

Gilt Week Ahead

6 July 2020, Tim Davis

The highlight of the week ahead will be Chancellor Rishi Sunak's speech on Wednesday. He is due to deliver the summer economic update – an event which has been scaled down somewhat from the originally mooted summer budget but is still seen as a significant event (so much so that the linker auction scheduled for Wednesday has been moved to Thursday instead). The statement is expected to focus on employment and training. However some of the bigger policies that could be announced include a time limited cut to VAT (sales tax), cuts to stamp duty (tax on house purchases) and more money for the NHS. However, most of the commentary has suggested that most of the big measures may be delayed until the Autumn Budget so that the government can assess the state of the economy over the summer before acting.

Other than the Chancellor's speech, the calendar is fairly sparse for the UK this week. There is only one MPC member scheduled to speak (Andy Haldane on Tuesday evening) and the economic data calendar see no tier one releases.

The following week sees events pick up again with the release of the OBR Fiscal Sustainability Report on Tuesday 14 July followed by a further update to the gilt remit on Thursday 16 July. The remit update will cover the period to the end of November. Next week will also see a slew of significant data including monthly GDP and its components, inflation and labour market data.

See auction previews for the week ahead below.

Key Upcoming Dates

- 9-Jul Chancellor Rishi Sunak's Summer Economic Update
- 14-Jul OBR to publish Fiscal Sustainability Report, focusing on the impact of the coronavirus outbreak
- 16-Jul DMO to publish updated remit for Sep to Nov at 7:30BST
- 20-Jul DMO to publish agenda for consultations at 15:30BST
- 27-Jul DMO to hold quarterly investor (15:30BST) and GEMM (17:00BST) consultations
- 31-Jul DMO to publish Sep to Nov auction calendar at 7:30BST
- 6-Aug BoE Monetary Policy Report and policy decision at 12:00BST

Supply Previews

0.125% Jan-23 auction

Issuance will kick off for the week on Tuesday with GBP3.75bln of the 0.125% Jan-23 gilt on offer. This will be the fifth auction of the gilt following its launch three months ago with GBP3.75bln having been on offer at every auction so far. On an RV basis, the 0.125% Jan-23 gilt continues to trade at a discount to its peers with prevailing yields around 3bp higher than for other gilts of a similar maturity. Bid-to-covers on the gilt have been gradually falling from 3.05x at launch to 2.21x at its last auction, although the tail has stayed steady at 0.3-0.4bp for the last three auctions. We note that as the gilt has a maturity of less than three years it is ineligible for the BoE's APF purchase scheme. The gilt is scheduled to be auctioned twice more before the end of August - on 29 July and on 18 August.

1.25% Oct-41 auction

The 1.25% Oct-41 gilt will also be on offer on Tuesday with GBP2.25bln on offer. This will be the fifth auction of this gilt (fourth this fiscal year) with all but the second auction for GBP2.25bln (the second auction was for the lower amount of GBP2.00bln). Bids have been steady around the GBP5bln mark irrespective of the size on offer with tails varying from 0.2bp to 0.4bp (although the last auction saw the widest tail so far). The gilt is scheduled to be sold again on 4 August.

