

Asset Purchase Facility

Quarterly Report 2013 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 2013. 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 Deputy Governor for Monetary Policy and the Deputy Governor for Financial Stability. The Fund and the Bank are indemnified by the Treasury from any losses arising out of or in connection with the Facility.⁽⁵⁾

HM Treasury announced arrangements to transfer gilt coupon payments received by the APF, net of interest costs and other expenses, to the Exchequer on 9 November 2012. These arrangements are detailed in an exchange of letters between the Chancellor of the Exchequer and the Governor.⁽⁶⁾

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.⁽⁷⁾ These purchases were completed on 31 October 2012. At each of the three policy meetings in 2013 Q2, 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⁽⁸⁾ through the Corporate Bond Secondary Market Scheme⁽⁹⁾ and Secured Commercial Paper Facility,⁽¹⁰⁾ with purchases currently financed by the issue of Treasury bills and the Debt Management Office's (DMO) cash management operations. The Commercial Paper Facility⁽¹¹⁾ 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 http://webarchive.nationalarchives.gov.uk/20091204142322/http://www.hm-treasury.gov.uk/statement_chx_190109.htm.

(2) The exchange of letters is available at <http://webarchive.nationalarchives.gov.uk/20091204142322/http://www.hm-treasury.gov.uk/d/apfgovletter090129.pdf> and www.bankofengland.co.uk/markets/apfgovletter090129.pdf.

(3) The exchange of letters is available at www.bankofengland.co.uk/monetarypolicy/pdf/govletter090305.pdf and http://webarchive.nationalarchives.gov.uk/20091204142322/http://www.hm-treasury.gov.uk/d/chxletter_boe050309.pdf.

(4) The May *Inflation Report* is available at www.bankofengland.co.uk/publications/Documents/inflationreport/2013/ir13may.pdf.

(5) For more details see www.bankofengland.co.uk/publications/Documents/other/markets/apf/boeapannualreport1307.pdf.

(6) The exchange of letters can be found at www.bankofengland.co.uk/publications/Pages/news/2012/104.aspx.

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

(8) 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.

(9) For more details see www.bankofengland.co.uk/markets/apf/corporatebond/index.htm.

(10) For more details see www.bankofengland.co.uk/markets/apf/securedcpf/index.htm.

(11) For more details see www.bankofengland.co.uk/markets/apf/cp/index.htm.

Report for the quarter ended 30 June 2013

Operations

Table A below summarises the amount of assets that the Fund has purchased and sold in each week (ending on Thursdays) of 2013 Q2 in each facility. It also summarises the total amounts outstanding as at week ending 27 June 2013 (the last Thursday of the quarter). **Chart 1** shows the cumulative net asset purchases by type between the establishment of the Fund and 27 June 2013. As of 27 June 2013 cumulative assets purchased net of sales and redemptions totalled £375 billion.

Table A APF transactions by type (£ millions)

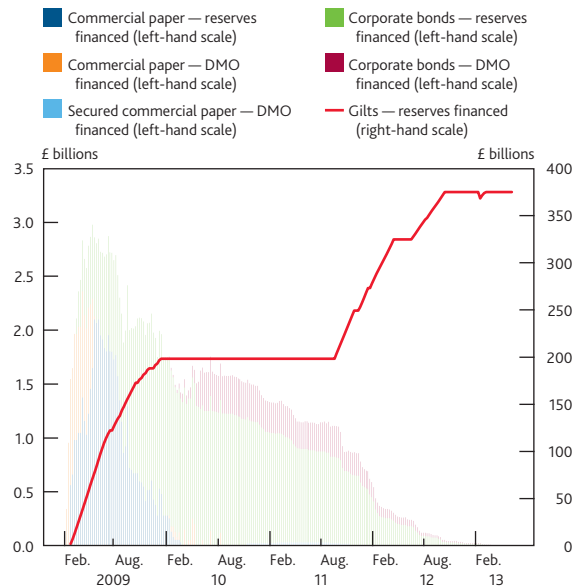
Week ending ^(a)	Secured commercial paper	Gilts	Corporate bond		Total ^(b)
			Purchases	Sales	
2013 Q1 ^{(c)(d)}	0	374,984	9		374,993
4 April 2013	0	0	0	0	0
11 April 2013	0	0	0	0	0
18 April 2013	0	0	0	6	-6
25 April 2013	0	0	0	0	0
2 May 2013	0	0	0	0	0
9 May 2013	0	0	0	0	0
16 May 2013	0	0	0	0	0
23 May 2013	0	0	0	0	0
30 May 2013	0	0	0	0	0
6 June 2013	0	0	0	0	0
13 June 2013	0	0	0	0	0
20 June 2013	0	0	0	0	0
27 June 2013	0	0	0	0	0
Total financed by a deposit from the DMO ^{(d)(e)}	0	-	0		0
Total financed by central bank reserves ^{(d)(e)}	0	374,984	1		374,985

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) 2013 Q1 measured as amount outstanding as at 28 March 2013.
 (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.

