MMO(GE) n/c

Ong 7/4

CONFIDENTIAL

2. 4.81

8B. MR COLEBY
THE GOVERNOR'S PRIVATE SECRETARY

LR 7/4

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

MONEY MARKETS DURING WEEK ENDED 1 APRIL

General Points

The markets have had one of their quietest weeks for some considerable time and daily money conditions have eased. Rates have generally shown little change with, if anything, a tendency for the yield curve to flatten out even more. Any underlying bullish tone - which could be expected in the present economic climate - is dormant, mainly because of the uncertainties induced by growing disruption in the Civil Service and banks. Thus the market is expecting any further move downwards in MLR to be that much further off.

Daily money conditions

The last week was dominated by Friday when there were market fears about the effect on very short-term rates of tenders for the index-linked stock. However, rates did not get out of hand and after we had provided nearly £500 mn. of assistance to the discount houses, half by outright purchases and half by means of a 'repo', rates began to reflect very comfortable conditions.

On Tuesday, which was a quarterly reporting day, we were forced to provide assistance to the market, including unpublicised 2.45 lending on a moderate scale, because the forecast surplus did not materialise until late in the day. This was another example of inadequate information flows in the clearing banks as well as some doubts on the expected Exchequer flows.

Yesterday we were able to sell Treasury Billsto mop up a surplus in the market - the first such mopping-up since 12 February. It

ALC 2/4

was given added significance since for the first time houses 'tendered' offers for these bills and in fact we accepted rates ranging from 11% to 11 5/8% for the 1-day bills issued (we rejected some bids at rates higher than 11 5/8%). This development followed the abandonment this week (announced to the market last Friday) of posted dealing rates for 1-month Treasury, Local Authority and bank bills.

Eligible bills

The easier money conditions have enabled houses to build up their liquidity a little and holdings of eligible bank bills will have been boosted by the unwinding this week of some of the 'repo' operations at end-February / early March - totalling around £450 mn. It will be interesting to see how 'bill' rates react to the easier conditions and fuller books (which, however, may not last very long since there is an estimated £1 bn. shortage next week). The market reports that most of the new bills being drawn are for at least 2 or 3 months.

Treasury bills

The houses obtained only 46% of the tender last Friday when the rate rose by 1½p, but little significance is attached these days to the tender. It is hard to see much change this week particularly with our abandonment of posted dealing rates.

Discount houses

Houses are still pre-occupied with the likely effects of imminent changes on their operations. They do not overlook - and indeed welcome - the assurance of their continued role in the scheme of things even if there will be greater uncertainties for them. The likelihood that banks will keep only the absolute minimum of call money with them is currently of some concern but, as with their other concerns, we are pointing out to them that the difficult market conditions of the last 3 months will not necessarily be indicative of the way the system will work.

This week houses have been trying to adapt to the more covert operations by the Bank in respect of the rates dealt in market assistance. Some are concerned at their lack of information and until the question of publicity has been decided in the Bank, the market are being told at what rates bills are being bought/sold.

Another subject aired in my visits is the quality of bank bills, comment being passed on the recent issue of very short bills for arbitrage opportunities. Some more definitive guidance on the quality of bills may well be sought by the market.

MTRS

Money Markets Division (HO-G)
2 April 1981

M T R Smith (4710)