0.125% Aug-41 linker auction

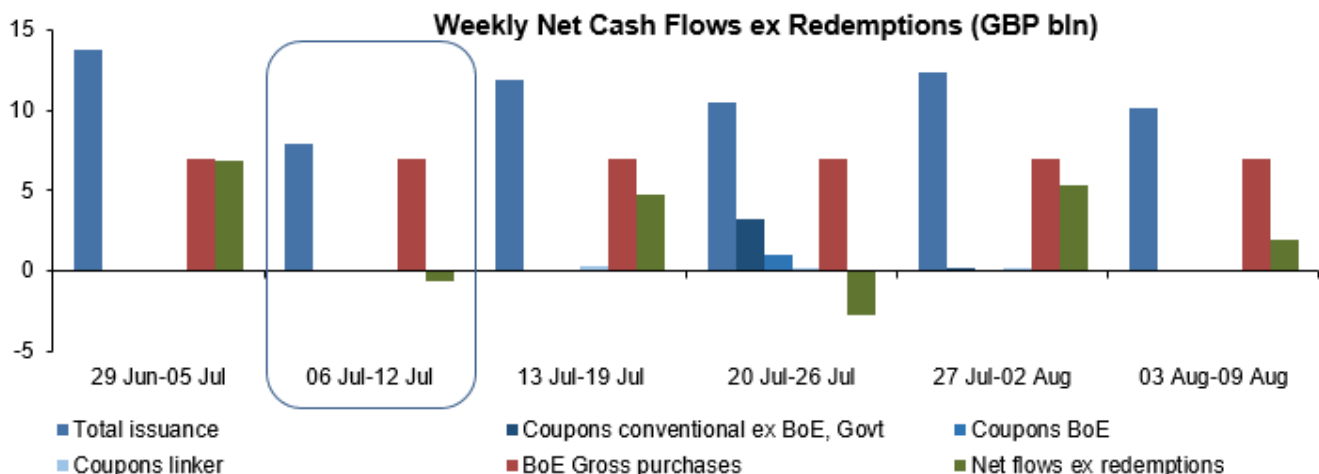
The 0.125% Aug-41 index-linked gilt will be on offer for a nominal GBP900mln on Thursday, concluding issuance for the week. This will be the first auction of the linker with the four previous primary offerings all via syndication – twice in the 2018/19 fiscal year and twice in the 2019/20 fiscal year. In the first quarter of fiscal 2020/21 there were five index-linked auctions and all saw healthy bid-to-covers in the 2.52-3.38x range with an average of just shy of 3x. The 0.125% Aug-41 linker auction follows the auction of the conventional 1.25% Oct-41 gilt auction on Tuesday. Real yields on the gilt fell to record lows last week of below -2.50%. Note that this auction was originally scheduled for Wednesday 8 July but was moved back a day to accommodate Chancellor Sunak’s Summer Economic Statement.

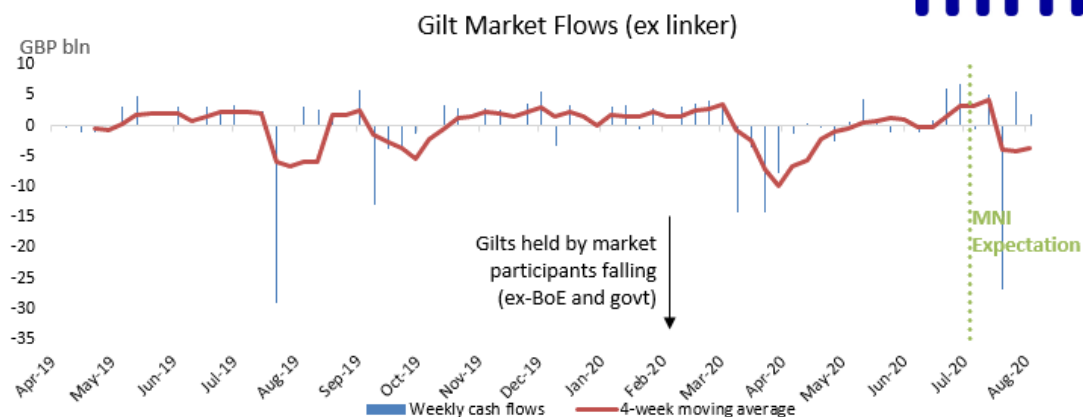
Gilt Issuance, Redemption and Cash Flow Matrix



Net Cash Flow Matrix (GBP bln)

	29 Jun-05 Jul	06 Jul-12 Jul	13 Jul-19 Jul	20 Jul-26 Jul	27 Jul-02 Aug	03 Aug-09 Aug
Issuance - conventional	13.8	6.3	11.9	8.5	12.4	8.8
Issuance - linker		1.6		2.0		1.3
Redemptions ex BoE				25.2		
Redemptions BoE				6.1		
Redemptions linker						
Coupons - conventional ex BoE				3.2	0.0	
Coupons - conventional BoE				1.0		
Coupons - Linkers			0.3	0.2	0.2	
Gross BoE purchases	6.9	6.9	6.9	6.9	6.9	6.9
Net flow	6.9	1.0	4.7	-25.0	5.3	3.2
Net flow ex linker	6.9	-0.6	5.0	-26.8	5.5	1.9





