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MONEY MARKET REPORT: BANKING DECEMBER 1981

I attach the report. The tabular presentation has been revised into what is, I hope, a more useful format.

Money Markets Division HO-M
14 December 1981

A R Latter (4303)

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MONEY MARKET REPORT: banking December 1981 (three weeks)

There were persistent and occasionally heavy daily shortages in the money market and the Bank operated every day. The shortages arose predominantly from earlier assistance maturing, but the seasonal rise in the note circulation and a modest excess of Exchequer receipts over disbursements, resulting from the unwinding strike effect, also contributed.

The Bank was able to manage the shortages through its bill operations without significant difficulty. Over the month as a whole the Bank's own holding of eligible bank bills (including those due for resale to the market) rose by about £½ bn to £3.6 bn, out of an estimated total of £6½-7 bn in existence; and the Bank's holding of local authority bills increased to £0.5 bn - also about half the total in existence. Meanwhile the amount of Treasury bills in circulation outside the Bank was little changed on balance, at £1.4 bn.

Beginning on 4 December the Bank made modest placings in the local authority deposit market. This technique is being used to supplement bill operations in view of the mounting strain on bill resources that is in prospect up until March.

The lowest discount rates accepted in each band by the Bank in its daily dealings declined slightly during the month:- from 14⁵/₈% to 14³/₈% in band 1, from 14 7/16% to 14¹/₄% in band 2, and from 14¹/₄% to 14¹/₈% in band 3. Rates in the interbank market eased on balance at the short end, with the one-month rate ¹/₄% lower at 14 15/16%, but longer rates firmed a little - from fractionally below 15% to fractionally above at three months, and up ³/₈% to 14³/₄% at one year. Banks lowered their base rates by ¹/₂% to 14¹/₂% on 3 December.

The Bank was content for base rates to fall to 14¹/₂%, and had pitched its dealing rates to be consistent with such a move. In the event it was some time before the move occurred. The stickiness arose because the 7-day interbank rate was held up unusually high in

relation to the 7-day bill rates by banks bidding for liquidity from the interbank market, since they possessed few surplus funds with the houses or surplus eligible bills with which to meet their shortages. The Bank provided somewhat more assistance than was needed strictly to balance the market on four days in succession, and this eventually dampened the interbank rate enough to influence banks to reflect official dealing rates in their base rates. A similar discrepancy between bill and interbank rates was apparent at other maturities during this period, indicating imperfect arbitrage between the markets and suggesting some opportunities for round-tripping via bills. By contrast no obvious opportunities for round-tripping between overdrafts and the interbank market were in evidence.

14 December 1981

MONEY MARKET: ANALYSIS OF DAILY INFLUENCES AND OFFICIAL OPERATIONS: Banking December 1981
 £ millions: + = surplus for the market Sheet 1

