

Asset Purchase Facility

Quarterly Report 2012 Q2



BANK OF ENGLAND



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Asset Purchase Facility

The Bank of England Asset Purchase Facility Fund was established as a subsidiary of the Bank of England on 30 January 2009, in order to fulfil the remit of the Chancellor of the Exchequer given to the Bank on 19 January 2009⁽¹⁾ and detailed in an exchange of letters with the Governor on 29 January 2009.⁽²⁾ This remit was subsequently expanded to enable the Fund to be used as a monetary policy tool, at the request of the Monetary Policy Committee (MPC), as detailed in the exchange of letters on 17 February and 3 March 2009.⁽³⁾

The Governor noted in his letter of 29 January 2009, 'it is important that the Asset Purchase Facility (APF) is operated in an open and transparent manner. The Bank will publish a quarterly report on the transactions as part of the facility, shortly after the end of each quarter'. This report covers the three months to 30 June 2012. More information on the Committee's monetary policy decisions can be found in the *Inflation Report*.⁽⁴⁾

The Bank's Executive Directors for Markets and for Monetary Analysis and Statistics are Directors of the Fund. The Directors make recommendations on the assets to be purchased to the Governor, who decides after consulting with the two Deputy Governors. The Fund and the Bank are indemnified by the Treasury from any losses arising out of or in connection with the Facility.⁽⁵⁾

In line with the MPC's decision on 9 February 2012 in relation to the asset purchase programme, the APF was authorised to purchase £325 billion of high-quality assets financed by the creation of central bank reserves.⁽⁶⁾ The APF first purchased gilts on 11 March 2009. All purchases of gilts have been financed by central bank reserves. The aim of these actions has been to boost the supply of money and credit in order to raise the rate of growth of nominal spending to a level consistent with meeting the inflation target in the medium term.

The APF continues to operate facilities for the purchase of private sector assets⁽⁷⁾ through the Corporate Bond Secondary Market Scheme⁽⁸⁾ and Secured Commercial Paper Facility,⁽⁹⁾ with purchases currently financed by the issue of Treasury Bills and the Debt Management Office's (DMO) cash management operations. The Commercial Paper Facility⁽¹⁰⁾ closed on 15 November 2011, reflecting improvements in the market since commercial paper was first purchased on 13 February 2009.

(1) The Chancellor's statement is available at www.hm-treasury.gov.uk/press_05_09.htm.

(2) The exchange of letters is available at www.hm-treasury.gov.uk/d/ck_letter_boe290109.pdf and www.bankofengland.co.uk/markets/Documents/apfgovletter090129.pdf.

(3) The exchange of letters is available at www.bankofengland.co.uk/monetarypolicy/Documents/pdf/govletter090305.pdf and www.hm-treasury.gov.uk/d/chxletter_boe050309.pdf.

(4) The *May Inflation Report* is available at www.bankofengland.co.uk/publications/Documents/inflationreport/ir12may.pdf.

(5) For more details see www.bankofengland.co.uk/publications/Documents/other/markets/apf/boeapfannualreport1207.pdf.

(6) For more history of MPC asset purchase decisions, see www.bankofengland.co.uk/monetarypolicy/Documents/mpcvoting.xls.

(7) The rationale for corporate asset purchases is set out in a speech by Paul Fisher available at www.bankofengland.co.uk/publications/Documents/speeches/2010/speech423.pdf.

(8) For more details see www.bankofengland.co.uk/markets/Pages/apf/corporatebond/default.aspx.

(9) For more details see www.bankofengland.co.uk/markets/Pages/apf/securedcpf/default.aspx.

(10) For more details see www.bankofengland.co.uk/markets/Pages/apf/cp/default.aspx.

Report for the quarter ended 30 June 2012

Operations

Table A below summarises the amount of assets that the Fund has purchased and sold in each week of 2012 Q2, ending Thursday, in each facility.⁽¹⁾ It also summarises the total amounts outstanding as at week ending 28 June 2012 (the last Thursday of the quarter). **Chart 1** shows the cumulative asset purchases by type between the establishment of the Fund and 28 June 2012. As of 28 June 2012 cumulative assets purchased net of sales and redemptions totalled £325 billion.

Table A APF transactions by type (£ millions)