Purchase Proceeds Since March 20 (Date Medium Bucket Redefined)

Short-dated Purchases

Gilt	GBP bln
0.75% Jul-23	11.31
2.25% Sep-23	6.73
1.00% Apr-24	9.26
2.75% Sep-24	7.09
5.00% Mar-25	-
0.625% Jun-25	11.32
2.00% Sep-25	7.06
0.125% Jan-26	0.92
1.50% Jul-26	11.30

Medium-dated Purchases

Gilt	GBP bln
1.25% Jul-27	5.09
4.25% Dec-27	-
0.125% Jan-28	1.00
1.625% Oct-28	19.35
6.00% Dec-28	-
0.875% Oct-29	22.98
0.375% Oct-30	2.37
4.75% Dec-30	5.24
4.25% Jun-32	0.83
4.50% Sep-34	2.39
4.25% Mar-36	1.53
1.75% Sep-37	2.70
4.75% Dec-38	1.00
4.25% Sep-39	0.53

Long-dated purchases

Gilt	GBP bln
4.25% Dec-40	1.74
1.25% Oct-41	2.93
4.50% Dec-42	0.81
3.25% Jan-44	2.81
3.50% Jan-45	1.32
4.25% Dec-46	1.31
1.50% Jul-47	2.62
1.75% Jan-49	13.57
4.25% Dec-49	2.97
0.625% Oct-50	0.85
3.75% Jul-52	6.38
1.625% Oct-54	4.58
4.25% Dec-55	0.94
1.75% Jul-57	4.74
4.00% Jan-60	4.09
0.50% Oct-61	1.22
2.50% Jul-65	5.55
3.50% Jul-68	4.18
1.625% Oct-71	2.36

Gilts in red reached BoE 70% free float issue limit so are ineligible for further purchases
 A gilt will only be eligible for purchases when its issue size exceeds GBP4bln
 A gilt is ineligible for purchase if there is any primary issuance of the gilt within 7 days

April 2020 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	4.1	7.8	11.1	17.6	2.7	13.0
BoE purchases	-	9.7	11.3	18.4	2.6	21.0
Net	4.1	-1.9	-0.1	-0.7	0.1	-8.0

May 2020 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	7.7	4.0	7.8	22.3	-	17.3
BoE purchases	-	9.3	8.7	16.9	1.1	18.0
Net	7.7	-5.3	-0.9	5.3	-1.1	-0.7

June 2020 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	4.3	11.2	10.7	14.4	-	16.1
BoE purchases	-	10.3	6.7	15.4	1.6	17.0
Net	4.3	1.0	4.0	-0.9	-1.6	-0.8

July 2020 Issuance/Purchases (MNI Estimates)

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	8.6	8.4	11.1	17.4	-	12.8
BoE purchases	-	6.2	4.1	9.5	0.9	10.4
Net	8.6	2.1	7.0	7.9	-0.9	2.4

August 2020 Issuance/Purchases (MNI Estimates)

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	3.7	4.3	7.1	13.3	-	11.4
BoE purchases	-	4.2	2.9	6.5	0.6	7.1
Net	3.7	0.1	4.3	6.8	-0.6	4.3

Note: We assume £1.151bln per operation until August MPC meeting then GBP0.8bln per operation

