Extract from PM's Meeting with Gordon Pepper 4.7.79.

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II. Gilt-edge Funding

Mr. Pepper said that the Bank should have been concentrating to a greater extent on shorter dated stock. Their failure to announce a new short tap immediately after the Budget had been a great mistake. Following the announcement of the MLR increase, they had dropped the price of the long tap by 5½ points. This had caused a shambles amongst the Jobbers and Brokers, and with the shortage of short dated stock it had resulted in a very unsatisfactory yield curve - with yields at the shorter end far below yields at the long end. Both the existing tap stocks were now exhausted and the question arose as to what new stocks should be announced. Mr. Pepper's own view was that it would be right to issue both a new long and a new short stock - perhaps £1 billion of each. But the Bank should try to sell the short stock more vigorously than the long stock and establish a smoother yield curve. The institutions were currently rather short of liquidity, while the corporate sector was reasonably liquid: so this concentration of the shorter end should be feasible. It might also be a good idea for the Governor to indicate in a forthcoming speech that the Bank were going to concentrate more on the shorter end.

III. Money Supply

Mr. Pepper said that it was very difficult to estimate at this stage what the June banking figures would look like. There was a good deal of anecdotal evidence that bank lending to the private sector was continuing at a high level but this was not necessarily conclusive because of the window dressing by the banks for their half-yearly make-up. Nonetheless, he continued to be very worried about the money supply figures. The recent heavy sales of gilts were likely to have been offset by continued private sector lending at a high rate. The latter was suggested by high retail sales, for example, of cars. The main element in this was likely to be personal lending; corporate loan demand by contrast, which always lagged at this stage of the cycle, was likely to be running at a reasonable level.

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