

BMMMS

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Aug 15/1  
16/1

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MONEY MARKETS IN WEEK ENDED 14 JANUARY 1981

The markets have generally been surprised that conditions have remained comfortable during the last week. There was considerable apprehension at the £1.1 bn shortage forecast for this week but so far we have seen relatively little of it, partly due to some favourable Exchequer <sup>Savings</sup> savings. Yesterday we were able to mop up a moderate surplus by selling 2-day Treasury Bills - they will help to relieve a very considerable shortage (now £530 mn) tomorrow (Friday). With a prospective shortage of £200 mn today, Thursday and Friday will account for about 70% of the week's estimated shortage.

The inter-bank market has not experienced any particular pressures with overnight funds generally trading in the range of 12¼ to 14. To some extent this is probably still a reflection of the gradual move by the main banks to the new reserve asset ratio and it will be interesting to see how it stands up to increased liquidity pressures in the next 10 days.

Both banks and discount houses have commented on how well the current system appears to be working and while it is perhaps early days to be optimistic, such comment would imply a keen aim on the part of the market participants to see that the system works.

Treasury Bills

The Treasury Bill tender last Friday (the first for £100 mn) saw a further rise in the pro rata price - by 1½ up to £96.77½ - but it was felt that the announcement that the Bank's minimum requirement of

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15% Treasury Bills as security for market borrowing was being suspended for the meantime probably had the effect of 'moderating' the price level. Houses have as a result reduced their prudential holdings of TBs and with the reduced quantity henceforth available (on the basis of £100 mn at the tender) the clearing banks and other placers of call money with the houses have recognised that Treasury Bills will not be available in sufficient quantity for security (practice in the Clearing Banks varies considerably but Lloyds - the most traditional bank in respect of security with a requirement of 50% Treasury Bills as security for loans - have told me that they will be prepared to take other paper in lieu).

As a measure of the reduced requirement for TBs both by banks and discount houses, we bought £220 mn TBs on Monday, many of these having been 'off-loaded' by the banks onto the discount houses. It is likely that we shall be offered more in the next two days and in that event I would expect to see the pro rata price at the tender this week coming back a bit.

#### Eligible bank bills

In the past week we have bought just over £200 mn bank bills, of which £100 mn mature within the next month. Houses are continuing to see a reasonable supply of bills coming from the banks and indeed with the cost of drawing bills below 15%, there are clear advantages in drawing bills in preference to overdraft. However drawers' preferences are mainly towards 1-month bills in expectation that rates will soon fall.

Houses are not currently having any trouble in funding their book and although total footings have declined a bit from their end-December level, the availability of money in the inter-bank market has helped them to keep their books high. Banks' call money is undoubtedly declining as the banks move to the new RAR but the higher level of fixtures which the houses had obtained before Christmas have stood them in good stead. One clearing bank has reduced its 'call' money to such a low level in the last

10 days that it is reported to be selling small amounts of gilts to top up its liquidity.

Other points

✓ I have made contact with the sterling money desks of two US banks in the last week, Chase Manhattan and Bankers Trust, and both have positively welcomed the opportunity to keep in touch with the Bank.

The level of Discount Market resources as at end-1980 which will be communicated to the Chairman today, stands at £192.6 mn, an increase of £10.5 mn over the last quarter. However one house, Union, accounted for £7.2 mn of that increase and indeed 5 houses showed very slight declines during the period - a disappointing outcome for them in view of the 2% drop in MLR in November. Over the year their resources increased by £27.1 mn (17%) - both figures include the two new members of the LDMA.

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