

RECORD OF THE DMO CONSULTATION MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE APRIL-JUNE 2018 GILT MARKET OPERATIONS CALENDAR

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 19 March 2018. The meetings were primarily intended to inform the choice of gilts to be sold via auction and syndication in the first quarter of 2018-19.

Ten auctions are scheduled in April-June 2018: seven of conventional gilts and three of index-linked gilts. In addition to views on choices of gilts for sale via auction, feedback was sought on the choice of a long conventional gilt to be sold via syndication, as well as the timing of that transaction. Views were also sought on demand for any gilt tenders in the period. In discussion, the following main points emerged.

A. GEMMs

Syndication

A clear preference was expressed for an extension of the nominal curve with a variety of views on the recommended maturity year within the range of 2070-2074, but with a slight preference towards the 2071-2073 area. In terms of timing, May was seen as the preferred month to undertake the transaction, although a few GEMMs noted that April could represent another possibility.

Conventional auctions

Scheduling

A number of GEMMs suggested that the maturity sequencing of the three conventional auctions in April might be changed from that proposed in the meeting agenda i.e. from short/medium/long to either medium/long/short or long/medium/short, in order to bring forward sought after long conventional supply.

Short: (three auctions)

There were unanimous calls for two re-openings of 0¾% 2023 and some GEMMs supported three re-openings. Others who did not advocate three auctions of 0¾% 2023 mostly suggested the launch of a new five/six-year gilt in Q1. There were isolated references to a re-opening of shorter-dated gilts.

Medium: (two auctions)

Calls for two re-openings of the 1½% 2028 were almost unanimous - just one GEMM proposed an auction of 1¼% 2027.

Long: (two auctions)

Strongest support was expressed for re-openings of 1¾% 2037 and 1½% 2047, with isolated calls for other maturities, including 2057 and the launch of a new 30-year gilt in Q1, though most felt that this could wait until Q2.

Index-linked: (three auctions)

Re-openings of IL 2036 and IL 2048 were widely recommended and significant support also expressed for the launch of a new 10 year maturity in Q1. There were some calls for an auction of IL 2026, or for the launch of a new IL gilt with a maturity either in excess of 10 years (i.e. a 2030-33 maturity) or 25 years (2043 maturity).

B. Investors

Syndication

Strong support was expressed for an extension to the conventional yield curve with 2072-73 seen as the most popular new maturity area, although 2071 and 2074 maturities were also mentioned. Mid-May was seen as the most likely date for the transaction.

Conventional auctions

Short (three auctions)

Where a preference was expressed, attendees generally supported the case for three re-openings of 0¾% 2023 in Q1. There were, however, a couple of suggestions for a new 2024 maturity to be launched in June.

Medium (two auctions)

Again, where a preference was expressed, attendees unanimously recommended two re-openings of 1⅝% 2028.

Long (two auctions)

The maturities most often recommended for auction were 1¾% 2037 and 1¾% 2057. Of the investors advocating such an approach, most suggested the 2057 maturity for April and the 2037 for June. There were, however, a few calls for a re-opening of the 1½% 2047 or the launch of a new conventional gilt in either the 25- or 30-year maturity areas.

Index-linked (three auctions)

In general it was felt that demand for index-linked gilts remained focussed in the 20-30-year area rather than in the ultra-long area, in contrast to the conventional sector. The gilts most often mentioned for re-opening by auction in Q1 were the 2026, 2036, 2040 and 2048 maturities. There were also several calls for the launch of a new gilt in the 10-year area, with possible maturities in the years 2028, 2030 or 2031 all mentioned.

Timetable

The gilt operations calendar for April-June 2018 will be announced by the DMO at 7.30am on Friday 23 March 2018.

The next quarterly consultation meetings to discuss gilt issuance in July-September 2018 are scheduled to be held at the DMO's offices on Monday 21 May 2018.