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MONEY MARKETS DURING THE WEEK ENDED 5 NOVEMBER

Market Conditions

The last week (Thursday-Wednesday) has seen for the most part comfortable surpluses and a gradual reduction in most period rates in the inter-bank market. Nevertheless the latter development was slow to develop given the easy conditions and is attributed by some market sources to the strength of Euro-£ rates. Equally it is reported that the trading in the inter-bank market has been thin with a few large deals being sufficient to keep rates up.

The surpluses on banks' target balances have persisted and indeed increased this week, with a surplus of 229 on Tuesday night and 182 on Wednesday night. The banks claim that money has been slow to materialise during the day and discount houses have even had occasional problems in balancing their books. The marked downward pressure on call money rates has not encouraged the banks to lend and indeed our efforts to mop up surpluses with short-dated TBs (20/21 November) has not yielded many takers (Lloyds took 30 on Tuesday). Some overnight call money has ultimately been placed at 13-14% but generally speaking the clearers are still reluctant to have their call money marked down below 15 1/4%, although at least one bank has come down to 15%. One house reported taking 3-month money from a bank at 14 1/2%.

The effect of the continual surpluses on bankers' balances has been to raise the average for the first two weeks of the present targetting period to 631, against a target of 513.

Talking Points

The announcement of a 2% rise in M3 in October had little impact on the market which had been expecting unfavourable results

ALC 6/11 JSFF 6/11

following the difficulties on make-up day. Most houses are taking a very cautious line on the future and their developed views on the question of future monetary policy have only added to their uncertainties.

The message to the houses about the Bank's willingness to rediscount bills on 'conventional' (but unused for some considerable time) lines led to some head-scratching - and initially concern among some houses that the bank was helping those houses which had not made room for the repos due back this week. It has been emphasised that the rate at which these bills are rediscounted is of the Bank's choosing. One house (Smith St Aubyn) took advantage of the facility yesterday (Wednesday), selling £13.6 mn. bills (with an average life of 21 days) at 16 3/4% (later in the day the 'bid' rate for 1-month bills fell back to nearly 16 1/2%). With a marked absence of buyers in the bill market, some houses undoubtedly have had to make room for their repurchases on Wednesday, Thursday and Friday this week (with two more lots next week) by selling other assets - at a loss. Moreover it was reported that Hambros were having trouble in placing a new (£75 mn.) line of acceptance credits due to be drawn today.

Inter-bank Market

National Westminster Bank have reduced their 'support' from the inter-bank market to £500 mn. in the last week (from over £1 bn.) and attribute this principally to a fall-off in lending - after the heavy demands made of them around make-up day.

Treasury Bill Tender

Very little talk, with the likelihood that at last they might lock onto the Bank's dealing rates (i.e. pro rata price down 1p).

MTRS

Money Markets Division HO-M
6 November 1980

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