

Asset Purchase Facility

Quarterly Report 2012 Q4



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 31 December 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 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.⁽⁶⁾ These purchases were completed on 31 October 2012. On 8 November and 6 December, the MPC voted to maintain the stock of asset purchases at £375 billion. 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 November *Inflation Report* is available at www.bankofengland.co.uk/publications/Documents/inflationreport/ir12nov.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 31 December 2012

Operations

Table A below summarises the amount of assets that the Fund has purchased and sold in each week of 2012 Q4, ending Thursday, in each facility. It also summarises the total amounts outstanding as at week ending 27 December 2012 (the last Thursday of the quarter). **Chart 1** shows the cumulative net asset purchases by type between the establishment of the Fund and 27 December 2012. As of 27 December 2012 cumulative assets purchased net of sales and redemptions totalled £375 billion.

Table A APF transactions by type (£ millions)

Week ending ^(a)	Secured commercial paper	Gilts	Corporate bond		Total ^(b)
			Purchases	Sales	
2012 Q3 ^{(c)(d)}	0	359,750	97		359,847
4 October 2012	0	3,000	0	0	3,000
11 October 2012	0	3,000	0	10	2,990
18 October 2012	0	3,000	0	7	2,993
25 October 2012	0	3,000	0	26	2,974
1 November 2012	0	3,200	0	0	3,200
8 November 2012	0	0	0	8	-8
15 November 2012	0	0	0	0	0
22 November 2012	0	0	0	0	0
29 November 2012	0	0	3	0	3
6 December 2012	0	0	0	1	-1
13 December 2012	0	0	0	0	0
20 December 2012	0	0	0	9	-9
27 December 2012	0	0	0	2	-2
Total financed by a deposit from the DMO ^{(d)(e)}	0	-	10		10
Total financed by central bank reserves ^{(d)(e)}	0	374,949	24		374,973
Total asset purchases net of sales^{(d)(e)}	0	374,949	34		374,983

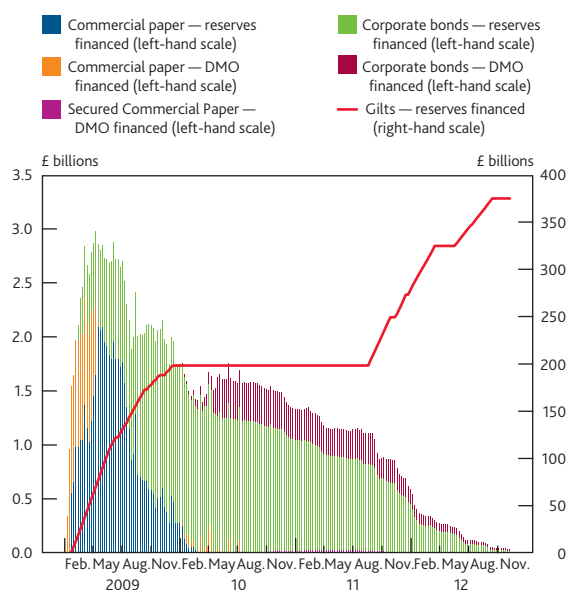
Source: Bank of England.

- (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 Q3 measured as amount outstanding as at 27 September 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 were completed on 31 October 2012. The MPC voted to maintain the stock of asset purchases at £375 billion on 8 November and 6 December 2012.

On 9 November 2012, HM Treasury announced arrangements to transfer gilt coupon payments received by the APF, net of interest costs and other expenses, to the Exchequer. These arrangements are detailed in an exchange of letters between the Chancellor of the Exchequer and the Governor.⁽¹⁾

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



Source: Bank of England.

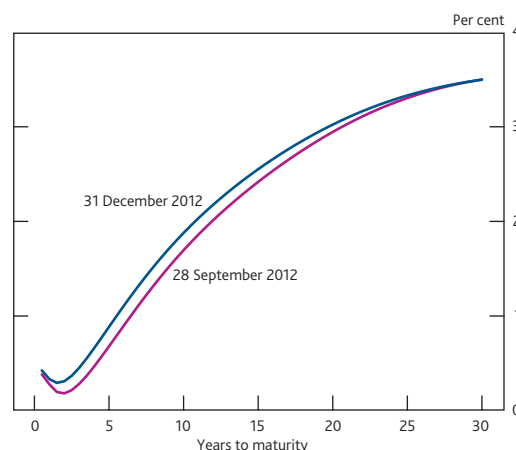
(a) Data based on settled transactions.

