

MR FFORDE MR M ST J WRIGHT
 MR COLEBY MR W A ALLEN
 MR GEORGE MR ILES / MR SHEPPARD
 MR GOODHART MR CARTER / MRS DRUMMOND
 MR GILL
 MR SMITH
 MR FOOT

MONEY MARKET REPORT (FOR RYRIE MEETING)

I attach a draft of a report for next Tuesday's meeting. I am afraid that statistical gremlins prevented earlier circulation and I doubt whether we can get a final version to HMT by cob tomorrow. I would, nevertheless, be grateful for comments as quickly as possible. The charts are not attached to this draft.

Also attached is a letter I received from Andrew Turnbull, together with a rough draft of my reply. I would be grateful for comments on this, too. In particular:-

- 1 I am proposing that the monthly report is updated into a final version at the end of each banking month. Once the system is running, this should not be much of a burden, and will mean that the next report need not go back beyond the start of the current month.
- 2 See paragraph 2(i) of Turnbull's letter. He is asking for a fairly simple bit of statistical information to be sent weekly. I do not think it is a very vital piece of information, but I am proposing to consent to the request. It may, I suppose, lead on to requests for other weekly (or daily) information.

Money Markets Division HO-G
11 June 1981

A R Latter (4303)

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MONEY MARKET REPORT: BANKING JUNE - PRELIMINARY, TO 11 JUNE

Day-to-day conditions have continued to be more than comfortable throughout the month. This has ensured fairly soft market interest rates at the very short end, but rates for longer than a week have been markedly affected by the more bearish rate expectations that have taken hold as a result of the US situation and outlook and the associated events in the foreign exchange markets. The hardening of the three-month interbank rate is apparent from both Table 2 and Chart A, and reflected a 1¹/₄ rise in the Treasury bill rate last Friday. Rates eased somewhat, however, once exchange markets had calmed and on reflection of Tuesday's money figure. On the comparatively few occasions when the market has been short, the Bank has had no difficulty providing relief through bill purchases; at rates in a narrow band up to MLR, aiming to keep in line with prevailing market rates for the paper in which the Bank was dealing. On one day a sizeable shortage was relieved by repos, in order to be sure of pushing the shortage forward to two known surplus days, 7 and 14 days ahead.

The Bank has on a number of days mopped up surpluses by inviting the market to bid for Treasury bills. Funds have been taken for a range of rates from 10.8% to 11.5%. The Bank has followed the established practice of offering the facility first to the houses, and subsequently to the banks only if insufficient bids had been received from the houses, at acceptable rates, to eliminate the surplus.

With shorter rates being held back by the comfortable market conditions, there have been no opportunities for hard arbitrage through

overdrafts - for which bid rates would have to be a margin over 1% in excess of base rates. Although the requisite margin has appeared in the longer periods, operators are unlikely to risk arbitrage for, say, three-month periods while there is some fear of a rise in base rates in the interim. Opportunities for hard arbitrage through bills have been similarly absent.

The Bank's holdings of eligible paper have been reduced by a substantial further amount:

	<u>15 April</u>	<u>20 May</u>	<u>9 June</u>
Bank holdings of eligible bank and LA bills purchased outright	2,129	2,136	1,457
Bank holdings of eligible bank and LA bills against repos	<u>739</u>	<u>-</u>	<u>-</u>
	<u>2,868</u>	<u>2,136</u>	<u>1,457</u>

The Bank currently holds some £1.2bn of eligible bank bills, out of an estimated £4.8bn in existence. Holdings at 20 May were some £1.6bn.

There have been no changes this month in the Bank's range of operating techniques.

The short-term outlook in the money market is dominated by the overhang of revenue delayed by the civil servants' action. If the backlog neither increases nor unwinds, the market will be comfortable over coming weeks and is unlikely to create any particular problems of management. The Bank has now restored a

considerable capacity to alleviate shortages, should the backlog begin to unwind, but conventional operations could not cope if the unwinding was heavily bunched.

For the time being there is no great difficulty for the Bank in operating, when necessary, in a manner consistent both with MLR at 12% and with prevailing market rates, but if tighter money market conditions were to return while the present somewhat more bearish sentiment - exemplified by three-month rates - endured, the task would be the more difficult.

A reconciliation of the figures in Table 1 with those appearing in the Monetary Review is attached as Table 3.

