

AKC
MR COLEBY
THE GOVERNOR'S PRIVATE SECRETARY

Copies to Mr Fforde
Mr George
Mr Gill
Mr Byatt
Mr Latter
Mr Foot
Mrs Drummond
DGPS

over 2/2

MONEY MARKETS DURING WEEK ENDED 1 JULY

General Features

The scenario is virtually unchanged - a cloud of uncertainty as to the future course of UK interest rates overhangs the markets, with the main factor the immediate outlook for US rates. Despite sterling moving down (below \$1.90 this morning), there has so far been little reaction in UK rates, the gilt market being most vulnerable on a day-to-day basis. Markets are however still a bit nervous, looking for signs of a down-turn on US rates, coupled with an end (favourable) to the civil servants' dispute, to steady sentiment.

Daily Money Conditions

These have generally been comfortable, but we have intervened on two days with purchases of short-dated paper to relieve shortages in the discount market. Despite a great deal of excess liquidity in the money markets, some day-to-day difficulties have been experienced, notably on Tuesday which was a make-up day (covering the banks' half-years); overnight inter-bank rates were bid up to 20% in the morning (despite the forecast of a 'flat' day) and, despite assistance totalling nearly £150 mn. (^{including} ~~and~~ some lending at 2.45 p.m. to two discount houses), rates remained uncomfortably high. Enquiries yesterday revealed no pressure on the RAR amongst the clearers, but worries that the higher overnight rates could lead to arbitraging by their customers and evidence that they are not finding out about their own positions until too late in the day, combined to keep money tight.

Yesterday, in what should have been large surplus conditions, there were again difficulties, with rates remaining remarkably firm and we were only able to achieve modest success in our 'mopping-up'.

Treasury Bill Tender

The discount houses, still experiencing market demand for Treasury Bills, obtained 86% of the bills on offer last Friday when the pro rata price rose by 2p to £97.03 (a discount rate of just over 11 7/8%). Unless the market becomes more nervous with the fall in sterling, I would expect the price this Friday to rise by another 1 or 2p.

Other Points

I understand that five discount houses have applied for seats on the futures exchange - and that total applications for 340 seats had been received by the closing date last Monday. Only 200 seats are available at this point of time.

The local authority market is generally quiet, but there is still trouble with certain names.

Over the week inter-bank rates in the longer periods have shown little change, with rises of 1/16/1/8.

WAS
Money Markets Division
2 July 1981

M T R Smith (4710)
(Ho-G)