Conditions in UK government and corporate debt markets⁽²⁾

UK government bond market

Nominal gilt yields were little changed over 2012 Q4 (**Chart 2**), with the yield curve flattening slightly and yields on average around 11 basis points higher than at the end of 2012 Q3.

Chart 2 UK nominal spot rates



Sources: Bloomberg and Bank calculations.

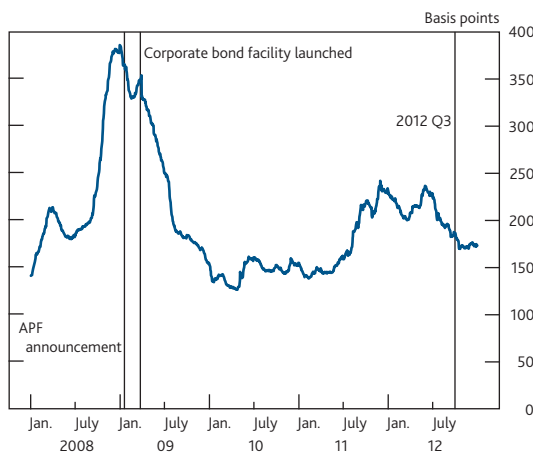
- (1) The exchange of letters can be found at www.bankofengland.co.uk/publications/Pages/news/2012/104.aspx.
 (2) More information on market conditions up to 26 November 2012 can be found in the *Quarterly Bulletin* at www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb1204.pdf.

A significant amount of the gilts purchased via the APF 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 31 December 2012 was £0.3 billion, compared to £0.2 billion lent on average during the previous quarter.

UK corporate debt markets

Sterling investment grade non-financial corporate bond spreads narrowed over the period, which contacts attributed to continued strong end-investor demand for corporate debt (Chart 3). Bid-ask spreads, as quoted by market makers, remained elevated relative to levels in 2010 and early 2011, though they remain below the levels observed at the peak of the financial crisis in 2008 Q3 and Q4 (Chart 4).

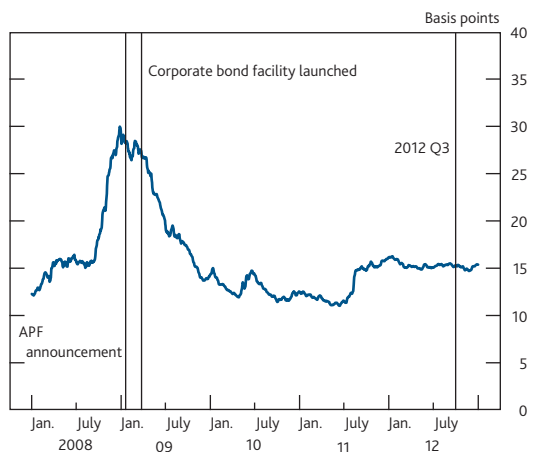
Chart 3 Sterling investment-grade non-financial corporate bond spreads^(a)



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

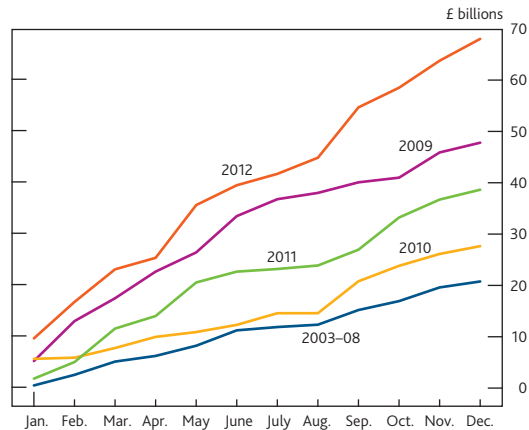


Sources: Bloomberg, iBoxx and Bank calculations.

(a) Based on 359 investment-grade bonds issued by non-bank firms.

Gross issuance of corporate bonds over the quarter remained strong, with issuance far surpassing that in 2011 Q4 and being significantly greater than the pre-crisis quarterly average. This was also true over the year as a whole (Chart 5). Net sales of bonds from the APF corporate bond scheme were lower in 2012 Q4 than in the previous quarter, leaving a remaining stock of £35 million (Table A).

Chart 5 Cumulative gross issuance of bonds by UK PNFCs^(a)



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.

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