

Bank
MTRS.

Thank you - I'd quite like to see these reports each week!
Mr. Flood 20/10
I may care to see.

CONFIDENTIAL

16.10.80

MR COLEBY

17/10

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Copies to Mr George
Mr Gill
Mr Latter
Mrs Drummond

MONEY MARKETS DURING WEEK ENDED 15 OCTOBER

General

The money markets were of course dominated by the lead up to make-up day. Expectations of tight money conditions this week probably contributed to high Euro-sterling rates from Friday onwards (because of two-day settlement), feeding through in turn to the inter-bank market this week. One-week money on Tuesday and Wednesday stood at just above 17%, but is unlikely to have contributed to arbitraging since few bank customers pay less than 17% for their overdrafts. Overnight money was tight, reaching as high as 125% on Wednesday afternoon, with a fair amount of business (£50-£100 mn.) done in the range 40-50%.

The Discount Houses

Trading has been quiet for much of the last week, but as in previous months, make-up day brought its own particular problems, with plenty of money (only seen at this time of month) on offer to the houses. Few were in a position to take other than a small proportion, because of pressure on their multipliers.

Treasury Bills - 'Hots' are apparently continuing to trade quite well and the tender this week is, in the absence of any general market difficulties, likely to show little change from last week's pro rata price of £96.44.

Eligible Bills - many houses were, I suspect, thankful for the opportunity to 'repo' bills over make-up day. The total in

ALC 16/10⁷ JSH 20/10¹ MTRS 21/10³

the three days came to £517.8 mn. of which £140.2 mn. will be sold back on 29 October, £139.9 mn. on 31 October, £118.4 mn. on 5 November and £119.3 mn. on 6 November.

Generally speaking, the houses have seen a small decline in the number of bills in the market, and Hambros told me on Monday that finance paper e.g. Lombard is down by about 10%. However, good names are still very evident in the market and Union reported last week some sales of 'short' bills to overseas customers who they felt were turning to bills as a temporary alternative to gilts (these are the first significant sales by Union to overseas customers since early July). Some lines of bills are not being renewed for interest rate considerations with the drawers resorting to overdraft.

Much of the discussion during my visits centred round monetary base control. There was some hesitation over what contribution houses could make to the debate, but submissions (to the LDMA) are likely to be based on the role they currently play in providing liquidity and a secondary market for CDs, etc. They certainly identify volatility of interest rates (and the effects this would have on their books) as a major problem of any such system.

Clearing Banks

For the most part they see their own lending flattening out, but will be watching today's figures for trends from the other banks. Barclays (Everett) report instances of applications from companies for more loans to tide them over the recession.

KRS
Money Markets Division
16 October 1980

M T R Smith (4710)
HO-M