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MONEY MARKET REPORT (for Ryrie Meeting)

I attach a preliminary Report for banking July, for tomorrow's meeting. The final Report for June, which I circulated on 19 June, also covers a couple of days in the period since the last meeting.

I am sending copies to Turnbull.

Money Markets Division (HO-G)
13 July 1981

A R Latter (4303) *ay*

MONEY MARKET REPORT: BANKING JULY - preliminary (to 9 July)

As in the previous month, day-to-day conditions in the money market have mostly been very comfortable, aided by continued shortfalls of revenue. The Bank has given assistance to relieve shortages on only six days to date, never on more than a modest scale; and on five occasions the Bank has mopped up surpluses by selling Treasury bills to the market.

The Bank has dealt mainly in paper of very short maturity, largely for technical reasons relating to forecasts of the market's future position.

The notable tactical feature of the period was the upward nudge given to interest rates on 6 July. In circumstances where the market is not necessarily short continuously, conditions under which such a nudge can be administered may have to be awaited. Thus, the preceding three working days had been days of surplus, when the market did not bid more than 11 3/8% for the mop-up bills on offer. Had there been higher bids, these might have been accepted so as to help establish the upward movement. On 6 July, the market was short, and bid up to 11 1/2% for repo money; the Bank rejected all the bids and obliged the market to borrow, publicly, at 12 1/4% for 7 days. This action was immediately seized upon as having implications for longer rates: consequently, 3-month rates, for example, quickly established a new plateau some 1/2-3/4% higher; and there were repercussions in the gilt-edged market too.

Meanwhile, overnight and 7-day rates, though firming as a result of the Bank's move on 6 July, have continued to be affected by the strike, which has tended both to keep rates generally lower than they might otherwise have been, because of the cumulative revenue shortfall, and to induce greater volatility during particular days, as a result of uncertainty as to the market's precise position. There has been no evidence, however, of hard arbitrage either through overdrafts or bills.

The Bank has again been able to reduce its portfolio of bank and local authority bills, to £286 mn and £259 mn respectively (by 9 July), out of estimated totals of £4.8 bn and £0.9 bn, respectively, in existence. Meanwhile, the market's holdings of Treasury bills have risen to £1,027 mn. These figures confirm that the armoury by which the Bank may provide assistance, should shortages emerge, has been very substantially replenished in the past three months or so.

The Bank has instituted new arrangements for notifying the market of its operations during the day. The news agencies are informed whether or not the Bank has operated, both before and after lunch, and are told the range of rates for each type of instrument in which any operations have been conducted.

Money Markets Division

13 July 1981.

£ millions: + = surplus for the market

	JUNE							JULY												
	18	19	22	23	24	25	26	29	30	1	2	3	6	7	8	9	10	13	14	15
1 Market's position exclusive of official operations:																				
1a - as estimated by Bank at time of final operating decision	+ 54	- 87	- 46	+ 305	+ 293	+46/-6	+ 64	+ 44	- 11	+ 290	+ 162	+ 46	- 56	+ 46	+ 81	+ 113				
1b - actual, ex post	+ 28	- 122	- 55	+ 131	+ 299	- 24	- 3	+ 1	+ 19	+ 195	+ 123	+ 2	- 78	- 78	+ 89	+ 10				
2 Official operations	-	+ 69	+ 74	-	- 123	-	-	+ 64	+ 133	- 74	- 118	- 42	+ 105	+ 86	-	- 200				
3 Bankers' balances carried forward, relative to target	+ 28	- 53	+ 19	+ 131	+ 176	- 24	- 3	+ 65	+ 152	+ 131	+ 5	- 40	+ 23	+ 8	+ 89	- 190				
4 Influences (= determinants of 1b):																				
Bankers' balances brought forward, relative to target	- 36	+ 28	- 53	+ 19	+ 131	+ 176	- 14	- 3	+ 65	+ 152	+ 131	+ 5	- 40	+ 23	+ 8	+ 89				
Exchequer disbursements less receipts	+ 73	- 55	- 193	+ 278	+ 206	- 101	+ 83	+ 78	+ 251	+ 107	+ 39	+ 2	+ 11	- 90	+ 106	+ 11				
Net gilts	+ 3	+ 40	+ 11	- 54	- 56	+ 10	+ 111	+ 70	- 47	- 10	+ 28	+ 35	+ 1	+ 47	- 141	+ 18				
Notes	+ 23	+ 106	+ 34	- 8	+ 5	+ 19	- 130	+ 46	- 10	- 5	+ 10	- 134	+ 45	- 2	+ 9	+ 26				
Predetermined money market transactions [†]	- 35	- 12	+ 124	- 51	- 58	- 33	- 59	- 145	- 60	- 27	- 68	+ 114	- 101	- 73	+ 120	- 67				
Other*	-	- 17	+ 22	- 53	+ 71	- 95	+ 6	- 45	- 180	- 12	- 18	- 20	+ 2	+ 17	- 13	- 67				
5 Official operations (= composition of 2)																				
TBs purchased or sold	-	+ 69	-	-	- 123	-	-	+ 36	+ 4	- 74	- 118	- 42	-	-	-	- 200				
LA bills purchased	-	-	+ 5	-	-	-	-	-	+ 4	-	-	-	-	-	-	-				
Eligible bank bills purchased	-	-	+ 61	-	-	-	-	+ 28	+ 94	-	-	-	-	-	-	-				
Repos	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+ 86	-				
2.30 lending	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
													105 @ 12½% 7 days							
2.45 lending	-	-	8 @ 12% 7 days	-	-	-	-	-	31 @ 12½% 7 days	-	-	-	-	-	-	-				

