

MARKETS Dept

23/88

MR COLEBY  
MR FFORD

JP. 30/10

Copies to Mr George  
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MONEY MARKETS DURING WEEK ENDED 22 OCTOBER

General

The money markets have seen extremely tight conditions since make-up day and the shortage this week, mainly caused by VAT and PAYE (with the call on the 12% Exchequer 1998 'A' tomorrow adding £410 mn.), has contributed to a large reserve asset shortage. Further 'repos' since last Thursday have brought the total since last Monday week to approximately £1 bn., all of which will be resold before November make-up day (giving rise to increasing unwillingness by the houses to commit any more because of the multiplier). Our offer to buy eligible bills outright yesterday - the first time since July 1978 - produced only £35 mn., the low response being attributed by some houses to the fact that the rate at which they were being discounted (15 7/8%) was unattractive except for a limited tenor of bills, and that many of these bills were already in our possession.

Short-term inter-bank rates have been remarkably high this week, even on Tuesday when there was only a small shortage. Some banks, notably Nat.West., have had to bid for a lot of funds in the market and as at yesterday <sup>Nat.West.</sup> were relying on some £1 bn. of GDO support (from virtually a nil level 2 weeks ago). The high inter-bank rates have tended to compound their requirements, given that even 1-month rates have risen above 17%, and will have led to some 'round tripping'. Some banks have been forced to issue 3-month CDs.

The difficulties last Wednesday which caused the clearers a lot of problems in reaching their RAR (it is virtually certain that Nat.West. at 12.3% were below target, while Lloyds may just have reached 12.5%) have given rise to a lot of comment to me about the need for the Bank to monitor RARs at other times of the month.

ALC 23/10<sup>9</sup> JSFF 30/10<sup>2</sup>

## Treasury Bills

The demand for TBs this week has been somewhat more muted than in previous weeks with the banks being the main takers and given the rising cost of houses' money and, the level of short-term rates generally, there is a feeling that the rate of discount tomorrow may show a slight rise, perhaps coming back as far as to lock onto the Bank's dealing rates.

## Eligible Bills

Many of the bills most recently taken in 'repos' have been one-month paper, although since at present most houses are trying to keep their book as short as possible, this is perhaps not altogether surprising.

## Outlook

Although there have been rather mixed views this week on the future outlook for interest rates, the most prevalent view is that a cut in MLR is still some way off. The feeling that the October make-up day will have suffered from distortions and the tight conditions in the last week have certainly contributed to this view.

The possibility of a change in monetary policy in the next few weeks is very much uppermost in the minds of the houses and views on the effects of any such change are being collated by the Chairman of the Market. He is however encountering difficulty in putting over an agreed line.

Money Markets Division  
23 October 1980

M T R Smith (4710)  
HO-M

(Dictated by MTRS but  
circulated unseen)