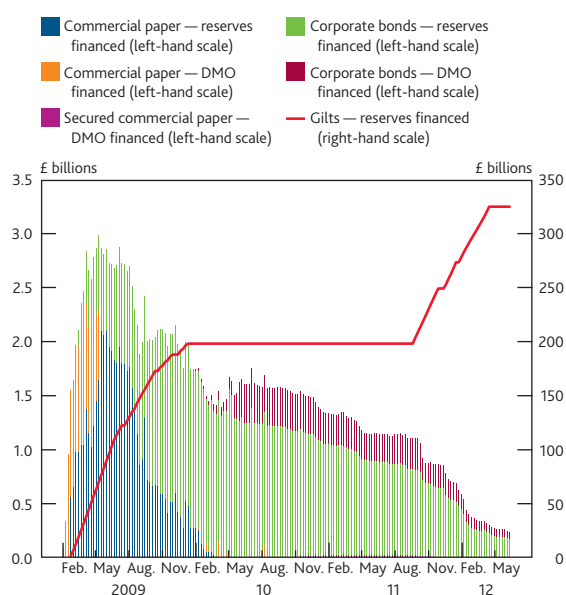
| Week ending ^(a) | Secured commercial paper | Gilts | Corporate bond | | Total ^(b) |
|--|--------------------------|----------------|----------------|-------|----------------------|
| | | | Purchases | Sales | |
| 2012 Q1 ^{(c)(d)} | 0 | 303,270 | 349 | | 303,619 |
| 5 April 2012 | 0 | 4,500 | 0 | 0 | 4,500 |
| 12 April 2012 | 0 | 3,000 | 0 | 0 | 3,000 |
| 19 April 2012 | 0 | 4,500 | 0 | 3 | 4,497 |
| 26 April 2012 | 0 | 4,800 | 0 | 12 | 4,788 |
| 3 May 2012 | 0 | 4,685 | 0 | 18 | 4,667 |
| 10 May 2012 | 0 | 0 | 0 | 22 | -22 |
| 17 May 2012 | 0 | 0 | 0 | 16 | -16 |
| 24 May 2012 | 0 | 0 | 0 | 2 | -2 |
| 31 May 2012 | 0 | 0 | 0 | 0 | 0 |
| 7 June 2012 | 0 | 0 | 4 | 3 | 1 |
| 14 June 2012 | 0 | 0 | 0 | 0 | 0 |
| 21 June 2012 | 0 | 0 | 0 | 18 | -18 |
| 28 June 2012 | 0 | 0 | 0 | 4 | -4 |
| Total financed by a deposit from the DMO ^{(d)(e)} | 0 | - | 59 | | 59 |
| Total financed by central bank reserves ^{(d)(e)} | 0 | 324,753 | 181 | | 324,934 |
| Total asset purchases net of sales^{(d)(e)} | 0 | 324,753 | 240 | | 324,993 |

Source: Bank of England.

- (a) Week-ended amounts are for purchases in terms of the proceeds paid to counterparties, and for sales in terms of the value at which the Bank initially purchased the securities. All amounts are on a trade-day basis, rounded to the nearest million. Data are aggregated for purchases from the Friday to the following Thursday.
 (b) Weekly values may not sum to totals due to rounding.
 (c) 2012 Q1 measured as amount outstanding as at 29 March 2012.
 (d) In terms of proceeds paid to counterparties less redemptions at initial purchase price on a settled basis.
 (e) Data may not sum due to assets maturing over the period.

On 9 February 2012, the MPC decided to increase the scale of the programme of asset purchases by £50 billion from £275 billion to £325 billion. On 12 April 2012, the Bank announced that, in light of ongoing sales of assets from the Asset Purchase Facility's corporate bond portfolio, originally financed by the issuance of central bank reserves, the size of the gilt purchase operations during April and early May would be adjusted to ensure that the MPC's target for cumulative asset purchases of £325 billion was met by its May meeting. Consequently, total gilt purchases between the February MPC meeting and the end of 2012 Q2 were £51.5 billion, rather than £50.0 billion.

Chart 1 Cumulative asset purchases by type: amounts outstanding^(a)



Source: Bank of England.

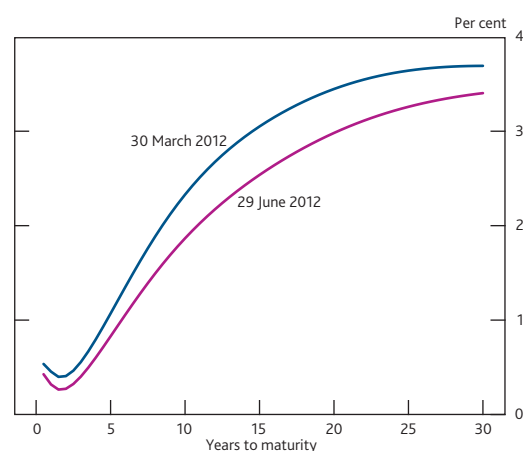
(a) Data based on settled transactions.

Conditions in UK government and corporate debt markets⁽²⁾

UK government bond market

Financial market sentiment deteriorated markedly over the quarter reflecting concerns about several euro-area economies. Consistent with this deterioration in sentiment, nominal gilt yields fell in 2012 Q2. Yields were on average around 40 basis points lower than at the end of 2012 Q1, with the largest falls at medium to long maturities (**Chart 2**).

Chart 2 UK nominal spot rates



Sources: Bloomberg and Bank calculations.

