

# UK Issuance Outlook and Spending Review Recap

## Issuance

25 November, Tim Davis

- We have set out our expectations for the issuance calendar on page 3.
- New 2020/21 gilt remit is GBP483.5bln. Which leaves GBP92.0bln to be funded Dec-Mar.
- The MNI Markets team have GBP19.3bln issuance pencilled in for December.
- So that leaves just over GBP24bln to be issued per month from Jan-Mar.
- That's down from GBP31bln in Nov, GBP38bln in Oct, GBP45bln in Sep. So there's a downward trajectory there.
- But this sustained increase in borrowing is here to stay - we are looking at GBP20bln+/month of issuance for the next few years. This is around 50% higher borrowing on a sustained basis than the roughly GBP13/month expected pre-crisis. Note that the gross financing requirement is not a gilt issuance forecast per se as it doesn't take account of any funding from NS&I or bills or other sources of government funding.

Year	CGNCR	Gross financing req
21/22	176.6	255.9
22/23	130.1	237.2
23/24	114.0	207.9
24/25	122.0	226.4
25/26	120.9	243.4

## MNI Expected Issuance Breakdown

- **Shorts** GBP23.9bln - 8 auctions. We already have the 0.125% Jan-26 and 0.125% Jan-24 auctions in December. We expect the DMO to stick to benchmarks in this area. We look for the 0.125% Jan-26 gilt to be auctioned once more in January before a new Oct-26 gilt is launched in February and reopened in March. We expect the 0.125% Jan-24 gilt to be reopened once in each of January, February and March.
- **Mediums:** GBP26.5bln - 8 auctions. We already have one auction of each of the 0.125% Jul-31 and 0.625% Jul-35 gilts scheduled for December. We look for the 0.125% Jul-31 gilt to be reopened three times in the January-March period but the 0.625% gilt to be reopened only twice. We expect the final medium-dated auction will see either the 0.875% Oct-29 gilt auctioned.
- **Longs:** GBP30.8bln - 12 auctions. Of the 10 auctions in Jan-Mar we look for three auctions of the 1.25% Oct-41 gilt, two auctions of the 0.50% Oct-61 gilt and one auction each of the 1.75% Sep-37, 1.625% Oct-54 and the 1.75% Jul-57 gilts. We also expect two reopenings of the new 25-30 year gilt that is to be launched via syndication in January.
- **Long syndication:** In terms of timing for the long-dated syndication in which one new gilt with a maturity of 25-30 years will be launched, we pencil in our expectation that it will be held on 19 January 2021. This is the only week in the period to have only one auction scheduled.

- **Linkers:** GBP10.8bln - 7 auctions. The 0.125% Aug-28 linker is due to be sold next week and we expect it to be sold again in the Jan-Mar period. We also look for sales of the 0.125% Mar-29, 1.25% Nov-32, 0.125% Nov-36, 0.125% Aug-41 and 0.125% Aug-48. At least one syndication of a long conventional in Jan-Mar.
- **Linker syndication:** The DMO is seeking views on whether to hold a linker syndication in the Jan-Mar period.

## RPI consultation

The [RPI consultation is available here](#). We think that the announcement is in line with expectations that "the change proposed can legally and practically be made by UKSA in February 2030." However, by removing the uncertainty from the market, linkers have rallied sharply today. The 0.125% Aug-28 linker has seen real yields fall from -2.807% to -2.916% at writing (a move of 11bp) while even linkers that were longer in maturity than 2030 have seen decent moves. For example, the longest-maturity linker, the 0.125% Mar-68, has seen yields fall from -2.017% to -2.124% at writing, almost a 10bp move.

## OBR Forecasts

**GDP forecasts:** 2020 -11.3% (FSR: central -12.4%, upside -10.6%, downside -14.3%)

- 2021 5.5% (+1.8%), 2022 6.6% (+1.5%), 2023 2.3% (+1.3%), pre-ciris levels Q4-22

**PSNB (GBP bln):** 20/21 394 (FSR: central 322.0, upside 263.4, downside 391.2)

- 21/22 164 (66.7), 22/23 105 (61.5), then remains above 100 (previous 23/24 60.2, 24/25 57.9)

**Unemployment** The peak is now expected to be only 7.5% in Q2-2021. In the Fiscal Sustainability Report this had been estimated at: Central: 11.9% Q4-2020, upside 9.7% (Q3-2020), downside 13.2% (Q1-2021). So this is a much better for unemployment than previously expected.

## Spending Review Delivers Dour Outlook, But 'Rabbit From The Hat' In Levelling-Up Fund

25 November 2020, Tom Lake

With the statement from Chancellor Rishi Sunak on the Spending Review now concluded, the main takeaway is that the gov't is attempting to soften the blow of what are some extremely downbeat economic projections.

- The Office for Budgetary Responsibility forecast the economy will contract this year by 11.3%, the largest fall in output for more than 300 years. This is forecast to be followed by growth of 5.5% next year, 6.6% in 2022, then 2.3%, 1.7% and 1.8% in the following years.
- Unemployment forecast to rise to 7.5%, equating to 2.6mn individuals. This is the highest rate of unemployment since July- Sep 2013, and the highest number of people out of work since Feb-Apr 2012.
- The two most politically controversial parts of the spending review will be the freeze to public sector pay, and the reduction in the aid budget.
- On the former, Sunak says that an across-the-board public sector pay rise at a time when private sector jobs are disappearing and wages falling is not justified. Those in NHS and earning under 24k will get a rise though.
- On aid, Chancellor says "But during a domestic fiscal emergency, when we need to prioritise our limited resources on jobs and public services sticking rigidly to spending 0.7% of our national income on overseas aid, is difficult to justify to the British people especially when we're seeing the highest peacetime levels of borrowing on record."
- At the end, he reveals the 'rabbit from the hat' moment, a 'levelling up fund' of GBP4bn for towns to improve themselves. Likely to play well in many of the 'red wall' seats in northern England (and indeed many towns in the traditional Conservative heartlands of the south as well).



