MTRS 23/12

CONFIDENTIAL

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MR COLEBY
MR FFORDE

19/12

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

MONEY MARKETS DURING THE WEEK ENDED 17 DECEMBER

After the very comfortable conditions last week when 'mopping-up' took place every day, much tighter conditions have prevailed this week. Large shortages on Monday and Tuesday and a small shortage on Wednesday involved the Bank in purchasing, in addition to Treasury and Local Authority Bills, a total of £320 mn. commercial bills. On all three days offers were invited from the houses for one, two and three-month bills. Some 60% of the paper accepted was in the one-month category, 30% in the two-month category and the rest three month. Apart from yesterday when two houses lodged a very high proportion of leasing paper (one particular line drawn by Lloyds Leasing), and were asked to take part of it back the next day, the quality of the bills purchased was encouraging (see below). The rates we accepted were very much in line with those prevailing in the market.

The general mood in the discount houses is still fairly gloomy and short positions are very much the order of the day. A few houses (if not more) are currently carrying losses on their gilt holdings (Smiths, for instance, increased their gilt holdings by £41 mn. between 19 November and 10 December, of which roughly half took place in the first week of that period, and are not pleased with recent movements). The continuing rise in US prime rates has brought additional worries, and in general the houses are not seeing many encouraging signs. Not surprisingly therefore the pro rata price at the Treasury Bill tender last week fell back - by 4p to £96.71 - and there are signs that demand, particularly from the banks, has been picking up this week.

Talking Points

The houses have been told that the Bank's quality requirements in its open-market purchases of commercial bills will be flexibly

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applied, but that the limit of 25% inland finance (of which no more than 10% should be HP) will be applied strictly in any parcel of bills discounted by the Bank for individual houses.

There seems to be a little confusion in the market over the difference between the discounting facility for selling bills to the Bank and the regular open-market operations. One member (Robert Paice) strongly supports the availability of the rediscounting facility but feels that the Bank should take a firmer line i.e. insist on a minimum amount in any parcel and the acceptance of its rate offer by the offeror; this would prevent the possibility of houses visiting the Bank off and on during the day to test the Bank's rate.

There has also been talk about the future timing of open-market operations with the value of an earlier indication by the Bank of its actions to relieve shortages being stressed - if the Bank wish to lay particular emphasis on purchases of commercial bills.

Quite a few contacts have again commented on the higher proportion of 'callable fixtures' which they are seeing on offer from the banks.

<u>Other points</u>

Preliminary indications from two of the Clearers are that the level of retail advances on the December make-up day is down a little - but perhaps not as much as they would expect on seasonal grounds. The levels of ELs looks likely to show a small rise after November's fall.

My regular weekly visitor from Marshalls reported little movement in the Euro-sterling rates over the last week but commented that he was beginning to feel more certain that business done in this market results from the influence of the 'swaps'.

I visited Hambros and Kleinworts (the latter for the first time following closely on the heels of ARL's two-day visit). Both clearly welcome the chance to keep in touch with the Bank. On the subject of acceptance business, both are finding little change in the amount of bills issued, although Kleinworts had seen quite a fall-off in hire purchase and leasing bills since the corset. Most of their customers were still going for one or two-month bills although BP, a customer of Kleinworts, had recently tried six-month paper (after a long period of one-month bills). Kleinworts also commented that they had seen a 10-15% increase in bill business last month when the Bank was particularly active in buying bills to relieve market shortages.

The Treasury Bill tender this week is likely to see little change in the pro rata price.

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Money Markets Division (HO-M)
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M T R Smith (4710)