1. MTRS
2. JSFF

I will try to pass them through in time to be seen by you & the Governor before lunch on Thursday, + if possible before Court.

O.K. 9/2

ALC

CONFIDENTIAL

5. 2.81

ALC

Money Markets file

5/2

MR COLEBY
MR FFORDE

This continues to be an extremely interesting + valuable note; + it occurs to me that it might be of greater use to the Governor at Court than the more humdrum approach of the money market section of the traditional note. Should we put the suggestion to him?

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

I agree that these notes sh'd somehow get to the Governors lunch

MONEY MARKETS DURING WEEK ENDED 4 FEBRUARY

I don't think they are really suitable for Court (though some of their flavour might be allowed to get into the note for presentation at Court). They are too 'in-market' for most members. So what do we do? Use them as a brief for the Thursday meeting with the Market?

General

While money conditions have been reasonably comfortable with no large shortages, there has been plenty of activity on expectations of lower interest rates. This was particularly true after the Prime Minister's interview on Sunday on ITV and we now have rates which have largely discounted a 1% cut in MLR. The three-month inter-bank rate has fallen by just over 1% in the last two weeks, while the three-month eligible bank bill rate now produces a yield of just under 13%. As a result of the reduced importance of the Treasury Bill, the quoted rates for bank bills are virtually the same as those being 'bid' by the market for TBs - in one case a house was showing a lower rate for bank bills.

There are strong expectations that MLR will fall this week although equally there are those who feel less optimistic. In their new world, many houses have found it difficult in the conditions of the last few weeks to attract sufficient funds to maintain the size of book appropriate for a bull market. As a result we have had the situation this week of some houses bidding 14% for money up to one month in order to build up their book and make the most of current opportunities. One house rang up on Monday morning to ask if it could borrow (its 2.45 p.m. facility) for a week from the Bank - they were told that the Bank was, as set out in the notice of 24 November, placing less emphasis on discount window lending and would not wish to see them! Nevertheless, houses have in the market conditions of the last ten days been able to build up their liabilities again - mainly from the clearing banks who have been able for the most part to put a little more call money and fixtures into the market (one Scottish clearer was able to obtain 14% for six weeks' money with a discount house).

ALC 5/2 3 JSFF 5/2 5 MTRS 6/2 2

Bank Bills

Some of the funds houses have obtained have gone into rebuilding their primary liquidity i.e. mainly bank bills. One or two of the smaller houses are already up to their 20x limit on undefined assets, but some of the bigger houses have found it difficult to obtain/sufficient bills. With the three-month bill yielding under 13%, the cost of funding these is high and even the yield on one-month bills is probably lower than the current average cost of money for many houses. Reports differ on the volume of bills but it would seem that with current expectations of lower rates, some customers are waiting. However, one accepting house, Schroders, reported a higher volume of acceptances with expectations of further increases. On the face of it, the cost of drawing a bill at the present time for one month would seem attractive, compared to overdraft.

Treasury Bills

A rise of 4p in the pro rata price last Friday led to the Bank not following the rate the whole way down in the fixing of the one-month dealing rate. This has hardly caused a ripple in the market mainly because many houses have run their holdings down to very low levels. Outsiders (mainly Lombard North Central and Warburgs) obtained 44% of the bills on offer this week. It is possible that as a result of the Bank's action last Friday, the pro rata price this Friday may remain at last week's level, but market rates, pulled down by rates in other instruments, point to a rise of 3p.

Inter-Bank Market, etc.

With current rate expectations, banks have been trying to place one and two-year money and apparently local authorities have been taking up quite a lot of their money at attractive rates i.e. around 12 3/8%.

MRS

Money Markets Division (HO-M)
5 February 1981

M T R Smith (4710)