Source for all: MNI, DMO, Bank of England

2019/20 Issuance: Cash Proceeds

	2019	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total	Target	% Target	Remaining
Conventional	Short	3.49	3.02	3.06	3.37	3.04	3.07	3.47	3.48	3.42	3.27	3.49	6.82	43.0	42.8	100.4	-
	Medium	3.28	-	3.16	3.19	-	2.84	3.24	2.86	3.20	6.03	3.56	3.80	35.2	34.0	103.4	-
	Long 15-28YR	2.29	-	-	2.42	-	-	2.55	-	-	2.59	-	-	9.8	-	-	-
	Long 29-40YR	-	-	2.43	-	2.64	-	-	2.64	2.31	-	-	2.71	12.7	21.8	103.6	-
	Long 41YR+	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Syndication:	-	4.78	-	-	-	-	4.62	-	-	-	-	3.21	-	12.6	13.7	92.1
Tender:	-	-	-	-	0.88	-	-	-	-	-	-	0.51	-	1.4	-	-	-
Total conventional	9.1	7.8	8.6	9.0	6.6	10.5	9.3	9.0	8.9	11.9	10.8	13.3	114.8	112.3	102.1		
Index-linked	Short	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Medium	-	1.84	-	-	1.73	-	1.44	-	-	1.37	-	1.58	8.0	-	-	-
	Long 15-28YR	-	-	-	-	-	-	1.62	-	-	-	1.34	-	3.0	14.1	101.6	-
	Long 29-40YR	-	-	1.31	-	-	1.16	-	-	0.92	-	-	-	3.4	-	-	-
	Long 41YR+	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Syndication:	-	-	-	4.19	-	-	-	3.60	-	-	-	-	-	7.8	8.0	97.4
Tender:	0.48	-	-	-	-	-	-	-	-	0.48	-	-	-	1.0	-	-	-
Total linker	0.5	1.8	1.3	4.2	1.7	1.2	3.1	3.6	0.9	1.8	1.3	1.6	23.1	22.1	104.4		
Unallocated:	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0	-	-	-
Total	9.5	9.6	10.0	13.2	8.3	11.7	12.3	12.6	9.9	13.7	12.1	14.9	137.8	136.8	100.8		

2018/19 Issuance: Cash Proceeds

	2018	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Conventional	Short	2.70	3.36	2.71	2.74	-	2.98	2.95	-	2.50	2.80	-	3.42	26.2
	Medium	2.51	2.81	-	2.93	2.54	2.76	-	2.28	-	2.65	2.70	-	21.2
	Long 15-28YR	-	-	2.57	-	-	-	-	2.24	-	2.01	-	-	6.8
	Long 29-40YR	2.24	-	-	2.40	-	2.46	-	-	1.94	-	1.75	1.73	12.5
	Long 41YR+	-	-	-	-	-	-	-	-	-	-	-	-	-
	Syndication:	-	5.86	-	-	-	-	-	4.73	-	-	-	-	10.6
Tender:	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total conventional	7.4	12.0	5.3	8.1	2.5	8.2	7.7	4.5	4.4	7.5	4.4	5.2	77.3	
Index-linked	Short	-	-	-	-	-	-	-	-	-	-	-	-	-
	Medium	-	-	1.66	-	1.34	-	1.34	-	-	-	1.57	-	5.9
	Long 15-28YR	-	1.65	-	-	-	-	-	-	-	-	-	-	1.7
	Long 29-40YR	1.20	-	-	-	-	1.42	-	1.07	0.88	-	-	0.62	5.2
	Long 41YR+	-	-	-	-	-	-	-	-	-	-	-	-	-
	Syndication:	-	-	-	4.84	-	-	-	-	-	-	3.80	-	8.6
Tender:	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total linker	1.2	1.7	1.7	4.8	1.3	1.4	1.3	1.1	0.9	-	5.4	0.6	21.4	
Unallocated:	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total	8.7	13.7	6.9	12.9	3.9	9.6	9.0	5.6	5.3	7.5	9.8	5.8	98.6	

