

Gilt Week Ahead

6 September 2021, Tim Davis

The domestic highlight of the week ahead will be the Treasury Select Committee hearing on Wednesday with Governor Bailey, Broadbent, Ramsden and Tenreyro all due to testify. Since the MPR was released we have received some mixed June activity data (services stronger than expected but manufacturing and construction weaker) but then we have seen softer CPI and retail sales data for July and mixed PMI data for August. Market pricing has focused most on the CPI print (although there is still the expectation that inflation will increase later in the year) while labour market data was largely in line with expectations on the headline measures but the experimental PAYE data showed some promise. With inflation and the labour market the two main discussion points for the MPC, any comments on how these data are seen to be evolving will be closely watched.

In addition to the TSC hearing on Wednesday we also have Saunders appearing in an "Ask the expert" event for Intuit tomorrow and another appearance tomorrow morning from new MPC member Catherine Mann (whose comments overnight focused on developments in the US but did nothing to change the market's view that she is likely to be on the dovish side of the Committee).

Friday will see the release of July activity data. Consensus is looking for a 0.5%M/M print (which would be the slowest pace of growth since the lockdown-induced contraction in January). Industrial production and construction are both expected to pare about half of June's losses while the service sector is expected to slow to 0.6%M/M (from 1.5% in June). The market will pay attention to the data but will likely be looking to next week's inflation and labour market data for more conviction.

Political events will also be closely monitored with the media widely reporting that an increase in national insurance contributions (effectively an income/payroll tax) will be used to pay for a reform of social care alongside an end to the pensions triple lock (which links pension increases to the higher of 2.5%, average earnings or inflation). These decisions are politically controversial as the Conservative manifesto included pledges to keep national insurance at its current rate and to maintain the pensions triple lock.

Outside of the domestic matters, the ECB meeting will be closely watched this week and is likely to drive general market sentiment towards the end of the week.

Supply Previews

0.25% Jan-25 auction

The DMO will come to the market on Tuesday to sell GBP3.25bln of the 3-year 0.25% Jan-25 gilt. This will be the second auction of the issue that was launched on 1 July with the larger auction size of GBP3.50bln (and a further GBP732mln purchased at the PAOF). That auction saw decent demand with a bid-to-cover of 2.34x and a tight tail of 0.1bp. We would expect similarly strong demand at this week's auction and note that at the time of writing, the prevailing yield on the gilt is around 3bp lower than seen at July's auction. There is actually very little of the 0.25% Jan-25 gilt in the hands of market participants with the BoE having already purchased GBP3.0bln of the gilt through its APF operations (around 70% of the free float), leaving GBP1.2bln in the hands of the market. The 0.25% Jan-25 gilt is due to be reopened monthly with auctions scheduled for 5 October, 2 November and 2 December.

1.625% Oct-71 auction

Also Tuesday, the DMO will look to sell GBP1.25bln of the 50-year 1.625% Oct-71 gilt. This will be the fourth auction of the gilt in the 2021/22 fiscal year with the June and July auctions in particular seeing strong demand with bid-to-covers of 2.26x and 2.51x respectively and tails of 0.3bp and 0.2bp. The April auction saw a wider tail of 0.8bp. We would expect a strong auction this week and note that the prevailing yield is only around 1bp lower than achieved at the July auction

despite yields having moved more than 15bp lower and back again since. The 1.625% Oct-71 gilt is due to be reopened on 2 November.

0.125% Aug-31 linker

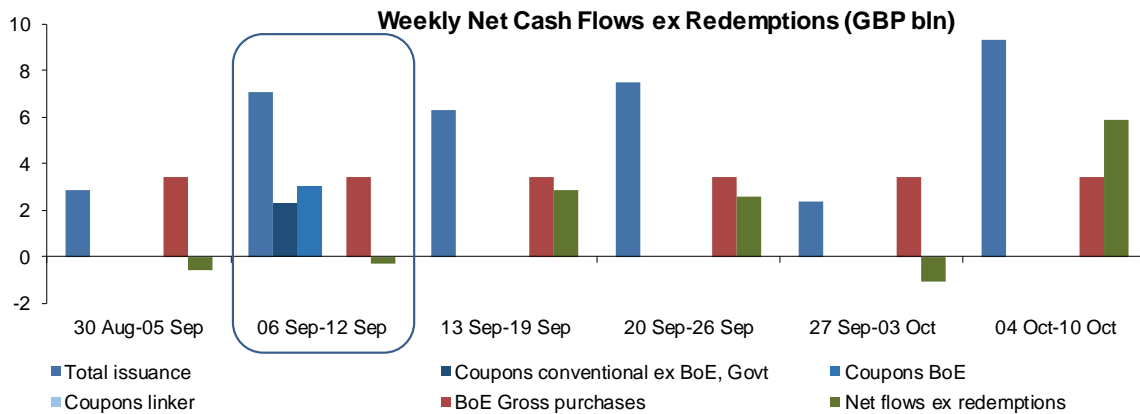
Wednesday will see the DMO hold an auction for GBP1.0bln nominal of the 10-year linker, the 0.125% Aug-31. This will be the fifth auction of the linker that was launched in January. Bid-to-covers have all been in a healthy 2.77-3.54x range, with the last auction in June having seen the low of that range. There is only one more auction of the 10-year linker scheduled this year, on 10 November.