	Nov 19	Nov 20	Nov 23	Nov 24	Nov 25
1 Market's position, exclusive of (2):					
a) Bank estimate at final operating decision	-673	-578	-299	-332	- 92
b) actual, ex post	-698	-621	-261	-310	-126
2 Official operations	+717	+668	+423	+311	+108
3 Bankers' bals carried fwd, rel. to target	+ 19	+ 47	+163	+ 1	- 18
4 Influences (composition of lb):					
Bankers' bals brought fwd, rel. to target	- 29	+ 19	+ 47	+163	+ 1
Exchequer disbursements less receipts	- 84	-286	+316	-238	+128
Net gilts	-183	- 46	+185	+ 21	+ 15
Notes	+ 24	-138	+ 69	- 22	- 16
Predetermined money market transactions/	-385	-178	-871	-252	-264
Other*	- 41	+ 8	- 7	+ 18	+ 9
5 Official operations (composition of 2)					
a) <u>Outright bill transactions</u>					
Band 1: amounts: TBS		+ 1			
(1-14 days) LA bills					
bank bills	+ 21	+ 41	+ 1	+ 20	+ 8
rates of discount	14 ⁵ / ₈	14 ⁵ / ₈	14 ⁵ / ₈	14 ⁵ / ₈	14 ⁹ / ₁₆ - 5/8
Band 2: amounts: TBS	+ 39 ⁰	+ 1	+ 14	+ 1	+ 10
(15-33 days) LA bills	+ 5	+ 28	+ 52	+ 8	
bank bills	+294	+ 98	+152	+ 67	+ 35
rates of discount	14 ⁷ / ₁₆ - ⁵ / ₈	14 ⁷ / ₁₆ - ¹ / ₂	14 ⁷ / ₁₆	14 ⁷ / ₁₆	14 ³ / ₈ - 7/16
Band 3: amounts: TBS	+ 19	+ 32 ⁰	+ 1	+ 4	+ 5
(34-63 days) LA bills	+ 3	+ 12	+ 40	+ 7	+ 2
bank bills	+162	+107	+ 93	+134	+ 48
rates of discount	14 ¹ / ₄ - ¹ / ₂	14 ¹ / ₄	14 ¹ / ₄	14 ¹ / ₄	14 ³ / ₁₆ - ¹ / ₄
Band 4: amounts: TBS					
(64-91 days) LA bills					
bank bills					
rates of discount					
b) <u>Repos in bills</u>					
amount	+127	+183		+ 70	
duration	5d	5d		14d	
interest rate	14 ¹ / ₄ - ¹ / ₈	14 ¹ / ₄ -15		14 ¹ / ₄ - 13/16	
c) <u>Published lending</u>					
amount					
duration					
interest rate					
d) <u>Unpublished lending</u>					
amount	+ 47	+166	+ 70		
duration	O/N	W/E	O/N		
interest rate	15 ¹ / ₂ -16	15 ¹ / ₂ -16	15 ¹ / ₂ -16		
6 <u>Inter-bank rates</u>					
Overnight, day's range	15.0- 22	15.3- 18	14.0- 16.1	15.0- 15.5	15.3- 25
3-month, middle	14.9	14.8	14.8	15.0	14.8

/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.

0/Includes unpublished deals on relatively penal terms.

MONEY MARKET: ANALYSIS OF DAILY INFLUENCES AND OFFICIAL OPERATIONS: BANKING DECEMBER 1981
 £ millions: + = surplus for the market Sheet 2

	Nov 26	Nov 27	Nov 30	Dec 1	Dec 2
1 Market's position, exclusive of (2):					
a) Bank estimate at final operating decision	-334	-243	- 43	-260	- 80
b) actual, ex post	-347	-248	- 23	-251	-135
2 Official operations	+393	+273	+130	+341	+111
3 Bankers' bals carried fwd, rel. to target	+ 46	+ 24	+107	+ 90	- 24
4 Influences (composition of lb):					
Bankers' bals brought fwd, rel. to target	- 18	+ 46	+ 24	+107	+ 90
Exchequer disbursements less receipts	+ 69	+183	+123	-251	+ 97
Net gilts	-170	+ 13	+ 5	- 72	+ 24
Notes	- 13	-180	+ 52	- 31	- 28
Predetermined money market transactions/	-217	-232	-237	-100	-320
Other*	+ 2	- 78	+ 10	+ 96	+ 2
5 Official operations (composition of 2)					
a) <u>Outright bill transactions</u>					
Band 1: amounts: TBS		+ 1			
(1-14 days) LA bills		+ 2		+ 6	
bank bills		+ 18	+ 2	+ 4	+ 16
rates of discount	14 9/16	14 9/16	14 9/16	14 9/16	14 9/16
Band 2: amounts: TBS					
(15-33 days) LA bills		+206	+ 96	+209	+ 33
bank bills				14 ³ / ₈ - 7/16	14 ³ / ₈ - 7/16
rates of discount		14 ³ / ₈	14 ³ / ₈		
Band 3: amounts: TBS				+ 30	
(34-63 days) LA bills		+ 46	+ 32	+ 87	+ 62
bank bills			14 3/16	14 3/16	14 3/16
rates of discount		14 3/16	14 3/16	14 3/16	14 3/16
Band 4: amounts: TBS					
(64-91 days) LA bills					
bank bills					
rates of discount					
b) <u>Repos in bills</u>					
amount	+391				
duration	18d				
interest rate	14 ³ / ₄ - ³ / ₈				
c) <u>Published lending</u>					
amount					
duration					
interest rate					
d) <u>Unpublished lending</u>					
amount	+ 2				
duration	O/N				
interest rate	15 ¹ / ₂				
6 <u>Inter-bank rates</u>					
Overnight, day's range	14.5-16.0	12.0-15.7	13.0-16.0	5-15.7	3-15.6
3-month, middle	14.9	14.8	15.0	15.2	15.1