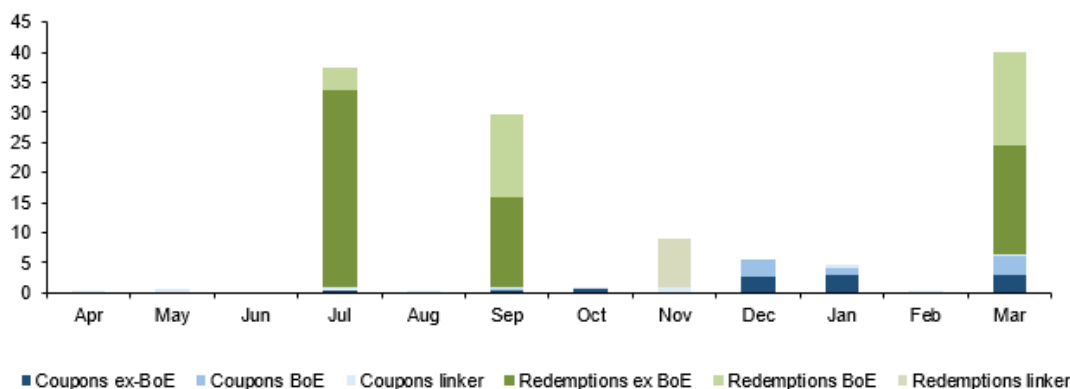
2019/20: Coupon payments

2019	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Nominal	-	-	-	0.32	-	0.54	0.66	-	7.16	4.09	-	6.80	19.6
-BoE	-	-	-	0.03	-	0.25	0.03	-	3.01	0.97	-	3.16	7.5
-ex-BoE	-	-	-	0.25	-	0.25	0.63	-	2.60	3.00	-	2.91	9.6
Linker:	0.28	0.77	-	0.61	0.02	0.29	0.29	0.79	-	0.62	0.02	0.29	4.0
Total	0.3	0.8	-	0.9	0.0	0.8	0.9	0.8	7.2	4.7	0.0	7.1	23.5

2019/20: Redemptions

2019	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Nominal	-	-	-	36.50	-	28.74	-	-	-	-	-	33.70	98.9
-BoE	-	-	-	3.77	-	13.53	-	-	-	-	-	15.44	32.7
-ex-BoE	-	-	-	32.74	-	15.20	-	-	-	-	-	18.26	66.2
Linker:	-	-	-	28.11	-	13.54	-	-	-	-	-	12.04	53.7
-inc uplift	-	-	-	-	-	-	-	8.18	-	-	-	-	8.2
Total cash	-	-	-	36.5	-	28.7	-	8.2	-	-	-	33.7	107.1

Monthly Cash Flows 2019/20 (GBP bln)



2019/20 Issuance Calendar



DMO Supply (GBP mln)

