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MONEY MARKET REPORT

✓ I attach tables and brief comment covering the period of banking
November up to 12 November. A final version will be circulated in
due course, after the month-end.

Money Markets Division
16 November 1981
A R Letter (4303)

amj.

CONFIDENTIAL

MONEY MARKET REPORT: BANKING NOVEMBER 1981 - PRELIMINARY, TO 12 NOVEMBER

The Bank operated in the money market every day during this period, always to balance shortages. In large part the daily operations merely rolled forward existing assistance, which had been conducted at short maturities, as it matured. In addition, however, Exchequer transactions became more adverse to the market as the period progressed, partly because the revenue backlog was beginning to unwind in significant proportions; and on some days there were substantial gilt sales against the market.

The Bank operated through outright purchases of bills, concentrated in bands 1 and 2 except when the stock of these bands appeared to be heavily depleted, and through short-dated repos. The Bank lent on the published "2.30" basis on one occasion (30 October) when funds became stuck with the banks on account of Cable and Wireless applications: ex post it emerged that the money market had not, as a whole, required the borrowing. The Bank also lent privately on four occasions: the only sizeable amount was on 12 November when, again, it emerged subsequently that the borrowing was not in fact required - the market had overestimated the day's very large shortage.

9 November was notable for the banks being left a record £273 mn beneath their target for operational balances (some going into overdraft). This apparently arose from certain tax payments passing through the Town clearing which were not expected by the banks, nor by the Bank. On this day the Bank's estimate of the market's position at 2.00 pm was some £200 mn astray. Over the remainder of the period the Bank's record in estimating the market's position prior to deciding its after-lunch operations was remarkably good (compare rows 1 and 2 of table 1).

Sentiment in the market was dominated during the period by developments in the US. Period rates fell steeply, for instance, from a peak of nearly 17% for 3 months interbank in late October to below 15% most recently. Shorter rates eased less precipitously as a result of the Bank's steadier dealing rates, which moved down from 15 1/2% (yield basis) for one-month paper to 14 3/4% over the same period. Banks lowered their base rates from 15 1/2% to 15% on 9 November.

16 November 1981