The Perfect Century of the UK DMO

Introduction

The DMO has claimed a hundred consecutive perfect syndications. Cool! This has a probability of, approximately, the size of a proton compared to a million times the size of the Universe. The claim is bold. I like bold.

This essay will compare two hypotheses. Perhaps the DMO is or employs pan-cosmic-scale market-wrangling genius. Or, instead, this is all a somewhat dodgy pretence to hide a waste of public money. Helpfully, there are other channels of evidence that will help distinguish these two cases.

The financial cost is difficult to know, but, since the pandemic, £566 million is a fair underestimate.

Finally, the shame-minimising next step will be explained.

But we need to begin with some explanation.

What is a syndication

At an auction, the seller chooses what is being sold and how much, and the competitive market chooses the price. A syndication is not an auction. Instead the 'price' is chosen by the seller. Usually the 'price' is a price relative to that of another bond.

To be specific and concrete, let's look at the most recent syndication. On 6 November 2026 it was announced[†1] to be a "Syndicated re-opening of 1⅞% Index-linked Treasury Gilt 2049", "in the week commencing 23 November 2026, subject to demand and market conditions."

The 'Syndicated re-opening of £3.75 billion of 1⅞% Index-linked Treasury Gilt 2049: Result'[†2], 24 November 2026, explains that it actually happened. An indicative price range was given as a yield difference to a reference bond; orders were gathered by the "bookrunners"; the range became a specific value; the price of the reference bond was observed in the market; converted to yield; spread added; converted back to yield of the gilt being sold; and, because orders were much more than quantity being sold, gilts were allocated to preferred buyers.

From that syndication result:

> *the syndicated reopening of £3.75 billion (nominal) of 1⅞% Index-linked Treasury Gilt 2049 has been priced at £88.799 per £100 nominal, equating to a gross real redemption yield of 2.5235%.*
>
> *The order book for the transaction was opened at 8.30am on 24 November 2026 with indicative price guidance for investors at a spread of 1.25 to 1.0 basis points (bp) below the yield on the reference gilt (0⅛% Index-linked Treasury Gilt 2048). At 9.15am, the Joint Bookrunners announced that the price guidance was fixed at 1.25bp below the yield on the reference gilt (the tight end of the initial price guidance). At 9.18am, the Joint Bookrunners announced that the book will close at 9.30am.*

Let's inspect the detail.

The 'reference' gilt is the 0⅛% Index-linked Treasury Gilt 2048. The reopening of the 2049 is to be a lower yield than that, −1.25bp to −1bp. This range should have been chosen to be best achievable good value, because non-best value would be a waste of public money, and non-achievable would be not borrowing.

Then "the Joint Bookrunners announced that the price guidance was fixed at 1.25bp below the yield on the reference gilt (the tight end of the initial price guidance)". The market price of the reference gilt was observed, converted to yield, adjusted by the −1.25bp spread, and for the gilt being sold converted back to a price.

†1 https://dmo.gov.uk/media/ulidjxuz/pr061126.pdf

†2 https://dmo.gov.uk/media/2axe4sdp/pr241126.pdf

The carelessness

Observe that the −1.25bp was at "(the tight end of the initial price guidance)". Hurray!: the government should like borrowing at the lowest possible interest rate, so this seems to be a perfect result for the syndication. Gilt syndications are generally priced at a multiple of ¼bp (true of all except the 0⅛% ILG 2048 in February 2018[†3]). So at this syndication there were two possible multiples of ¼bp (−1.25bp, −1bp), and the achieved result was the best possible. Seemingly it was a perfect result, as ought to have had a probability of one-in-two.

Reader, keep going.

But, and this is the clue to the embarrassment, this was, so the DMO claims, its hundredth consecutive perfect syndication. Since the first of this century in January 2011, the wording has varied little:

• 36 × "(the tight end of the initial price guidance)" (Oct 2021 to now);

• 30 × "which was at the tight end of the published price guidance." (Jan 2011 to Oct '14, July '15 to Feb '16);

• 23 × "which represented the tight end of the published price guidance." (Apr 2016 to May '20);

• 7 × "This represented the tight end of the published price guidance." (June 2020 to May '21);

• 2 × "which was at the tight end of the initial published price guidance." (Jan and June 2015);

• 1 × "(the tight end of the published price guidance)" (Sep 2021);

• 1 × "This spread represented the tight end of the published price guidance." (July 2021).

How likely is this? Some syndications have an indicative range of only two values, such as ¾bp–1bp, and others are wider. On average there are ≈ 3.04 possible values, and so this century's probability is 1 in 3.04^−100 ≈ 10^−48.

