

ABC

You may like to see
TSFF's comment - interestingly
David White and Caters mentioned
it today but could not instance
specific examples.

Handy
312

Thank You. 4/2

CONFIDENTIAL

29. 1.81

MR COLEBY
MR FFORD

Possibly round-tripping, but not entirely new.
Mans - Suite of Klemmerts mentioned this as a possibility
(4) in a small way, an actuality) Copies to
back in October after our first large
round-trip operations in bank bills had caused
rates (very low) to come down by, relatively, a
significant amount.
A new variety of round tripping? Are

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

MONEY MARKETS IN WEEK ENDED 28 JANUARY 1981

General

In contrast to the very heavy shortages last week, this week has so far seen comfortable conditions with surpluses each day. This has given the discount houses the chance to rebuild their holdings, especially of eligible bank bills, and in particular their liquidity. The total amount of paper mobilised from the houses last week came to £1.5 bn. of which about £900 mn. was commercial paper and it was not surprising to find most houses bidding - in some cases quite aggressively - for replacement paper. This has continued to force rates for three-month paper down - to around 13%, a drop in the yield of such paper from 14.6% on 2 January to 13.4% at the current level. It was clear that another day of 'large shortage' could well have caused considerable difficulties for the houses. A result of the last two weeks' shortages has been a drop of 10-15% in the total assets of the houses - firm figures will be available in the next day or so.

With market expectation of a drop in MLR in the short term (the most common view is a drop of 1% early in February and another 1% in the Budget), there has been some reluctance on the part of drawers of bills to go to three months, but Midland mentioned that two customers were going into bills, one for the first time. But there are reports that with rates as low as they are, drawers are using the proceeds to put the funds into other higher-yielding assets.

The Clearing Banks - and I am sure most reporting banks - are now fully operative on the 10% RAR. Last Wednesday the Clearers were between 10.2% (Barclays) and 11.3% (Midland) - on preliminary estimates of ELs - and Barclays in particular were considerably concerned with the course of events that day. Two of them report that their lending has been inflated by the round-tripping apparent

ALC 29/1/2 JSF 30/1/3 MRS a2 5

on that day and of about £500-£600 mn. increase by both Nat.West. and Barclays/ ^{in their lending over the month,} about half is put down to the events of that day. The rest is attributable to the quarterly charging at the end-year. However Barclays report that the general trend is still downwards and with the tax season nearly over, they would expect to see very considerable improvement in lending figures in the next two months.

Treasury Bill Tender

Another rise of 2p in pro rata price resulted in last Friday's tender with nine houses obtaining bills. One house, Gilletts, was keen to obtain bills for balance sheet purposes as their year-end is 31 January, but the others continued to feel that until the Bank stopped following the rates down, there was every reason to bid the rate down. The Bank's new posture of only publishing a dealing rate for one-month bills caused few ripples. It is difficult to predict this week's tender, but it seems unlikely that in the present market mood, there will be any fall-back in the pro rata price. Indeed, one house reported keen demand for the bills they took up this week.

Other points

A meeting with representatives of the five Clearing Banks yesterday discussed ways of improving communication on the flows between Government and the market in the context of money market intervention, and also covered the ground on recent moves by the Bank.

I spent yesterday morning at Chemical Bank watching their money market operations and was particularly struck by their keenness to develop closer liaison with the Bank.

The announcement of James Barclay's appointment as Chairman of Cater Ryder in succession to Edward Ryder has appeared in today's papers.

MSB
Money Markets Division
29 January 1981

M T R Smith (4710)