

Asset Purchase Facility

Quarterly Report 2013 Q3



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 then 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 then 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 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 then 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 Q3, the MPC voted to maintain the stock of asset purchases at £375 billion. 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.

On 7 August 2013, the MPC provided guidance regarding the future path of monetary policy.⁽⁸⁾ As part of that guidance, the MPC intends not to reduce the stock of asset purchases financed by the issuance of central bank reserves and, consistent with that, to reinvest the cash flows associated with all maturing gilts held in the APF at least until the Labour Force Survey (LFS) unemployment threshold associated with forward guidance is reached (and subject to 'knockout' conditions). The MPC stands ready to undertake further asset purchases while the LFS unemployment rate remains above the threshold if it judges that additional monetary stimulus is warranted.

The APF continues to operate facilities for the purchase of private sector assets⁽⁹⁾ through the Corporate Bond Secondary Market Scheme⁽¹⁰⁾ and Secured Commercial Paper Facility,⁽¹¹⁾ with purchases currently financed by the issue of Treasury bills and the Debt Management Office's (DMO) cash management operations. The Commercial Paper Facility⁽¹²⁾ closed on 15 November 2011, reflecting improvements in the market since commercial paper was first purchased on 13 February 2009. The Corporate Bond Secondary Market Scheme continues to operate, though sale or purchase operations depend on market demand. The Bank will review that in consultation with its counterparties in the Scheme.⁽¹³⁾

(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 August *Inflation Report* is available at www.bankofengland.co.uk/publications/Documents/inflationreport/2013/ir13aug.pdf.

(5) For more details see www.bankofengland.co.uk/publications/Documents/other/markets/apf/boeapfannualreport1307.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) For more details see www.bankofengland.co.uk/publications/Documents/inflationreport/2013/ir13augforwardguidance.pdf.

(9) 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.

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

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

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

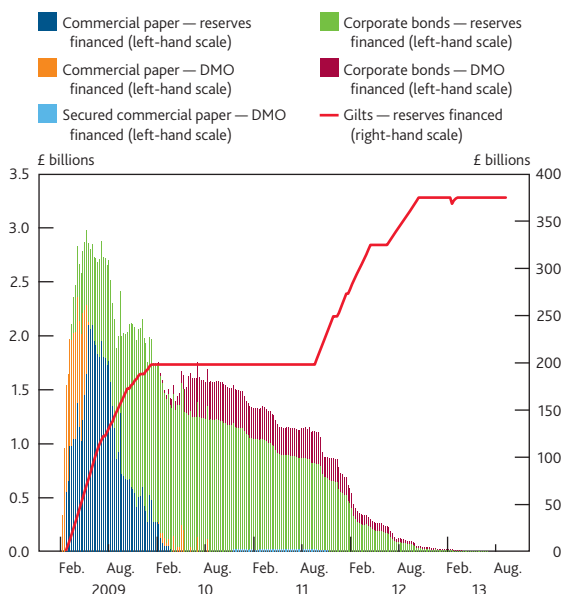
(13) More information can be found in the Market Notice at www.bankofengland.co.uk/markets/Documents/marketnotice130627.pdf.

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Operations

The Fund did not purchase or sell any assets in 2013 Q3. **Chart 1** shows the cumulative net asset purchases by type between the establishment of the Fund and 26 September 2013. As of 26 September 2013 cumulative assets purchased net of sales and redemptions totalled £375 billion.

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



Source: Bank of England.

(a) Data based on settled transactions.

At the end of 2013 Q2, holdings of corporate bonds with a residual maturity of less than twelve months, which are ineligible for sale, stood at £1 million. These bonds matured during 2013 Q3. Total holdings of corporate bonds at the end of 2013 Q3 were zero.

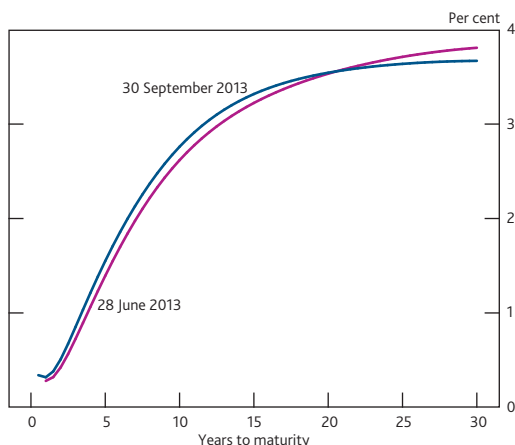
Conditions in UK government and corporate debt markets

