

# Asset Purchase Facility

Quarterly Report 2012 Q3



**BANK OF ENGLAND**



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# Asset Purchase Facility

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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<sup>(1)</sup> and detailed in an exchange of letters with the Governor on 29 January 2009.<sup>(2)</sup> 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.<sup>(3)</sup>

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 September 2012. More information on the Committee's monetary policy decisions can be found in the *Inflation Report*.<sup>(4)</sup>

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.<sup>(5)</sup>

In line with the MPC's decision on 5 July 2012 in relation to the asset purchase programme, the APF was authorised to purchase £375 billion of high-quality assets financed by the creation of central bank reserves.<sup>(6)</sup> 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<sup>(7)</sup> through the Corporate Bond Secondary Market Scheme<sup>(8)</sup> and Secured Commercial Paper Facility,<sup>(9)</sup> with purchases currently financed by the issue of Treasury Bills and the Debt Management Office's (DMO) cash management operations. The Commercial Paper Facility<sup>(10)</sup> closed on 15 November 2011, reflecting improvements in the market since commercial paper was first purchased on 13 February 2009.

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(1) The Chancellor's statement is available at [www.hm-treasury.gov.uk/press\\_05\\_09.htm](http://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](http://www.hm-treasury.gov.uk/d/ck_letter_boe290109.pdf) and [www.bankofengland.co.uk/markets/Documents/apfgovletter090129.pdf](http://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](http://www.bankofengland.co.uk/monetarypolicy/Documents/pdf/govletter090305.pdf) and [www.hm-treasury.gov.uk/d/chxletter\\_boe050309.pdf](http://www.hm-treasury.gov.uk/d/chxletter_boe050309.pdf).

(4) The August *Inflation Report* is available at [www.bankofengland.co.uk/publications/Documents/inflationreport/ir12aug.pdf](http://www.bankofengland.co.uk/publications/Documents/inflationreport/ir12aug.pdf).

(5) For more details see [www.bankofengland.co.uk/publications/Documents/other/markets/apf/boeapfannualreport1207.pdf](http://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](http://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](http://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](http://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](http://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](http://www.bankofengland.co.uk/markets/Pages/apf/cp/default.aspx).

## Report for the quarter ended 30 September 2012

### Operations

**Table A** below summarises the amount of assets that the Fund has purchased and sold in each week of 2012 Q3, ending Thursday, in each facility. It also summarises the total amounts outstanding as at week ending 27 September 2012 (the last Thursday of the quarter). **Chart 1** shows the cumulative asset purchases by type between the establishment of the Fund and 27 September 2012. As of 27 September 2012 cumulative assets purchased net of sales and redemptions totalled £360 billion.

**Table A** APF transactions by type (£ millions)

Week ending <sup>(a)</sup>	Secured commercial paper	Gilts	Corporate bond		Total <sup>(b)</sup>
			Purchases	Sales	
2012 Q2 <sup>(c)(d)</sup>	0	324,753	240		324,993
5 July 2012	0	0	0	0	0
12 July 2012	0	3,000	0	9	2,991
19 July 2012	0	3,000	0	37	2,963
26 July 2012	0	3,000	0	23	2,977
2 August 2012	0	3,000	0	33	2,967
9 August 2012	0	3,000	0	18	2,982
16 August 2012	0	3,000	0	1	2,999
23 August 2012	0	3,000	0	0	3,000
30 August 2012	0	2,000	0	4	1,996
6 September 2012	0	3,000	0	0	3,000
13 September 2012	0	3,000	0	8	2,992
20 September 2012	0	3,000	0	9	2,991
27 September 2012	0	3,000	0	1	2,999
Total financed by a deposit from the DMO <sup>(d)(e)</sup>	0	–	22		22
Total financed by central bank reserves <sup>(d)(e)</sup>	0	359,750	75		359,825
<b>Total asset purchases net of sales<sup>(d)(e)</sup></b>	<b>0</b>	<b>359,750</b>	<b>97</b>		<b>359,847</b>

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 Q2 measured as amount outstanding as at 28 June 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.

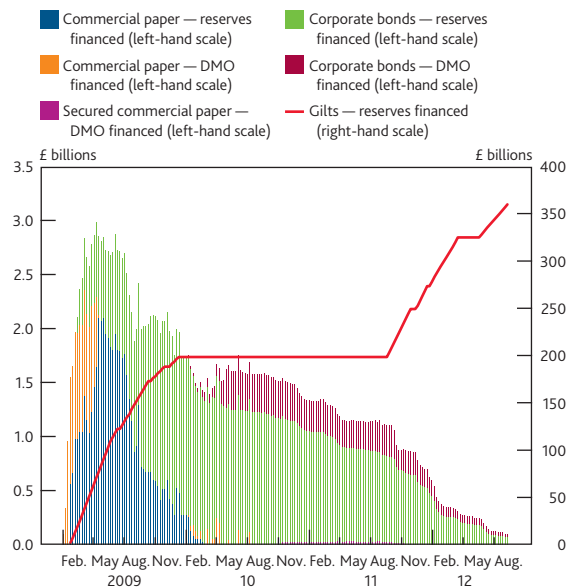
On 5 July 2012, the MPC decided to increase the scale of the programme of asset purchases by £50 billion from £325 billion to £375 billion. These purchases are expected to be completed ahead of the November MPC decision.