Gilt Issuance, Redemption and Cash Flow Matrix

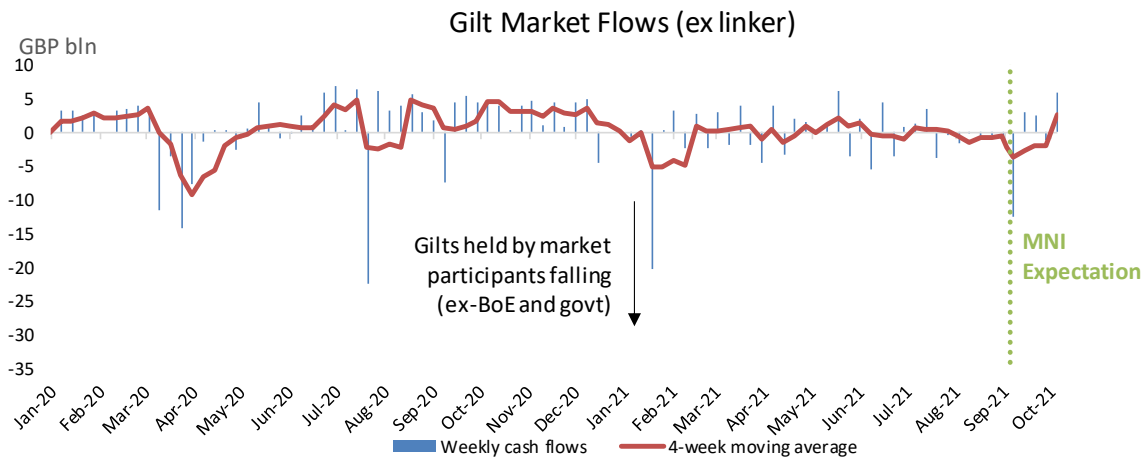


Net Cash Flow Matrix (GBP bln)

	30 Aug-05 Sep	06 Sep-12 Sep	13 Sep-19 Sep	20 Sep-26 Sep	27 Sep-03 Oct	04 Oct-10 Oct
Issuance - conventional	2.8	5.5	6.3	6.0	2.3	9.3
Issuance - linker		1.6		1.5		
Redemptions ex BoE		12.3				
Redemptions BoE		14.3				
Redemptions linker						
Coupons - conventional ex BoE		2.3				
Coupons - conventional BoE		3.0				
Coupons - Linkers						
Gross BoE purchases	3.4	3.4	3.4	3.4	3.4	3.4
Net flow	-0.6	-11.0	2.9	4.0	-1.1	5.9
Net flow ex linker	-0.6	-12.6	2.9	2.6	-1.1	5.9



QE Tracker



Purchase Proceeds During Fiscal Year 2021/22



Short-dated Purchases

Gilt	GBP bln
1.00% Apr-24	1.79
2.75% Sep-24	-
0.25% Jan-25	3.00
5.00% Mar-25	-
0.625% Jun-25	3.62
2.00% Sep-25	-
0.125% Jan-26	3.92
1.50% Jul-26	-
0.375% Oct-26	4.82
1.25% Jul-27	3.64
4.25% Dec-27	-
0.125% Jan-28	6.10

Medium-dated Purchases

Gilt	GBP bln
1.625% Oct-28	2.84
6.00% Dec-28	-
0.875% Oct-29	0.88
0.375% Oct-30	4.27
4.75% Dec-30	-
0.25% Jul-31	5.28
4.25% Jun-32	-
4.50% Sep-34	0.71
0.625% Jul-35	4.95
4.25% Mar-36	1.60
1.75% Sep-37	2.64
4.75% Dec-38	0.86
1.125% Jan-39	0.48
4.25% Sep-39	1.36
4.25% Dec-40	1.02

