

CONFIDENTIAL

13.11.80

MR COLBY  
MR FEORDE

Copies to Mr George  
Mr Gill  
Mr Latter  
Mrs Drummond

13/52

Rand 20

Some of this subject matter was covered at Book this morning. A.C.

MONEY MARKETS DURING THE WEEK ENDED 12 NOVEMBER

Market Conditions

After the surpluses seen most days last week, shortages have developed this week - somewhat more so than originally expected, mainly from a very sizeable Exchequer swing against the market last Friday (over £200 mn.) and the sale of some £180 mn. stock. While the above-average level of bankers' balances over the targetting period has taken some of the strain this week, the Bank has undertaken repos of eligible bills on all three days this week, as well as purchasing a small amount of eligible bills outright yesterday (Wednesday). These measures have helped to maintain the supply of reserve assets in the system, although the Bank's *refusal* to buy Treasury Bills outright from the market to relieve the shortage has provoked reactions (see below). The repos have totalled some £320 mn. of which £260 mn. will go back to the market on the 25 November and the rest on 10 December (December make-up day). Of the total of £260 mn. due to return to the market on 25 November, £100 mn. is to be resold to one house (Cater Ryder). Wednesday's outright purchase of bills totalled £88 mn. and consisted of bills maturing up to the December make-up day.

no offer

After last week's situation in which one-month eligible bill rates reached nearly 17% to deter the issue of new paper (as houses were up against their limits), the appearance of buyers, partly as a result of softer inter-bank rates, and the repos have resulted in rates falling to 16% for one-month bills and 15½% for three months by yesterday.

Talking Points

Malcolm Crawford's article in the Sunday Times had not surprisingly an unsettling effect on the market, sensitive as it is to the future of the system. In my visits to the houses this week, I

ALC 13/11<sup>4</sup> JSFF 13/11<sup>9</sup> MRS 14/11<sup>2</sup>

have made it clear that there is no agreement as yet on any future system.

Generally speaking, the market believe that any move on MLR is likely to result from political considerations, but on other considerations do not expect a fall before the end of this year.

The market found the Bank's <sup>failure to offer</sup> ~~refusal~~ to buy TBs outright on Monday and Tuesday somewhat disconcerting and have reacted by viewing the Treasury Bill as rather less liquid. They argue that if they cannot be assured of using these in daily operations with the Bank, they will ultimately have less and less need for them and so rates are bound to rise. Thus there is the prospect of the tender this Friday showing quite a marked fall in the pro rata price, but whether it will come down as far as some suggest - by 13p to £96.28 (to give a yield of 15½%) - seems doubtful.

The facility for rediscounting eligible bills has been taken up by five houses and on Monday and Tuesday Treasury Bills were offered. One or two houses have found the rate which the Bank 'bid' unattractive, and it is possible that this facility will, after initial interest, attract fewer takers. Since 5 November some £22 mn. bank bills and £100 mn. Treasury Bills have been rediscounted by the Bank.

*our practice has been to bid at our posted dealing rates (i.e. 14 7/8 for virtually all maturities) up to the level of the offering house's Inter-bank Market resources; but to add 1/4% for amounts in excess.*

While overnight and one-week rates have eased considerably, period rates have remained firm and I understand that one clearing bank has been consistently bidding in the six-month rate. Moreover, during the past week despite the developments in the foreign exchange markets, there has been quite a lot of activity in the Euro-£ three and six-month rates, with some clearers as well as overseas banks lending. According to a broker, yesterday saw a reversal with money coming back into the one and three-month inter-bank market.

#### Current Topics

Following the difficulties in mopping up surpluses last week, I have been telling clearing bank treasurers that henceforth when



conditions afford, banks will be offered the chance to buy Treasury Bills from the Bank at 2.45 p.m., irrespective of whether the discount houses are square by then. This has been generally welcomed by the banks, although at the same time it has been emphasised that we expect them to be closer to their target figure on a daily basis.

I am exploring, for the purpose of the debate on eligibility, the approximate break-down of bank bills, both eligible and ineligible, by quality i.e. the proportions of bills which were issued against particular trade transactions vis-a-vis those issued under the general heading of inland finance.

MSB

Money Markets Division HO-M  
13 November 1980

M T R Smith (4710)