[†] Net Treasury bills (before any intervention listed for the same day) and maturing LA and bank bills at the Bank (in all cases both outright and repo); and repayments of lending.

*Foreign exchange, central banks, other Bank customers, etc.

ANALYSIS OF DAILY OFFICIAL MONEY MARKET OPERATIONS IN BILLS: BANKING JULY

T = Treasury bills;
 L = Local authority bills;
 B = Bank bills;
 R = Repos.

Numbers immediately after letters denote the following maturity bands:

1 = 1 to 14 days;

2 = 15 to 33;

3 = 34 to 63;

4 = 64 to 91.

Subsequent figures are amounts (£ millions) of official purchase of paper, unless asterisked (= official sale).

Rates shown are approximate rates (yield basis) at which funds provided or taken (range shown where significant)

Date	Operations	Inter-bank rates	
		Overnight, day's range	3 months, middle
June			
18	None	10.0-11.5	12.7
19	B1 44 @ 11.6. B3 25 @ 12.2	11.0-11.8	12.7
22	L1 5 @ 11.3. B1 61 @ 11.6	11-15	12.6
23	None	6-11.4	12.6
24	T1 *123 @ 11.0-11.3	3-10.9	12.5
25	None	10.0-11.0	12.5
26	None	10.8-13	12.4
29	T1 31 @ 11.3. T2 5 @ 11.4.		
	B1 28 @ 11.5	11.0-12.5	12.6
30	T1 4 @ 11.3. L1 4 @ 11.3.		
	B1 94 @ 11.5	6-20	12.6
July			
1	T1 *64 @ 11.0-11.3	10.0-11.3	12.7
2	T1 *118 @ 11.0-11.4	5-11.2	12.7
3	T1 *42 @ 11.0-11.4	3-12	12.3
6	None	9.0-11.5	13.2
7	R1 86 @ 12.0-12.3	10.0-12.0	13.3
8	None	1-12	13.3
9	T1 *200 @ 11.3-12.3	10-12	13.4
10			
13			
14			
15			

TABLE 3

RECONCILIATION

(Banking months)

Monetary ReviewMoney Market Report (categories as in Table 1)

	<u>June</u>	<u>July (forecast)</u>		<u>June</u>	<u>July (to 9th)</u>
<u>Influences</u>			<u>Influences</u> (other than bankers' balances)		
CGBR	+2,680	+1,580	Balance of Exchequer receipts and disbursements (ex post)	+2,177	+806
National savings	-281	-140			
CTDs	-18	-320	BGS	-585	+66
Other Exchequer	-122	-	Notes	+148	-178
	<u>+2,259</u>	<u>+1,120</u>	Aggregate of daily predetermined money market transactions (as defined in Table 1)	-1,684	-431
			Other (residual)	<u>-106</u>	<u>-402</u>
BGS	-599	-245	Total influences	<u>-50</u>	<u>-139</u>
Note circulation	+148	-390			
Reserves	-264	-100	<u>Operations</u>		
Other, including customers (residual)	+3	-	Treasury bills	-722	-448
Total influences	<u>+1,547</u>	<u>+385</u>	LA bills	+27	+9
			Eligible bank bills	+477	+183
<u>Operations</u>			Repos	+350	+86
Commercial bills	-787		Lending	-	+144
LA bills	-271		Total operations	<u>+132</u>	<u>-26</u>
Treasury bills	-406				
Market advances	-		Total	+82	-165
Total operations	<u>-1,464</u>	<u>-370</u>			
Total	<u>+83</u>	<u>+15</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 predetermined money market transactions, except that central bank transactions in TBs are included in TB figures on the left but excluded from money market figures on the right (with compensating differences in the residual categories).