Long-dated purchases

Gilt	GBP bln
1.25% Oct-41	1.56
4.50% Dec-42	0.28
3.25% Jan-44	1.88
3.50% Jan-45	1.20
0.875% Jan-46	2.54
4.25% Dec-46	1.11
1.50% Jul-47	0.80
1.75% Jan-49	0.64
4.25% Dec-49	0.49
0.625% Oct-50	7.37
1.25% Jul-51	2.25
3.75% Jul-52	1.01
1.625% Oct-54	1.42
4.25% Dec-55	0.65
1.75% Jul-57	0.94
4.00% Jan-60	0.61
0.50% Oct-61	0.64
2.50% Jul-65	0.37
3.50% Jul-68	0.27
1.625% Oct-71	0.87

Gilts in purple have moved from a different maturity bucket

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

September 2020 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	3.3	-	6.9	18.1	2.6	11.1
BoE purchases	-	3.5	3.9	6.2	1.1	7.4
Net	3.3	-3.5	3.0	11.8	1.5	3.8

May 2021 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	4.1	-	3.3	5.4	-	5.7
BoE purchases	-	2.3	2.6	4.0	0.9	4.9
Net	4.1	-2.3	0.7	1.4	-0.9	0.8

October 2020 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	3.3	7.1	3.0	11.6	-	10.3
BoE purchases	-	3.9	2.0	5.2	0.7	5.9
Net	3.3	3.2	1.0	6.4	-0.7	4.4

June 2021 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	-	-	6.7	6.1	-	6.1
BoE purchases	-	2.4	3.3	4.4	1.4	5.7
Net	-	-2.4	3.4	1.8	-1.4	0.3

November 2020 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	-	4.1	6.2	9.5	-	8.9
BoE purchases	-	5.3	2.0	5.3	0.6	5.9
Net	-	-1.3	4.2	4.3	-0.6	3.0

July 2021 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	-	4.2	3.0	3.2	7.0	3.5
BoE purchases	-	2.1	2.5	3.3	1.3	4.6
Net	-	2.2	0.5	-0.0	5.7	-1.1

December 2020 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	-	4.0	3.7	5.7	-	4.8
BoE purchases	-	2.2	0.7	4.2	0.2	4.4
Net	-	1.8	3.0	1.5	-0.2	0.4

August 2021 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	-	-	3.0	3.3	-	4.4
BoE purchases	-	1.9	2.7	3.8	0.8	5.7
Net	-	-1.9	0.3	-0.5	-0.8	-1.3

January 2021 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	-	3.3	-	9.6	-	9.9
BoE purchases	-	1.8	4.1	4.9	1.0	5.9
Net	-	1.4	-4.1	4.7	-1.0	4.0

September 2021 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	3.4	11.8	-	4.2
BoE purchases	-	2.5	3.3	4.0	1.8	4.6
Net	-	1.2	0.1	7.8	-1.8	-0.4

February 2021 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	3.3	3.0	-	5.5	-	7.1
BoE purchases	-	3.5	2.4	5.1	0.9	5.9
Net	3.3	-0.5	-2.4	0.4	-0.9	1.2

October 2021 Issuance/Purchases (MNI Estimates)

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	-	7.0	-	6.0	2.6	7.4
BoE purchases	-	2.0	2.6	3.5	1.1	4.6
Net	-	5.1	-2.6	2.5	1.5	2.8

March 2021 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	4.4	-	3.1	5.5	-	8.3
BoE purchases	-	5.1	2.3	6.0	1.4	7.4
Net	4.4	-5.1	0.8	-0.4	-1.4	0.9

November 2021 Issuance/Purchases (MNI Estimates)

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	-	7.0	-	6.2	-	6.3
BoE purchases	-	2.5	3.3	3.5	1.1	5.7
Net	-	4.6	-3.3	2.6	-1.1	0.6

April 2021 Issuance/Purchases

	0-3 years	3-5 years	5-7 years	7-15 years	15-20 years	20+ years
DMO issuance	4.1	-	3.4	6.1	-	8.9
BoE purchases	-	3.1	2.8	4.6	1.3	5.9
Net	4.1	-3.1	0.6	1.5	-1.3	3.0

December 2021 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	-	3.1	2.6	2.3
BoE purchases	-	1.0	1.3	2.6	0.8	2.3
Net	-	2.7	-1.3	0.5	1.8	0.1

Source for all: MNI, DMO, Bank of England