Compare: universe size is 10^11 light years, a light year is 10^16 metres, a proton is 10^−15 metres (all approximate), so the universe is ≈ 10^42 proton widths across. ⟹ The DMO's claim is a million times less probable than the size of a proton compared to the width of the universe. Either this is pan-cosmic-scale market-wrangling brilliance (commendation, times lots!), or something, somewhere, is 'interesting'.

Hypotheses distinguished

That is enough evidence that something is weird. What's going on? We have two obvious hypotheses.

• The DMO is amazingly good at market wrangling. A fair spread is chosen, maybe even slightly ambitious, then by magic unknown, pushes the market into accepting this too-expensive price. Genius!

• Or, the DMO chooses a too-cheap range, such that the expensive end of this range is still so cheap that the DMO is very confident that gilts can be sold at that price.

Luckily for our scientific selves, there are two sets of data that could help distinguish these otherwise untestable hypotheses.

Orders

Observe the footnote in the syndication result[†2]: "Total orders were £46.1 billion nominal." Cool: orders were 12.3 × the amount sold. This is not analogous to the cover ratio of an auction. An auction's cover ratio is total bids divided by amount for sale, so includes those bids at a price cheaper price than the clearing price. That is, very fairly, at auctions, 'more could have been sold if the price had been cheaper'. Since start-2022, these auction ratios have been 2.6 to 3.3 (inter-quartile range). But at a syndication orders are at the to-be-sold price rather than at a cheaper price, yet, despite this tighter constraint, syndication orders/sold have been larger, averaging 12.2 since start-2022, over all syndications 7.45.

This is even more interesting. If this is a fair price, good value to the taxpayer, why do market players want to buy a dozen times more of it than they can?

But its meaning is slightly slippery.

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†3 http://dmo.gov.uk/media/525ph3vb/pr060218a.pdf

With so many orders relative to quantity for sale, many players must be scaled down. That is, they request an amount, and are 'allocated' a small fraction of the request. Which makes it tempting to up-size the request. For legal reasons, they don't ask for infeasibly much: if the allocation were surprise upgraded to 100%, money could and would be found and gilts purchased. It is all proper legal, as certified by many players' external counsel.

Readers with long memories might compare this to the ECB's difficulties, January 1999 to June 2000[†4], with too much demand for reserves at its fixed-rate supply operations causing diminishing allocations, causing demand to be increasingly over-stated, further diminishing allocations.

So the orders are huge because of big keenness to buy lots at the chosen price. And the huge demand then necessitates a cascade of further apparent demand, because the gilts are offered so cheaply that everybody wants lots and to get some are willing to exaggerate their own demand. The DMO's chosen method of sale induces this collective overstatement. It is not reprimandable dishonesty (it has been approved by expensive external counsel), but it is still below a perfect standard of actual correctness. As public policy, this cannot be optimal.

Prices

We can also look at what happens next to the chosen spread, the chosen gap between two yields. Arbitrarily, this has been compared to the average between 7 and 28 days later. That is the spread between the sold and reference gilts, averaged from 7 days after until 28 days after, using Bloomberg data, from which is subtracted the issue spread.

Since January 2020, that has averaged 1bp, so a loss for the Treasury, a loss for the taxpayer, of £566 million. The DMO did better than the subsequent outcome 4 times, +£62m, and lost 43 times, −£628m.

The truth may well be worse than this, but is difficult to test. The market 'knows' that more will be sold by syndication. The market 'knows' that the DMO will observe a market price of the reference gilt, add the too cheap spread, and not negotiate. So if the market could 'hold itself cheap', that would be profitable for all except the taxpayer. Players are shrewd; they know which side their bread is buttered; the market holds itself cheap. How cheap? I reckon ≈ 1bp, but that is a very non-rigorous 'reckon'. (And it is everybody's interest, albeit different interests, to deny this. That doesn't make it true, but it does make truth even less knowable.)

Nonetheless, some care is needed re the meaning of this 'loss' of −£566 million (i.e., ignoring the possibility of 'hold itself cheap'). The DMO sells gilts. It could be, by macro-economic chance, that the price subsequently rises or falls.

E.g., a few years after the financial crisis, gilt prices rose, lots. In August 2007[†5] the 5% 2018 was sold at a yield of 5.22%, which was followed by a huge market rally. And in February 2021[†6] the 0¼% 2031 was sold at a yield of 0.44%, which was followed by a huge market sell-off. That does not mean that the previous sales were foolish or clever, as that price change was not reliably forecastable. Reader: starting here, today, what will happen next? Even though I have an opinion, and perhaps you do, it is very plausible that yields will be lower, and also very plausible that yields will be higher. To skilled traders it is not reliably knowable, and others struggle to do measurably better than chance.

