THE UK DEBT MANAGEMENT OFFICE'S REMIT 2016-17: MINUTES OF CONSULTATION MEETINGS WITH GEMMs AND INVESTORS, HELD AT HM TREASURY ON 26 JANUARY 2016

The Economic Secretary to the Treasury chaired the annual meetings with representatives of the Gilt-edged Market Makers (GEMMs) and of UK-based gilt investors on 26 January 2016. Officials from HM Treasury and the UK Debt Management Office (DMO) were also present. These meetings provide gilt market participants with the opportunity to inform HM Treasury's decisions regarding the debt financing remit for 2016-17.

The gross financing requirement for 2016-17 was forecast at Autumn Statement 2015 to be around £140 billion. The DMO's financing remit for 2016-17 will be published alongside Budget 2016 on 16 March 2016.

The Economic Secretary opened both meetings by thanking attendees for their commitment to the gilt market in 2015-16.

The main points arising at the meetings are summarised below.

GEMMs: There was a general view that market conditions (in both the gilt and repo markets) were particularly challenging and that a number of regulatory initiatives had combined to make market making more difficult as the banks have become increasingly wary about committing balance sheets due to rising capital cost. It was also noted that banks are reassessing their business models accordingly.

These important caveats aside, no fundamental changes to the structure of the financing remit for 2016-17 were proposed. The strength of prevailing demand for long and index-linked gilts, particularly with maturities in the ultra-long sector, was cited with some calls for long and index-linked issuance to be skewed more towards these maturities.

There were mixed views on the optimum size of auctions and on whether the size of the syndication programme should be increased. Some attendees suggested that greater use could be made of mini-tenders (for example, to issue off-the-run gilts). There were also some views expressing a preference for moving to a uniform price format for conventional gilt auctions, while others preferred to retain the current format. The question of CPI-linked gilt issuance (potentially in future years) was raised, although it was recognised that a pre-requisite would be certainty over which measure of the CPI will be preferred by the government for macro-economic purposes.

Of those attendees who expressed an opinion there were mixed views about whether the size of the Treasury bill stock should be increased next financial year.

Investors: Attendees generally felt that the 2015-16 financing remit had been delivered smoothly to-date, but some concern was expressed about the bunching of operations (particularly syndications) in the third quarter after the General Election. Some investors advised that this should be avoided when planning the 2016-17 programme.

The current and likely future strength of demand for long-dated gilts, in particular long index-linked gilts, from the pension sector was emphasised. It was felt that the index-linked demand exceeded current and anticipated future levels of supply.

A number of attendees cited the impact of regulation particularly on the repo market and the associated negative consequences for gilt market liquidity and associated higher transaction costs. Concerns were raised by some about the impact of regulatory change on market structure, as well as about the level of end-user participation at auctions.

Scope for future issuance of CPI-linked gilts was also mentioned by some, given the rising total of CPI liabilities. The potential role of government in issuing CPI-linked gilts to provide a pricing reference for corporate CPI issuance was also mentioned.