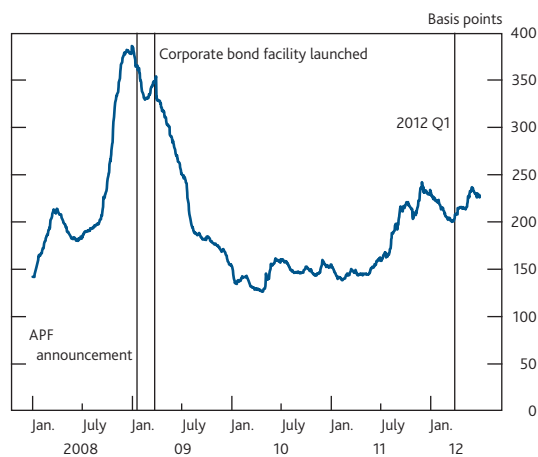
- (1) The week ending day is set to Thursday as this is the day that the MPC's monetary policy decisions are announced.
 (2) More information on market conditions up to 31 May 2012 can be found in the *Quarterly Bulletin* at www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb1202.pdf.

A significant amount of the gilts purchased via the Facility continue to be made available for on-lending to the market through the gilt lending arrangement with the DMO.⁽¹⁾ The average daily aggregate value of gilts lent by the APF to the DMO during the three months to 30 June 2012 was £0.4 billion, similar to the £0.5 billion lent on average during the previous quarter.

UK corporate debt markets

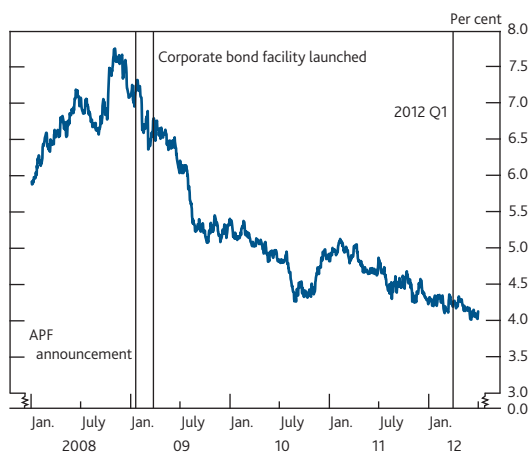
Sterling investment-grade non-financial corporate bond spreads over gilt yields widened over the quarter (**Chart 3**). This was despite falls in corporate bond yields (**Chart 4**), as gilt yields fell by more than corporate bond yields. Bid-ask spreads, as quoted by market makers, remained elevated relative to levels in 2010 and early 2011 (**Chart 5**). These measures remain below the levels observed during the intensification of the financial crisis in 2008 Q3 and Q4.

Chart 3 Sterling investment-grade non-financial corporate bond spreads^(a)



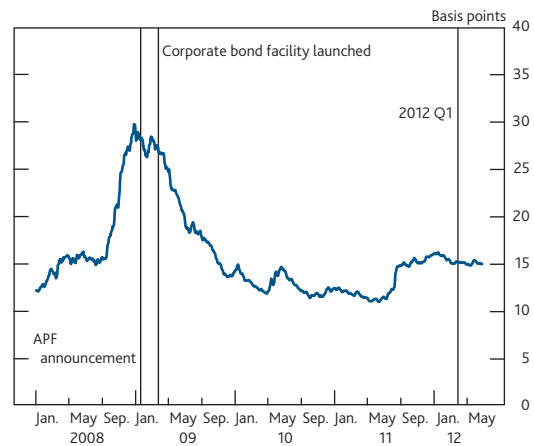
Sources: Bank of America Merrill Lynch and Bank calculations.
 (a) Spread over government rates, adjusted for the embedded option values of certain bonds (option-adjusted spread).

Chart 4 Sterling investment-grade non-financial corporate bond yields



Sources: Bank of America Merrill Lynch and Bank calculations.

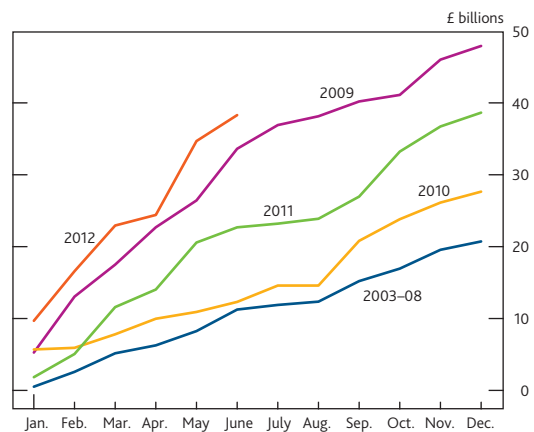
Chart 5 Median sterling investment-grade non-bank corporate bond bid-ask spreads^(a)



Sources: Bloomberg, iBoxx and Bank calculations.
 (a) Based on 444 investment-grade bonds issued by non-bank firms.

The Bank's market contacts nevertheless continue to report strong demand for sterling investment-grade non-financial corporate bonds. In line with this, gross issuance over the period was strong (**Chart 6**) and the APF remained a net seller of corporate bonds (**Table A**).

Chart 6 Cumulative gross issuance of bonds by UK PNFCs^(a)



Sources: Dealogic and Bank calculations.
 (a) Data are subject to periodic revisions. 2003-08 is an average over the period.

(1) For more details see www.dmo.gov.uk/docs/gilts/press/sa060809b.pdf.