The DMO cannot be an uber-hedge-fund, and if it were then it could not hold the staff to stay that. That would be a foolish standard. So the DMO is not and should not be in the business of timing market direction: it does not have the skills, cannot have those skills, and even if it did, using those skills would make much more difficult the job of the Bank of England. Instead it must rely on solid micro-economics. If a sale is at the best market price, then that does, or at least should, incorporate all that can be known. Yes, with hindsight one might be unhappy or pleased, but that's hindsight.

So the DMO should be in the business of selling at best achievable market price. And if it sells at a price at which orders are a chubby multiple of the amount sold, well, the DMO could have sold the same quantity at a better price.

I have known a trader say to a bookrunner "if I pay half a bp more, can I have full allocation?". Answer: "No, that's not how it works". If the price of that syndication had been ½bp richer, the extra cash raised would have been +£7 million. Of UK government spending, 18% goes on the NHS; ½bp would have been +£1¼m in the NHS. Guessing that saving a life is £300k (a guess) then that "not how it works" is 4 dead people. Colour me

†4 https://ideas.repec.org/a/eee/jimfin/v20y2001i6p857-870.html

†5 https://dmo.gov.uk/media/4gsazzwx/090807conventional.pdf

†6 https://dmo.gov.uk/media/euqbssdl/030221conventional.pdf

unimpressed. And the ½bp would still have been advantageous to that trader, so a fair price would have been even better: the taxpayer's loss is more than four dead people. Colour me very unimpressed.

Hence this looking at the spread between the gilt being sold, and the reference gilt. The DMO can't time this game, but if it is chosen fairly, one would expect up to be as likely as down: since January 2020, 4 versus 43, +£62m versus −£628m. This is not an unlucky happenstance after a fair play, this is systematically selling gilts cheaper than their market price. £566 million × 18% ÷ £300k is unwriteably too many, and an underestimate. HMT should colour itself unimpressed.

"Subject to demand and market conditions"

The announcement always says, re timing, "in the week commencing …, subject to demand and market conditions".

If there were a genuine assessment about when would be the optimal "demand and market conditions" then the weekdays might be equally distributed. Let's look: of the 111 syndications, 88 have been on a Tuesday, 16 on a Wednesday, and 7 on a Thursday. Zero for Monday and Friday.

Consider the syndication in September 2022[†7], in the fourth week of the premiership of Liz Truss. Six days earlier that gilt had yielded 3.5%. On that Wednesday 28th it touched a high yield of 5.13%, and was sold at 4.2947%, +80bp cheaper than its yield a week earlier. There is no possible meaning of "subject to … market conditions" consistent with a syndication happening that week, nor in the following few weeks. The DMO managed to postpone one day, for yields to rise then fall, but was too much on autopilot to properly use syndication's purported flexibility. That failure to know their own wording cost more than £100m.

The proper purpose of a syndication

But syndications do have a proper purpose.

Hypothesise that a small country with infrequently traded debt, say, Paraguay, wishes to issue a £500mn bond. But there is no regular market in Paraguay's bonds, excepting small pieces that trade infrequently with a wide bid-ask spread. There is not a meaningful market price. Further, most potential £ investors have no recent experience of Paraguay as an issuer: what drives the spread, what are the matters of concern, etc?

So an auction would come at a price that is very risk-averse, i.e., cheap. From the viewpoint of the issuer this would not be good. This is, in some sense, a collective action problem, solved by issuing via syndicate. There is a collective negotiation about the fair spread, the market yield of the reference gilt is observed, and all deal at that collectively determined price, knowing that all have done so. Also, the book runners give their imprimatur to the spread, implicitly or explicitly stating that it is fair. For an investor buying a small piece, for whom it would not be economically efficient to research the product, this is more than no comfort.

If a large amount is being sold, it can be worthwhile for investors to cheapen the market by delaying needed purchases. But if the quantity being sold is small relative to the size of the reference bond, the gain is too little to justify the *de facto* manipulation. So Paraguay, issuing a small bond, doesn't suffer much from this cost. (This use of an observed price echoes the Libor problem: in the 1980s, when cash markets were large and derivative markets small, the gain from manipulating Libor was small relative to the costs of doing so. But as gain÷cost grew, so did the mischief.)

