Bann)

MTRS 8/12

CONFIDENTIAL

4.12.80

Ugr. We had more than amply taken out the shortage on our figures – which proved to be correct. The conventions of the 2.45 facility are that we continue to stand ready until that time to buy paper so as to enable Houses to avoid borrowing: I did not wish to buy any more paper, so I said "2.30"; but let the clock run rather slowly so that, as the money came out, my visitors were all able to leave by 2.40 without actually borrowing. ALC

5/12

MR COLEBY
MR FFORDE

Copies to Mr George
Mr Gill
Mr Byatt
Mr Latter
Mr Foot
Mrs Drummond

MONEY MARKETS DURING THE WEEK ENDED 3 DECEMBER

Market Conditions

On the whole it has been a relatively quiet week with comfortable conditions on most days. Last Thursday the higher-than-large surplus forecast for the day did give rise to large mopping-up by sales of one-day Treasury Bills to both the houses and banks (this was in contrast to the previous day when the banks carried over a surplus of £250 mn. on their balances). The gilt repo which unwound yesterday initially caused fairly tight conditions in the market - there has been little comment on the letter asking the banks to continue to refrain from buying gilts with over one year to maturity.

Interest has centred principally on the Bank's open-market operations and this week shortages have been bought out by purchases of bills. There was some surprise on Tuesday at the offer of 2.30 lending after the messages to the market last week, while the Bank's offered rates for one and two-month eligible bank bills which were based on market rates seemed to have had the effect of 'stabilising' rates at these levels. This followed a hardening of eligible bank bill rates as houses have found themselves up against 20x limits with few buyers around; houses have thus been on the whole reluctant to sell such paper to the Bank. While the 20x limit remains, there are likely to be such difficulties in the Bank relieving shortages of any size by purchases of bank bills.

I understand that virtually no ineligible paper has been issued in the last week because of the margin of 3/8 which opened up between eligible and ineligible paper, but following the hardening of rates in the last two days, this margin has narrowed a little.

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The Treasury Bill tender rate was somewhat surprisingly pushed down by a market 'jumbo' to below 13% (£96.77) with an average rate of 12.95%. From comment made, I do not think this reflected all members' instincts and certainly there is now a feeling that the rate was pushed down too low. Demand for the bills has not been very significant so far this week.

Talking Points

The question of eligibility on which ALC last week asked for a LDMA view has been aired in many quarters. There is some concern at the quality of bills in the market although one or two houses commented on a slight improvement recently (while another mentioned that they were turning away HP paper), and the market will, I believe, welcome a lead from the Bank on this aspect. Given the increasing rôle we envisage for bank bills in open market operations, the quality guidelines laid down by the Bank will have very considerable significance.

Another subject of topical interest (and will be for some time) is the Bank paper on the monetary system. Ron Everett (Treasurer, Barclays Bank) is keen to develop a dialogue with the Bank on how the system develops. He (and others) pose the question of the basis of returns to the Bank under the proposed system i.e. how will the make-up day problem we have seen under the RAR system be avoided?

Other Points

One big house (Union) has been taking some of the profit on its gilt holdings following the fall in MLR.

One house used the 'discount' facility this past week to sell us some bank bills.

It looks as though the rate on the TB tender may come back a bit this week - perhaps by 1p.

MGR8 Money Markets Division (HO-M)
4 December 1980

M T R Smith (4710)