UK government bond market

Nominal gilt yields at maturities up to 20 years rose over 2013 Q3 by an average of around 10 basis points. Yields with maturity beyond 20 years fell by an average of around 10 basis points (**Chart 2**). More information on market conditions during the period can be found in the 'Markets and operations' section of the *Quarterly Bulletin*⁽²⁾ and in the minutes of the MPC meetings.⁽³⁾

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.⁽⁴⁾ The

Chart 2 UK nominal spot rates



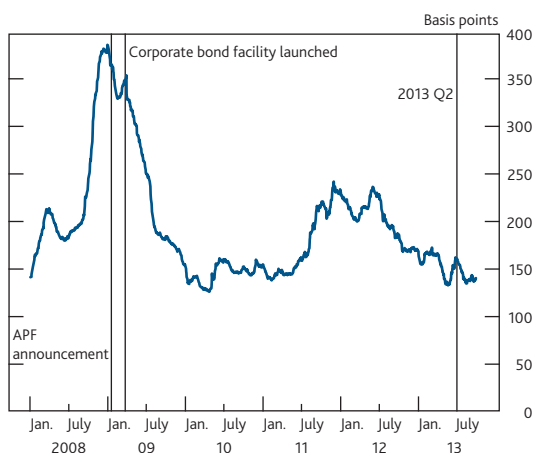
Sources: Bloomberg and Bank calculations.

average daily aggregate value of gilts lent by the APF to the DMO during the three months to 30 September 2013 was £0.3 billion.

UK corporate debt markets

Sterling investment-grade non-financial corporate bond spreads narrowed slightly over 2013 Q3 (**Chart 3**), partially reversing the moves seen in May and June. Bid-ask spreads, as quoted by market makers, were stable over 2013 Q3 (**Chart 4**).

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

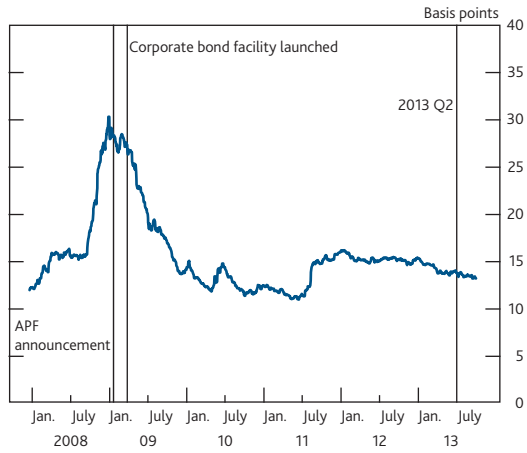


Sources: Bank of America Merrill Lynch and Bank calculations.

(a) Spread over government rates, adjusted for the embedded option values of certain bonds (option-adjusted spread).

(1) When reporting asset purchases and sales, the convention for dating quarters is to use the last Thursday of the quarter (here 26 September 2013). Therefore, this Report does not cover the operations conducted to reinvest the cash flows associated with the maturity on 27 September 2013 of a gilt owned by the Fund, as these operations were held on 30 September, 1 October and 3 October 2013. These operations will be included in the 2013 Q4 Report.
 (2) More information on market conditions up to 30 August 2013 can be found in the *Quarterly Bulletin* at www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb130307.pdf.
 (3) Available at www.bankofengland.co.uk/publications/minutes/pages/mpc/default.aspx.
 (4) For more details see www.dmo.gov.uk/docs/gilts/press/sa060809b.pdf.

Chart 4 Median sterling investment-grade non-bank corporate bond bid-ask spreads^(a)

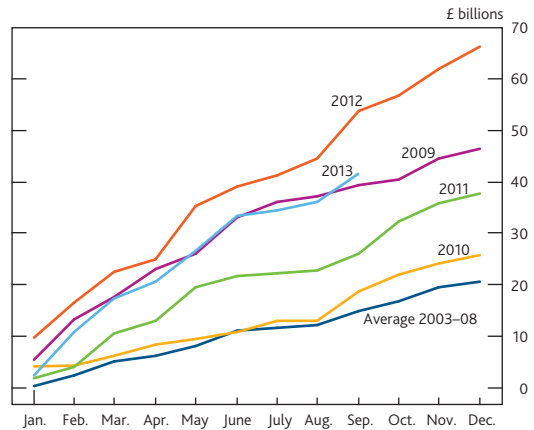


Sources: Bloomberg, iBoxx and Bank calculations.

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

Gross issuance of corporate bonds in 2013 Q3 was relatively strong (**Chart 5**). The amount was lower than in 2012 Q3, but higher than in most of the previous years. Strong bond issuance was concentrated towards the end of the quarter, following a typically quiet summer period.

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



Sources: Dealogic and Bank calculations.

(a) Issuance by private non-financial corporations (PNFCs) 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.