Net sales of bonds from the APF corporate bond scheme reduced the Bank's holdings of corporate bonds that are eligible for sale to zero in 2013 Q2 (**Table A**). Holdings of bonds with a residual maturity of less than twelve months, which are ineligible for sale, stood at £1 million and will be allowed to mature. Future sale or purchase operations will be dependent on market demand. The Bank will review that in consultation with its counterparties in the Scheme.⁽¹⁾

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



Source: Bank of England.

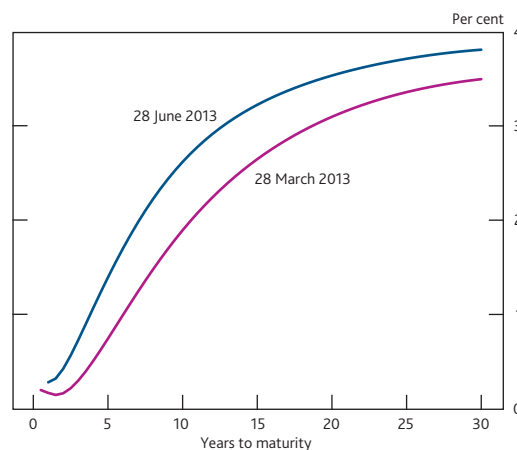
(a) Data based on settled transactions.

Conditions in UK government and corporate debt markets⁽²⁾

UK government bond market

Nominal gilt yields rose over 2013 Q2 (**Chart 2**), by an average of around 50 basis points across the yield curve. This increase in part reflected a rise in sovereign bond yields across a number of developed countries.

Chart 2 UK nominal spot rates



Sources: Bloomberg and Bank calculations.

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.⁽³⁾ The

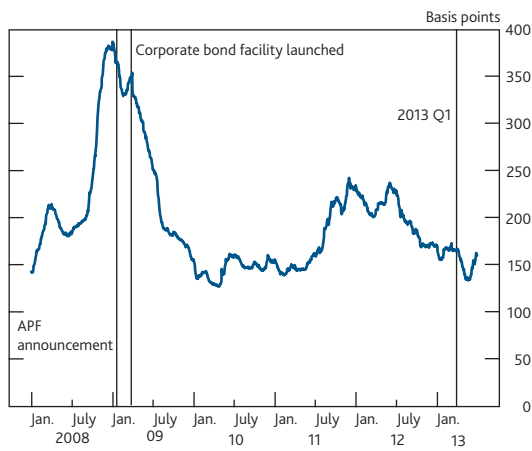
- (1) More information can be found in the Market Notice at www.bankofengland.co.uk/markets/Documents/marketnotice130627.pdf.
 (2) More information on market conditions up to 24 May 2013 can be found in the *Quarterly Bulletin* at www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb1302.pdf.
 (3) For more details see www.dmo.gov.uk/docs/gilts/press/sa060809b.pdf.

average daily aggregate value of gilts lent by the APF to the DMO during the three months to 30 June 2013 was £0.5 billion.

UK corporate debt markets

Sterling investment-grade non-financial corporate bond spreads narrowed slightly over 2013 Q2, with an initial fall in spreads being partially offset later in the quarter (Chart 3). Bid-ask spreads, as quoted by market makers, fell slightly over 2013 Q2, though remained elevated relative to levels in much of 2010 and early 2011 (Chart 4).

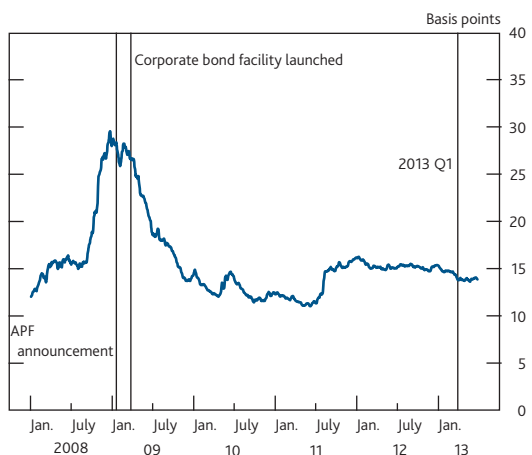
Chart 3 Sterling investment-grade non-financial corporate bond spreads^(a)



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)

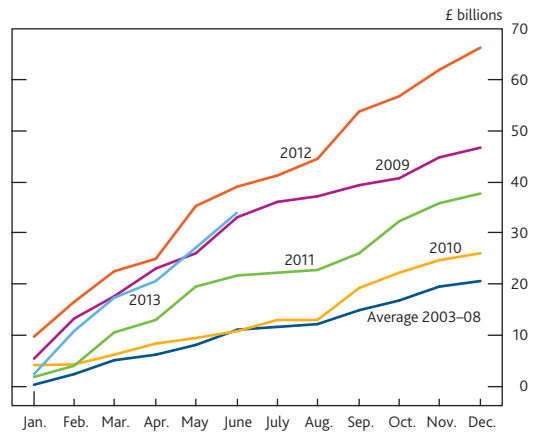


Sources: Bloomberg, iBoxx and Bank calculations.

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

Gross issuance of corporate bonds in 2013 Q2 was relatively strong (Chart 5). The amount was lower than in 2012 Q2, but higher than in previous years. Contacts report that continued strong corporate bond issuance was more concentrated in the first half of the quarter, prior to the international rise in bond yields.

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.