

Asset Purchase Facility

Quarterly Report 2015 Q3



BANK OF ENGLAND



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 2015. 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 Research & Statistics are Directors of the Fund. The Directors make recommendations on the assets to be purchased to the Governor, who decides after consulting with 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⁾

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 2015 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 stated that it intended 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 was reached (and subject to 'knockout' conditions). On 12 February 2014, the MPC provided further guidance on the setting of monetary policy once the unemployment threshold was reached.⁽⁹⁾ As part of that guidance, the MPC stated that it intends to maintain the stock of purchased assets at least until Bank Rate has been raised from its current level of 0.5%. At its May 2014 meeting, the MPC observed that the LFS unemployment rate had fallen to 6.9% in the latest data release and therefore the guidance provided in August 2013 had ceased to apply. The Committee then reaffirmed the subsequent guidance provided in February 2014.⁽¹⁰⁾ The MPC stands ready to undertake further asset purchases if it judges that additional monetary stimulus is warranted.

The APF also has facilities for the purchase of private sector assets⁽¹¹⁾ through the Corporate Bond Secondary Market Scheme⁽¹²⁾ and Secured Commercial Paper Facility,⁽¹³⁾ with any purchases financed by the issue of Treasury Bills and the Debt Management Office's (DMO) cash management operations. The Commercial Paper Facility⁽¹⁴⁾ 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 remains in place but operations are only held if warranted by market demand. There has been no indication of such demand since the Scheme was moved to this basis. The most recent operation was held on 27 June 2013. The Bank will keep the Scheme under review.⁽¹⁵⁾

(1) The Chancellor's statement is available at http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/press_05_09.htm.

(2) The exchange of letters is available at http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/ck_letter_boe290109.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/2015/aug.pdf.

(5) For more details see www.bankofengland.co.uk/publications/Documents/other/markets/apf/boeapannualreport1407.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) For more details see www.bankofengland.co.uk/publications/Documents/inflationreport/2014/ir14febeconrec.pdf.

(10) For more details see www.bankofengland.co.uk/publications/minutes/Documents/mpc/pdf/2014/mpc1405.pdf.

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

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

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

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

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

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Operations

Table A summarises the amount of assets that the Fund has purchased and sold in each week (ending on Thursdays) of 2015 Q3 in each facility. It also summarises the total amounts outstanding as at week ending 24 September 2015 (the last Thursday of the quarter). A total of £12.69 billion of gilts were purchased in this review period associated with the redemption of the September 2015 gilt owned by the APF. These operations are in line with the guidance provided by the MPC on 12 February 2014: to continue to reinvest the cash flows associated with all maturing gilts held in the APF, at least until Bank Rate has been raised from its current level of 0.5%.

Table A APF transactions by type (£ millions)

Week ending ^(a)	Secured commercial paper	Gilts	Corporate bond		Total ^(b)
			Purchases	Sales	
2015 Q2 ^{(c)(d)}	0	374,932	0		374,932
02 July 2015	0	0	0	0	0
09 July 2015	0	0	0	0	0
16 July 2015	0	0	0	0	0
23 July 2015	0	0	0	0	0
30 July 2015	0	0	0	0	0
06 August 2015	0	0	0	0	0
13 August 2015	0	0	0	0	0
20 August 2015	0	0	0	0	0
27 August 2015	0	0	0	0	0
03 September 2015	0	0	0	0	0
10 September 2015	0	4,230	0	0	4,230
17 September 2015	0	4,230	0	0	4,230
24 September 2015	0	4,230	0	0	4,230
Total Redemptions 2015 Q3 ^(e)	0	(16,955)	0		(16,955)
Total asset purchases net of sales and redemptions ^(d)	0	370,667	0		370,667

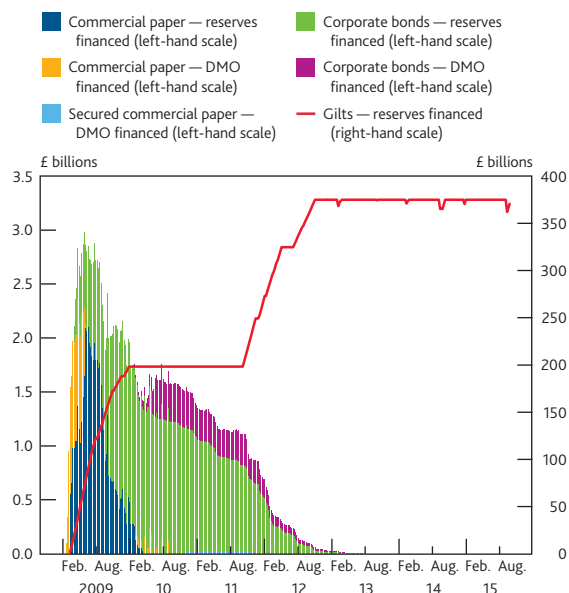
Source: Bank of England.

