

RECORD OF THE DMO CONSULTATION MEETINGS WITH GILT MARKET PARTICIPANTS AHEAD OF THE ANNOUNCEMENT OF THE JANUARY-MARCH 2017 GILT MARKET OPERATIONS CALENDAR

The DMO held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 28 November 2016. The meetings were primarily intended to inform the choice of gilts to be sold via auction, syndication and gilt tender in the final quarter of 2016-17.

Fourteen gilt auctions are scheduled in January-March 2017: eleven of conventional gilts and three of index-linked gilts. In addition to views on choice of gilts for issuance via auctions, views were also sought on the choice of gilts for issuance via two planned syndications (a long conventional and an index-linked) and via gilt tender(s), and the timing of any such operations. In discussion, the following main points emerged:

A. GEMMs

Syndications:

There was unanimity of preference for a conventional syndication in January 2017, with a re-opening of 2½% Treasury Gilt 2065 the most favoured choice, followed by calls for the launch of a new 40-year gilt.

Most suggested that the index-linked transaction should take place in February. At this stage, re-openings of 0⅞% Index-linked Treasury Gilt 2056 or 0⅞% Index-linked Treasury Gilt 2065 received most recommendations, but a number of representatives proposed that the DMO should retain flexibility to decide the precise maturity closer to the event.

Conventional auctions:

Short (4):

There was virtual unanimity favouring at least three re-openings of the 0½% Treasury Gilt 2022, and a significant number suggesting four. There were some calls for a number of shorter maturities ranging from 1¾% Treasury Gilt 2019 to 2¼% Treasury Gilt 2023, with others observing that such maturities could be issued via gilt tender rather than auction.

Medium (4):

Strong support was received for one or two re-openings of 1½% Treasury Gilt 2026, with most GEMMs also calling for the launch of a new (March or July) 2027 maturity towards the end of the quarter. There were also some calls for a re-opening of 4¼% Treasury Gilt 2027, whilst others suggested re-opening 2% Treasury Gilt 2025.

Long (3):

Strong support was expressed for a re-opening of both 1¾% Treasury Gilt 2037 and 1½% Treasury Gilt 2047, with considerable support for two auctions of the latter. There were some calls for an auction of an ultra-long bond, where such a bond was not proposed for syndication.

Index-linked auctions (3):

There was clear support for re-openings of 0¼% Index-linked Treasury Gilt 2026, 0¼% Index-linked Treasury Gilt 2036 and 0¼% Index-linked Treasury Gilt 2046, with some proposals for various other bonds, including shorter maturities.

B. Investors

Syndications:

A strong preference was expressed for a long conventional syndication to be held in January 2017, with mixed views received regarding the maturity, generally split between a re-opening of 2½% Treasury Gilt 2065 or a new 2057 maturity gilt.

Most attendees recommended that the index-linked transaction be held in February, although some suggested that March could also be an option. Where views were expressed, re-openings of 0¼% Index-linked Treasury Gilt 2056 or 0¼% Index-linked Treasury Gilt 2065 were most widely proposed, but it was felt that the DMO should retain flexibility to decide nearer to the time.

Conventional auctions:

Short (4):

A number of re-openings of 0½% Treasury Gilt 2022 were generally supported by those expressing a view here, but there was also some support for re-opening shorter maturities, including 1¾% Treasury Gilt 2019 or 3¾% Treasury Gilt 2019.

Medium (4):

At least two re-openings of 1½% Treasury Gilt 2026 were generally supported, along with a number of calls for a new 10-year maturity gilt, and for a re-opening of 4¼% Treasury Gilt 2027.

Long (3):

Up to two re-openings of each of 1¾% Treasury Gilt 2037 and 1½% Treasury Gilt 2047 were widely suggested, with isolated calls for other gilts including the 2052, 2055 or 2060 maturities.

Index-linked auctions (3):

Here too support was expressed for re-openings of 0½% Index-linked Treasury Gilt 2026, 0½% Index-linked Treasury Gilt 2036 and 0½% Index-linked Treasury Gilt 2046, with a few calls for other gilts including the 2037, 2040, or 2065 maturities, or the launch of a new 5-year gilt.

C. Any other business

Coupons on new conventional gilts

The DMO reported that, from the start of the 2017-18 financial year, it will set coupons on new conventional gilts in increments of ¼%, in line with the practice on index-linked gilts^[1].

D. Timetable

The calendar of gilt issuance in January-March 2017 will be announced by the DMO at 3.30pm on Friday 2 December 2016.

The next quarterly consultation meetings to discuss gilt issuance in April-June 2017 are scheduled to be held at the DMO's offices on Monday 20 March 2017 (subject to confirmation depending on the Chancellor's decision on the timing of the next fiscal event).

^[1] The DMO currently sets coupons on new conventional gilts in increments of ¼%.