### Conditions in UK government and corporate debt markets<sup>(1)</sup>

#### UK government bond market

Nominal gilt yields were little changed over 2012 Q3 (**Chart 2**), with the yield curve steepening slightly and yields

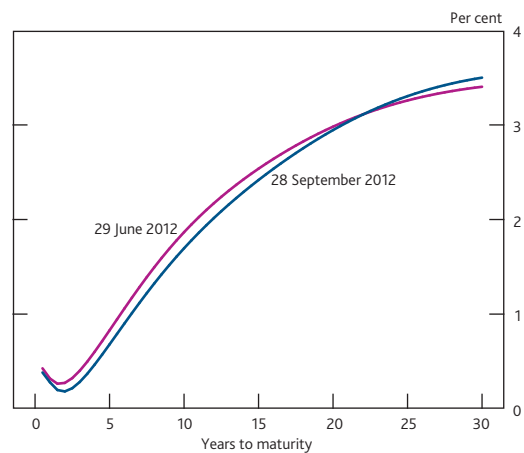
**Chart 1** Cumulative asset purchases by type: amounts outstanding<sup>(a)</sup>



Source: Bank of England.

(a) Data based on settled transactions.

**Chart 2** UK nominal spot rates



Sources: Bloomberg and Bank calculations.

on average around 7 basis points lower than at the end of 2012 Q2.

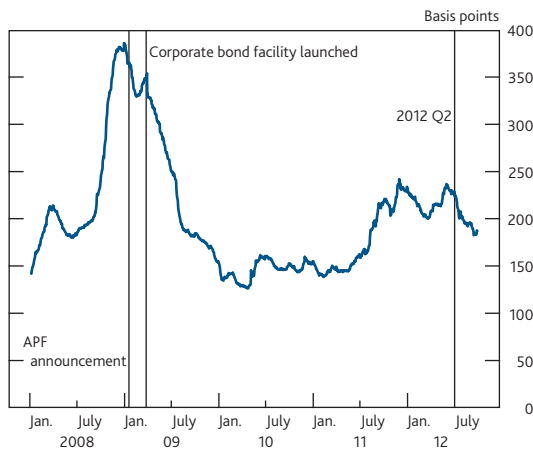
A significant amount of the gilts purchased via the Facility continue to be made available for on-lending to the market through the gilt lending arrangement with the DMO.<sup>(2)</sup> The average daily aggregate value of gilts lent by the APF to the DMO during the three months to 28 September 2012 was £0.2 billion, compared to £0.4 billion lent on average during the previous quarter.

- (1) More information on market conditions up to 24 August 2012 can be found in the *Quarterly Bulletin* at [www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb1203.pdf](http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb1203.pdf).  
 (2) For more details see [www.dmo.gov.uk/docs/gilts/press/sa060809b.pdf](http://www.dmo.gov.uk/docs/gilts/press/sa060809b.pdf).

### UK corporate debt markets

Financial market sentiment reportedly improved over the review period, initially driven by increased expectations of further policy measures by central banks and latterly following policy announcements. In addition to the MPC’s decision on 5 July to purchase additional assets financed by the creation of central bank reserves, these announcements included the launch of the Funding for Lending Scheme by the Bank and HM Treasury, the ECB’s Outright Monetary Transactions and further asset purchases by the US Federal Reserve. Consistent with improved sentiment, sterling investment-grade non-financial corporate bond spreads narrowed (**Chart 3**). Bid-ask spreads, as quoted by market makers, were broadly unchanged (**Chart 4**). These measures remain below the levels observed during the intensification of the financial crisis in 2008 Q3 and Q4.

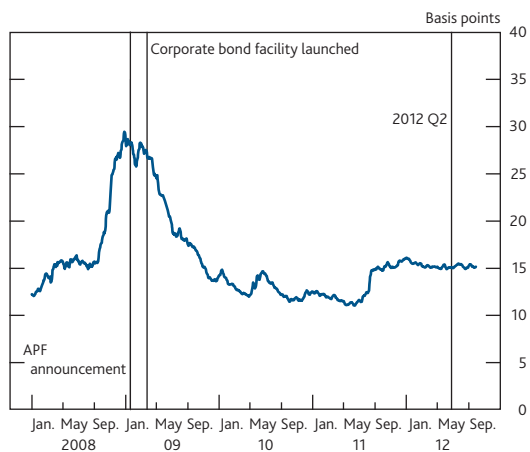
**Chart 3** Sterling investment-grade non-financial corporate bond spreads<sup>(a)</sup>



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** Median sterling investment-grade non-bank corporate bond bid-ask spreads<sup>(a)</sup>

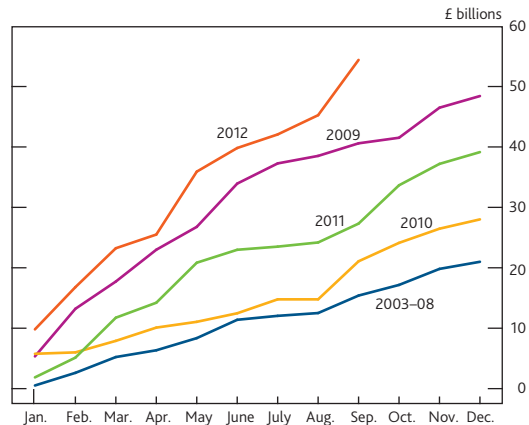


Sources: Bloomberg, iBoxx and Bank calculations.

(a) Based on 444 investment-grade bonds issued by non-bank firms.

The Bank’s market contacts reported particularly strong end-investor demand for sterling investment-grade non-financial corporate bonds. Consistent with this, gross issuance over the period was robust (**Chart 5**) and the Bank’s APF remained a net seller of corporate bonds (**Table A**).

**Chart 5** Cumulative gross issuance of bonds by UK PNFCs<sup>(a)</sup>



Sources: Dealogic and Bank calculations.

(a) Issuance by private non-financial corporations where the issuer’s country of incorporation and that of any parent or guarantor are the United Kingdom. Includes investment grade and non-investment grade bonds. Data are subject to periodic revisions. 2003–08 is an average over the period.