But the DMO is selling a gilt that has a price-formation process which is as good as that of the reference gilt. Gilts do not have the problem that syndication solves. There has been precisely one occasion that a gilt should have been sold by syndication, and that was in March 1981. The first time an inflation-linked gilt was sold[†8] the 2% Sept 1996 received bids ('tenders')[†9] as low as £80, and as high as £130. There had been no price formation; nobody had any idea where yields might clear. The difficulty was lessened by use of a uniform-price auction, but still, a syndication then, 45⅔ years ago, and only then, would not have been wrong.

†7 http://dmo.gov.uk/media/ii1j1y4d/pr280922a.pdf

†8 https://www.dmo.gov.uk/media/n20pqriq/prosp100381.pdf

†9 https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/1981/financial-review-qb-1981-q2.pdf#page=7

Minimising shame

Re syndications, what should the DMO do next?

Ⓐ: Obviously, if the objective were related to value for money, the answer would be to stop selling liquid bonds by syndication. End gilt syndications. But that would have the terrible disadvantage of being an admission of error. I wrote, in December 2008[†10] that "Syndication has a purpose, and this is not it."; in June 2010[†11], syndications were described as "partway-to-Paraguay". Institutions, and the people in them, do not wish to admit to having made an egregious error for so long. To stop is to admit error; it cannot stop.

Ⓑ: Another possibility is just to carry on, as was. But that would worsen the fantasy of the claim, and perhaps market commentators and the financial press might remark. It risks being seen to be too silly.

Ⓒ: Or, perhaps, continue syndicating, but make the claimed (and maybe actual) target ranges wider such that the DMO is not seen to be claiming repeated perfection. But if the first of those were soon after the publication of this essay, that might be noticed, might be connected to this argument, and so might be construed as an admission of error.

Ⓓ: More subtle would be to change the format of the results notice, such that it cannot be compared to the past, thus inhibiting analysis.

My preference, which is irrelevant, is Ⓐ. My hope is that this explicit statement of Ⓓ will make it less likely, and so, perhaps, increase the chance of Ⓐ.

Other improvements to debt management

In the hope that relevant policy makers are reading this, please allow a very concise summary of three other substantial improvements to debt management.

Auctions

Syndications were introduced because, during the GFC, a failed auction could have been detrimental to the perceived creditworthiness of the UK. The roof should have been fixed before, while the sun was shining, but hadn't been. The DMO could have switched to a superior auction mechanism[†12] that would achieve a better sale price in calm times, and never fail.

There are two good times to plant an orchard: twenty years ago, and today.

Options

The DMO should have a program of selling 28-day at-the-money call options on the current 10-year gilt and on a long gilt, and perhaps also on the current 5-year. Buyers of options naturally delta-hedge, meaning they buy when the market is falling and sell when the market is rising. Buyers of options are a market-stabilising force.

The sale of options is also extremely crisis-robust: if there is trouble, trouble of almost any nature, market players would believe that the bond might move far in price. That would make such options valuable. Even if the options were underpriced at auction—actually overpriced is more likely, but even if underpriced—the sale of options would always be possible, still have stabilisation advantages, and on average half the time cause the sale of the underlying debt. A government can always sell options.

And there is delicious anti-salesmanship: if there had been a program of selling short-dated call options on gilts, then the Prime Minister might still be Liz Truss. Readers to judge whether good or bad!

Too many securities

There are 70 separate conventional gilts outstanding, which is far too many.

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†10 https://www.jdawiseman.com/papers/finmkts/distributing_gilts.html#syndication

†11 https://www.jdawiseman.com/papers/finmkts/20100620_auctionettes.html

†12 https://jdawiseman.com/papers/finmkts/20100524.html

In June 2020, when there were 50 separate conventional gilts outstanding, the Governor of the Bank of England said[†13] "In the worst element, the government would have struggled to fund itself in the short run". Gilts being fewer would have lessened the burden on the repo market, and larger individual gilt sizes would have caused it to be available and working.

But the number of separate conventional US Treasury securities is 353, about which there is a separate essay[†14], which can speak for both countries.

Ideal next steps

◊ Cease syndications.

◊ Improve the auction mechanism, such that it can't fail.

◊ Start a program of selling 28-day at-the-money call options on current gilts.

◊ Have a policy that any new ≥ 20-year conventional gilts would be of a maturity materially different from that of any existing conventional gilt.

— Julian D. A. Wiseman
London, November 2026.

†13 At time 08:20 in https://news.sky.com/story/coronavirus-governor-says-bank-of-england-saved-britain-from-effective-insolvency-12012369

†14 https://jdawiseman.com/papers/finmkts/Fewer_Securities.html