*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.

MONEY MARKET: ANALYSIS OF DAILY INFLUENCES AND OFFICIAL OPERATIONS: Banking December 1981
 £ millions: + = surplus for the market

	Dec 3	Dec 4	Dec 7	Dec 8	Dec 9	Cumulative total for month
1 Market's position, exclusive of (2):						
a) Bank estimate at final operating decision	-164	-569	-321	- 66	- 95	
b) actual, ex post	-193	-574	-286	-124	-127	
2 Official operations	+124	+571	+319	+ 64	+ 74	+4,629
3 Bankers' bals carried fwd, rel. to target	- 69	- 3	+ 33	- 60	- 53	
4 Influences (composition of 1b):						
Bankers' bals brought fwd, rel. to target	- 24	- 69	- 3	+ 33	- 60	
Exchequer disbursements less receipts	- 18	-178	+ 11	-106	- 12	- 246
Net gilts	+ 13	- 1	- 6	+ 77	+182	+ 56
Notes	- 2	-174	+ 54	- 43	- 26	- 474
Predetermined money market transactions/	-162	-214	-307	-102	-196	-4,037
Other*	-	+ 62	- 35	+ 17	- 15	+ 48
5 Official operations (composition of 2)						-4,653
a) <u>Outright bill transactions</u>						
Band 1: amounts: TBs						+ 2
(1-14 days) LA bills	+ 210					+ 29
bank bills		+ 55	+ 4	+ 6	+ 14	+ 210
rates of discount	15	14 $\frac{3}{8}$	14 $\frac{3}{8}$	14 $\frac{3}{8}$	14 $\frac{3}{8}$	
Band 2: amounts: TBS		+ 3			+ 1	+ 74
(15-33 days) LA bills			+ 2			+ 95
bank bills	+ 40	+407	+183	+ 55	+ 40	+1,915
rates of discount	14 $\frac{1}{2}$ - 5/16	14 $\frac{1}{2}$	14 $\frac{1}{2}$	14 $\frac{1}{2}$	14 $\frac{1}{2}$	
Band 3: amounts: TBs	+ 150	+ 1	+ 1		+ 1	+ 109
(34-63 days) LA bills	+ 10	+ 23	+ 15		+ 14	+ 126
bank bills	+ 14	+ 75	+102			+ 962
rates of discount	14 $\frac{3}{8}$ - 13/32	14 $\frac{3}{8}$	14 $\frac{3}{8}$		14 $\frac{3}{8}$	
Band 4: amounts: TBs						
(64-91 days) LA bills						
bank bills						
rates of discount						
b) <u>Repos in bills</u> amount						+ 771
duration						
interest rate						
c) <u>Published lending</u> amount						
duration						
interest rate						
d) <u>Unpublished lending</u> amount	+ 20				+ 4	+ 309
duration	14 $\frac{3}{4}$ -7d				O/N	
interest rate	15 $\frac{1}{2}$				15 $\frac{1}{2}$	
e) <u>LA deposits (unpublished)</u>	+ 4	+ 7	+ 12	+ 3	+ 1	+ 27
6 <u>Inter-bank rates</u>						
Overnight, day's range	13.7-30	5-16.0	13.0-17.5	11.0-14.8	14.5-30	
3-month, middle	14.9	14.8	14.8	14.9	15.1	

*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.

Ø Includes unpublished deals on relatively penal terms.