Date	Country	Issue	Nom Amount	PAOF	Cash proceeds	Yield	Bid-to-cover	Tail
2-Apr	Auction	1.00% Apr-24	3000	450.0	3493	0.75%	2.4	0.2
9-Apr	Auction	1.625% Oct-28	2750	385.1	3281	1.11%	2.3	0.3
10-Apr	Tender	0.125% Nov-36 Linker	300	-	477	-2.03%	2.7	
16-Apr	Auction	1.75% Sep-37	2250	-	2286	1.65%	2.3	0.2
9-May	Auction	1.00% Apr-24	3000	-	3022	0.85%	2.4	0.6
14-May	Syndication	1.625% Oct-54	4750	-	4779	1.60%		
23-May	Auction	0.125% Aug-28 Linker	1250	187.5	1840	-2.33%	2.4	
4-Jun	Auction	1.00% Apr-24	3000	-	3056	0.61%	2.1	0.5
12-Jun	Auction	0.125% Aug-48 Linker	700	-	1311	-1.91%	1.8	
18-Jun	Auction	0.875% Oct-29	2750	412.5	3158	1.82%	2.6	1.9
25-Jun	Auction	1.75% Jan-49	2250	-	2428	1.42%	1.8	0.6
2-Jul	Auction	0.625% Jun-25	3000	373.1	3374	0.62%	1.9	0.7
9-Jul	Syndication	0.125% Aug-41 Linker	2500	-	4191	-2.09%		
16-Jul	Auction	1.75% Sep-37	2250	-	2423	1.27%	2.18	0.2
23-Jul	Auction	0.875% Oct-29	2750	412.5	3189	0.79%	2.2	0.5
6-Aug	Auction	0.625% Jun-25	3000	-	3045	0.37%	2.1	0.7
13-Aug	Auction	1.75% Jan-49	2000	300.0	2645	1.15%	2.0	0.4
20-Aug	Auction	0.125% Aug-28 Linker	1100	165.0	1731	-2.96%	2.3	
22-Aug	Tender	4.25% Dec-46	500	-	883	1.02%	2.5	
3-Sep	Auction	0.625% Jun-25	3000	-	3069	0.22%	1.8	0.8
5-Sep	Auction	0.875% Oct-29	2750	-	2838	0.55%	1.9	0.5
10-Sep	Syndication	1.625% Oct-54	4000	-	4622	1.09%		
24-Sep	Auction	0.125% Aug-48 Linker	500	75.0	1163	-2.15%	2.2	
1-Oct	Auction	1.75% Sep-37	2250	-	2551	0.94%	1.9	0.8
8-Oct	Auction	0.125% Nov-36 Linker	800	120.0	1625	-2.57%	2.0	
15-Oct	Auction	0.875% Oct-29	2750	412.5	3237	0.63%	1.9	0.5
22-Oct	Auction	0.625% Jun-25	3000	450.0	3467	0.53%	2.3	0.5
29-Oct	Auction	0.125% Aug-28 Linker	1100	-	1444	-2.48%	2.6	
5-Nov	Auction	0.875% Oct-29	2750	70.3	2858	0.73%	2.6	0.3
14-Nov	Auction	1.75% Jan-49	2250	106.7	2641	1.25%	1.7	1.1
19-Nov	Syndication	0.125% Aug-41 Linker	2250	-	3605	-1.88%		
26-Nov	Auction	0.625% Jun-25	3000	449.9	3475	0.49%	2.2	0.3
3-Dec	Auction	0.875% Oct-29	2750	412.5	3204	0.74%	2.2	0.3
5-Dec	Auction	1.75% Jan-49	2000	82.4	2315	1.29%	2.1	0.2
11-Dec	Auction	0.125% Aug-48 Linker	500	-	920	-1.82%	2.6	
17-Dec	Auction	2.00% Sep-25	2750	412.5	3418	0.56%	2.4	0.2
7-Jan	Auction	0.875% Oct-29	2750	412.5	3186	0.79%	2.5	0.2
9-Jan	Auction	0.125% Aug-28 Linker	1000	56.0	1370	-2.44%	2.6	
14-Jan	Auction	0.625% Jun-25	3250	-	3265	0.54%	2.2	0.3
21-Jan	Auction	1.25% Oct-41	2250	295.9	2588	1.16%	2.2	0.2
23-Jan	Tender	0.125% Aug-48 Linker	250	-	477	-1.96%	3.4	
28-Jan	Auction	0.875% Oct-29	2750	-	2848	0.50%	2.3	0.2
4-Feb	Auction	0.125% Nov-36 Linker	800	-	1336	-2.26%	2.5	
11-Feb	Syndication	1.625% Oct-71	2500	-	3212	-0.93%		
20-Feb	Auction	1.50% Jul-26	3250	19.9	3490	0.44%	1.7	1.0
25-Feb	Auction	0.875% Oct-29	3250	192.0	3559	0.51%	2.2	0.4
27-Feb	Tender	1.75% Jul-57	400	-	514	0.86%	3.9	
4-Mar	Auction	0.625% Jun-25	3500	-	3574	0.22%	1.8	1.4
5-Mar	Auction	0.125% Aug-28 Linker	1100	144.2	1583	-2.72%	2.5	
10-Mar	Auction	4.75% Dec-30	2250	337.5	3801	0.31%	2.2	0.6
17-Mar	Auction	1.75% Jan-49	2000	300.0	2713	0.01%	2.1	1.8
19-Mar	Auction	0.625% Jun-25	3250	-	3248	0.01%	2.0	1.4