- (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) 2015 Q2 measured as amount outstanding as at 25 June 2015.
 (d) In terms of proceeds paid to counterparties less redemptions at initial purchase price on a settled basis.
 (e) 2015 Q3 measured as redemptions from Friday 26 June 2015 to Thursday 24 September 2015, inclusive.

The reinvestment operations listed in **Table A** were completed by 24 September 2015. Additional reinvestment operations, totalling £4.23 billion of cash flows and also associated with the redemption of the September 2015 gilt, occurred later, in the following week, whose end was 2 October. They are therefore outside the review period of this *Report* and will be included in the 2015 Q4 *Report*.

Chart 1 shows the cumulative net asset purchases by type between the establishment of the Fund and 24 September 2015. As of 24 September 2015 cumulative assets purchased net of sales and redemptions totalled £370.67 billion.

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



Source: Bank of England.

(a) Data based on settled transactions.

The total rose to £374.90 billion by 2 October, the end of the following week, by which time all reinvestment operations associated with the redemption of the September 2015 gilt had been carried out.⁽¹⁾

Conditions in UK government and corporate debt markets

UK government bond markets

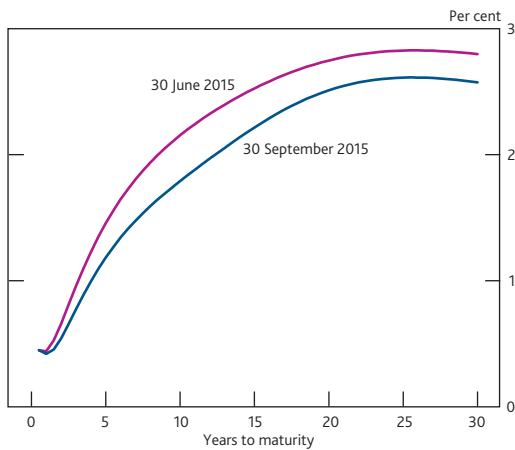
During 2015 Q3, nominal gilt yields fell across the curve, by an average of around 26 basis points (**Chart 2**).

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.⁽²⁾ The average daily aggregate value of gilts lent by the APF to the DMO during the three months to 30 September 2015 was £0.2 billion.

(1) For completeness, the final operation occurred mid-week, on 30 September 2015, and the cumulative assets purchased net of sales and redemptions totalled £374.90 billion at close of business that day.

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

Chart 2 UK nominal spot rates



Sources: Bloomberg and Bank calculations.

UK corporate debt markets

Sterling investment-grade non-financial corporate bond spreads increased over 2015 Q3 (Chart 3), to levels consistent with those in 2013 Q1.

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

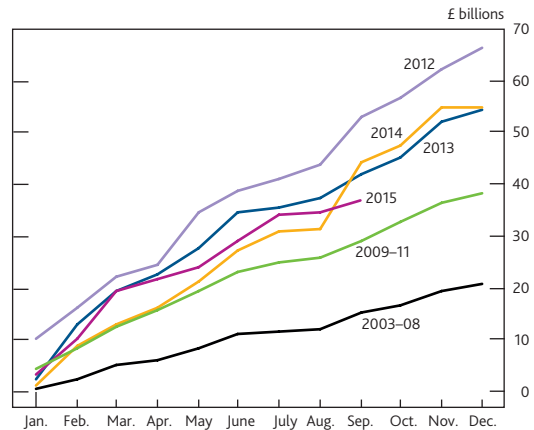


Sources: BofA Merrill Lynch Global Research, used with permission, and Bank calculations.

- (a) Spread over government rates, adjusted for the embedded option values of certain bonds (option-adjusted spread).
- (b) A change in the methodology for estimating corporate bond spreads was introduced by BofA Merrill Lynch on 1 December 2013, but it had a negligible impact on the series.

Gross issuance of corporate bonds by UK private non-financial corporations (PNFCs) in 2015 Q3 was lower than in Q3 for 2012 and 2014, but higher than in Q3 for 2013 and higher than the 2009–11 Q3 and 2003–08 Q3 averages (Chart 4).

Chart 4 Cumulative gross issuance of bonds by UK PNFCs^(a)



Sources: Dealogic and Bank calculations.

- (a) Issuance by UK PNFCs or their financing vehicles. Includes investment-grade and non-investment grade bonds. Data are subject to periodic revisions. 2003–08 and 2009–11 are averages over the respective periods.

More information on market conditions during the period can be found in the 'Markets and operations' section of the *Quarterly Bulletin*⁽¹⁾ and in the minutes of the MPC meetings.⁽²⁾

(1) www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2015/q3.pdf.
 (2) See www.bankofengland.co.uk/publications/minutes/pages/mpc/default.aspx.