MONEY MARKET: ANALYSIS OF DAILY INFLUENCES AND OFFICIAL OPERATIONS: BANKING JUNE 1981

TABLE 1

£ millions: + = surplus for the market

	MAY					JUNE					4	5	8	9	10	
	21	22	26	27	28	29	1	2	3							
1 Market's position exclusive of official operations:																
1a - as estimated by Bank at time of final operating decision	- 68	+230	-223	+ 48	+101	+ 63	- 25	-132	+213	+ 79	+217	- 95	+106			
1b - actual, ex post	-148	+165	-168	+ 22	+115	+ 69	+ 47	-162	+212	+ 98	+161	- 91	+ 87			
2 Official operations	+ 68	-140	+217	-	-	-	+ 20	+217	-222	-	-248	+ 25	-			
3 Bankers' balances carried forward, relative to target	- 80	+ 25	+ 51	+ 22	+115	+ 69	+ 67	+ 55	- 10	+ 98	- 87	- 66	+ 87			
4 Influences (= determinants of 1b):																
Bankers' balances brought forward, relative to target	- 49	- 80	+ 25	+ 51	+ 22	+ 66	+ 69	+ 67	+ 55	- 10	+ 98	- 87	- 66	+ 87		
Disbursements less revenue	- 30	+449	+214	+ 82	+ 96	+393	- 93	+ 72	+156	+141	+ 32	- 41	+244			
Net gilts	+ 17	+ 5	-279	- 20	- 39	- 38	- 43	-109	+ 14	+ 7	+129	+ 41	+ 37	+ 27		
Treasury bills [†]	- 7	- 45	- 15	- 21	+ 2	- 22	+ 6	- 26	- 14	- 8	+122	+ 12	- 13	- 5		
Maturing eligible bills, repos unwinding, and repayments of lending	- 87	- 19	-183	-129	- 37	- 95	-110	-199	- 73	- 66	- 26	- 40	- 79	+ 49		
Other*	+ 8	-145	+ 72	+ 59	+ 70	-235	+218	+ 32	+ 74	+ 34	-194	+ 20	- 36			
5 Official operations (= composition of 2)																
TBs purchased or sold	+ 3	-140	-	-	-	-	-	+ 44	-222	-	-248	-	-			
LA bills purchased	+ 3	-	-	-	-	-	-	+ 14	-	-	-	-	-			
Eligible bank bills purchased	+ 62	-	+ 51	-	-	-	+ 20	+159	-	-	-	+ 25	-			
Repos	-	-	+166	-	-	-	-	-	-	-	-	-	-			
2.30 lending	-	-	-	-	-	-	-	-	-	-	-	-	-			
2.45 lending	-	-	-	-	-	-	-	-	-	-	-	-	-			

[†] Ex ante - i.e. before any intervention listed for the same day, but excluding any TB repos unwinding
 *Notes, foreign exchange, central banks, other Bank customers, etc.

TABLE 3

RECONCILIATION

(Banking months)

Monetary ReviewMoney Market Report (categories as in Table 1)

	<u>May</u>	<u>June (forecast)</u>
<u>Influences</u>		
CGBR	+1,964	+2,846
National savings	-741	-295
CTDs	-96	-55
Other Exchequer	-6	-
	<u>+1,121</u>	<u>+2,496</u>
BGS	-555	-375
Note circulation	+155	+87
Reserves	-19	-180
Other, including customers (residual)	-106	-
	<u>+30</u>	<u>-468</u>
Total influences	<u>+596</u>	<u>+2,028</u>
<u>Operations</u>		
Commercial bills	-869	
LA bills	+150	
Treasury bills	+201	
Market advances	-106	
Total operations	<u>-624</u>	<u>-2,018</u>
Total	<u>-28</u>	<u>+10</u>

Influences
(other than bankers' balances)

Balance of revenue and disbursements (ex post)	+1,124
BGS	-562
Treasury bills	+382
Maturing eligible bills, repos unwinding & repayments of lending	-3,336
Other (residual)	-87
Total influences	<u>-2,479</u>

Operations

Treasury bills	-22
LA bills	+566
Eligible bank bills	+1,851
Repos	-
Lending	+56
Total operations	<u>+2,451</u>
Total	<u>-28</u>

Minor discrepancies arise from rounding and from differences in valuation (eg bills are entered at discounted values in the Monetary Review but at nominal values in the Money Market Report. Total operations on the left correspond to, on the right, total operations plus Treasury bills plus maturing eligible bills etc, except that central bank transactions in TBs are included in TB figures on the left but excluded on the right (with compensating differences in the residual categories).