20	0

Calendar for Q4 2005

Treasury bill tenders usually take place every Friday

October	
4	Announcement of the size of the auction of 4¼% Treasury Stock 2032 on 13 October.
13	Auction of 4¼% Treasury Stock 2032.
18	Announcement of the size of the auction of 1¼% Index-linked Treasury Gilt 2055 on 25 October. Publication of the September RPI by ONS and dividend fixing for 2½% Index-linked Treasury Stock 2009. Publication of the 2 November – 1 December 2005 index ratios for 1¼% Index-linked Treasury Gilt 2055.
19	Issuance of gilts and Treasury bills for use as collateral.
25	Auction of 1¼% Index-linked Treasury Gilt 2055.

November	
1	Announcement of the coupon and size of the auction on 8 November of a new current coupon conventional gilt maturing on 7 March 2011.
8*	Auction of a new current coupon conventional gilt maturing on 7 March 2011.
15	Announcement of the size of the auction of 2½% Index-linked Treasury Stock 2013 on 24 November. Publication of the October RPI by ONS. Publication of the 2 December – 1 January 2006 index ratios for 1¼% Index-linked Treasury Gilt 2055.
24*	Auction of 2½% Index-linked Treasury Stock 2013.
29	Announcement of the size of the auction of 4¼% Treasury Gilt 2055 on 6 December.

December	
6*	Auction of 4¼% Treasury Gilt 2055.
7	Redemption of 8½% Treasury Stock 2005.
12	DMO quarterly consultation meetings with End-Investors (3.00 pm) and GEMMs (4.00 pm).
13	Publication of the November RPI by ONS and the dividend fixing for IL 2006, IL 2016, IL 2024, IL 2030 and IL 2035. Publication of the 2 January – 1 February 2006 index ratios for 1¼% Index-linked Treasury Gilt 2055. Publication of the minutes of the consultation meetings.
16	Publication of the gilt auction calendar for January-March 2006. Publication of the Treasury bill calendar for January-March 2006.

*Date subject to confirmation following the Chancellor's decision on the Budgetary timetable.

DMO wire service pages

Information	Reuters	Bridge	Moneyline Telerate	Topic	Bloomberg
Index	DMO/INDEX	K:2366	21290	44799	DMO<GO>
Announcements	DMO/GILTS1 to 9	K:3327-K:3335	22550 to 22556	44700 to 44712	DMO1<GO>
Shop window general information	DMO/GILTS10	K:3336	6517	44717	DMO3<GO>
Shop window 1	DMO/GILTS11	K:3337	6518	44718	DMO3<GO>
Benchmark prices	DMO/BENCH1	K:3338	22557	44720 to 44721	DMO2<GO>
GEMMA ref prices (Conventionals)	GEMMA01 to 04	K:3358-K:3361	47216 to 47219	44800 to 44802	DMO5<GO>
GEMMA ref prices (I-L)	GEMMA07 to 08	K:3365	47223	44805	DMO5<GO>
GEMMA ref prices (Strips)	GEMMA13 to 23	K:3370-K:3379	21291 to 21300	44850 to 44864	DMO6<GO>
Cash announcements	DMO/CASH01	K:2367	15700 to 15709	44660 to 44669	DMO8<GO>
T-bill tender information	DMO/CASH11	K:2377	15710 to 15711	44670 to 44671	DMO9<GO>
Ad-hoc tender information	DMO/CASH16	K:2382	15715 to 15716	44675 to 44676	DMO10<GO>
T-bill reference prices	DMO/TBILLS01	K:2387	15720 to 15724	44900 to 44909	DMO11<GO>

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Updated data, press releases and other information are available on the DMO website at www.dmo.gov.uk
Comments on this publication or the website would be welcomed by Sarah Ellis or Mark Deacon.

The UK issues the longest-dated sovereign index-linked bond in the world – by syndication

On 22 September 2005 the DMO announced the result of the syndicated offer of £1.25 billion (nominal) of 1¼% Index-linked Treasury Gilt 2055. This transaction was a first in a number of respects. It was the first ever syndicated offering of a gilt, and the gilt itself was – and remains – the longest-dated sovereign index-linked bond in the world. The gilt was priced at a yield spread of 19 basis points below 2% Index-linked Treasury Stock 2035 (the next longest-dated index-linked gilt), equating to a price of £105.29 per £100 nominal and a real yield of 1.112% – the lowest ever real yield at which an index-linked gilt has been issued. In addition, 1¼% Index-linked Treasury Gilt 2055 is the first index-linked gilt to adopt a three-month indexation lag – now considered to be international best practice. All new index-linked gilts will adopt the three-month lag design.

The offer settled, and the gilt was issued, on 23 September 2005. The DMO believes that this was another first – the first syndicated offer internationally to settle on a T+1 basis. The offer raised some £1.3 billion (cash).

The UK domestic investor base provided the main support for the offer, taking around 90% of the allocation. The remaining 10% was mainly placed in continental Europe. In terms of investor type, there was very strong interest from “real money” accounts, reflecting the structural demand for long-dated assets. “Real money”, primarily fund managers, pension funds and insurance companies, took two thirds of the transaction and the remaining one third was placed within GEMM banks and other trading houses. There were 43 bids from members of the public, who invested a total of £501,000.

The decision to use syndication, as opposed to an auction to launch this new index-linked gilt was based on its unique and innovative characteristics, in particular relating to the opening of a new sector of the sterling market, where few points of comparison existed for the purpose of pricing. The syndication process was considered the best way to ensure a fair and transparent price formation process, benefiting both investors and the issuer. The DMO announced the decision to syndicate the issue on 31 August 2005. At the same time, it announced that the index-linked gilt auction originally scheduled for 22 September 2005 was cancelled.

The syndicated offering was managed by four Joint Bookrunners: Barclays Capital, Morgan Stanley & Co International Limited, Royal Bank of Scotland and UBS Limited. The syndicate also included ten Co-Lead Managers comprising the other Index-linked GEMMs: CS First Boston Limited, Deutsche Bank (AG) London Branch, Dresdner Bank (AG) London Branch, Goldman Sachs International Limited, HSBC Bank PLC, JP Morgan Securities Limited, Lehman Brothers International (Europe), Merrill Lynch International, Royal Bank of Canada Europe Limited and Winterflood Securities Limited. The composition of the syndicate was announced by the DMO on 13 September 2005.

The order book managed by the Joint Bookrunners was opened at 8.30am on 20 September 2005 with a target size of approximately £1 billion and with indicative price guidance for investors at a spread of 14bps to 19bps below the yield on 2% Index-linked Treasury Stock 2035. The value of orders in the book passed £1 billion after four hours. At the close of business on 20 September orders were in excess of £1.25 billion and by early on 21 September the price guidance was tightened to a range of 17bps to 19bps below the 2035 maturity index-linked gilt. Given the quality and strength of the orders in the book, it was announced later on 21 September that the final size of the transaction would be £1.25 billion. The book closed at 3.30 pm on that day, containing orders in excess of £2 billion. The offer was priced on the afternoon of 22 September at a yield spread of 19 bps below the 2035 maturity index-linked gilt, i.e. the tight end of the original spread range.

The DMO is reverting to its usual issuance method - auctions - for subsequent issuance of gilts. Details of the gilt auction calendar for October-December 2005 were announced at 3.30pm on Friday 30 September 2005 – these included a first reopening, by auction, of £675 million (nominal) of 1¼% Index-linked Treasury Gilt 2055 on Tuesday 25 October.

