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MONEY MARKETS DURING WEEK ENDED 28 JULY

General Points

The mood of the markets remains much the same - brittle and nervous. The better-than-expected MIB figures in the US had a calming effect on Monday but this was short-lived as US bond prices deteriorated again on Monday. The issue of £1 bn Treasury Bills this week has had no marked effect in general on the structure of rates, although larger-than-expected market shortages on Monday and Tuesday, which meant firmer overnight rates, also fed through, in part, to the longer period rates. Since last Thursday morning, while the one-month inter-bank is actually easier by 1/16th, the 3 and 6-month rates are up by 1/8th and 3/16ths respectively to 14 9/16% and 14 5/8%.

Looking ahead, the market sees little relief - dollar rates are not expected to come down very far before the end of the year, the possible end to the civil service dispute will have its effect on market liquidity and the new monetary control system from 20 August plus the PRT payment on 1 September will be other possibly unsettling features.

Daily Money Conditions

We have provided larger market assistance since (and including) last Thursday than for some time. Unlike the previous few weeks when the 'repo' technique was extensively used, we have been buying eligible bills outright for the most part. In total, assistance came to

£1 bn, of which £950 mn consisted of outright purchases, all in maturities of 33 days and under (i.e. end-August and earlier). Our rates in Band 1 paper (up to 14 days) have generally been at 12 1/2%, while the rates we accepted on Monday and Tuesday in Band 2 dealings were between 13 1/4% and 13 3/4%. The amount of paper purchased will inevitably have had its effect on the liquidity of the discount houses, some of whom have commented on the restricted nature of their liquidity as a result of our limited (in terms of maturities purchased) dealings.

The shortages, particularly on Monday and Tuesday, reflected partly gilt sales and partly a large swing (of £200 mn) against the market on Friday in terms of the Exchequer position. Given that the large issue of Treasury Bills last Friday was aimed at taking out an expected surplus in the market, the shortages have been bigger than expected, but today and tomorrow should be less short.

Treasury Bill Tender

On the £200 mn 91-day bills on offer last Friday the pro rata price fell by 7p to £96.57 (equal to a 13 3/4% discount). Few outsiders applied and the discount houses obtained all the bills.

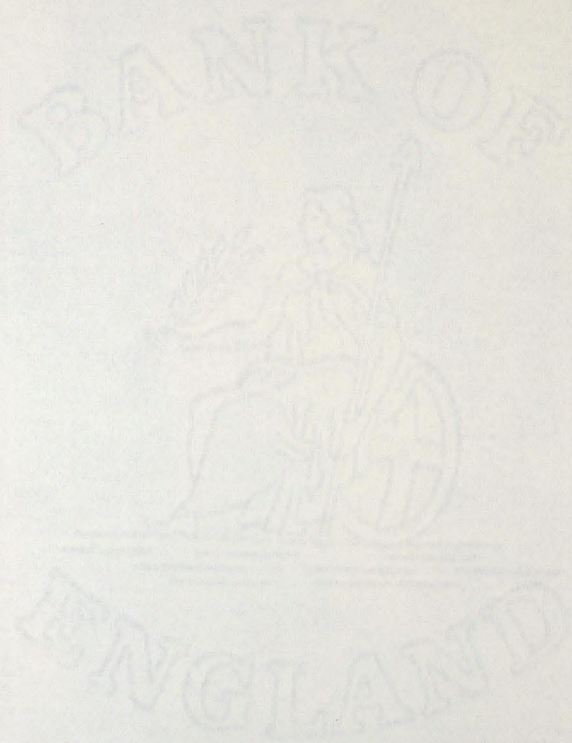
The special £800 mn 5-week bills (all due on 1 September) attracted bids of nearly £1.2 bn at rates of discount between 13 5/8% and 14 1/2%. The houses entered a jointly-agreed bid of 13 31/32 and obtained 81% of the total. Reports from the discount houses this week indicate that the clearing banks have been buyers of these bills (the Nat West alone took just over £100 mn), but perhaps surprisingly, there are no reports of them being bought by the oil companies who have to meet the heavy tax payments on 1 September (we know that BP have already taken up £550 in CTDs in advance of their payment of £950 mn).

The offer of £200 mn 91-day bills and £250 mn 4-week bills this Friday is likely to see a further fall in the pro rata price for the former - perhaps by up to 6p to discount rate of 14%. The shorter bills may see a slightly lower bid rate from the houses.

Other Points

The clearing banks' lending is likely to show considerable increases in the current month as many customers have resorted to overdraft from market-related lines and bill financing.

Following market enquiries, the new list of eligible names is being finalised.



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Money Markets Division
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