MMD.
n/c

9B

CONFIDENTIAL 23. 4.81

GMG 23/4

MR GILL
THE DEPUTY GOVERNOR'S PRIVATE SECRETARY

the DG has seen

Copies to
Mr Fforde
Mr Coleby o/r
Mr George
Mr Byatt
Mr Latter
Mr Foot
Mrs Drummond

MONEY MARKETS DURING WEEK ENDED 22 APRIL

General Features

There is very little of substance to comment on in the last week. The outlook for rates is affected not only by the disruptions in the Civil Service (and yesterday, to some extent, in the banking system), but also by a feeling that more specific evidence of the trends in the economy is required. Thus the spread of rates up to 1 year in the inter-bank, CD and Euro-£ markets remains within a very narrow band of 1/4%, and little business is being done in any of these markets.

Daily Money Conditions

Money conditions have been very tight since last Wednesday, with shortages of £550 mn. last Thursday and £450 mn. on Tuesday. These were caused mainly by maturing bills in the Bank's hands but also by higher-than-expected Government revenue and a high seasonal outflow of notes. After the relatively comfortable conditions earlier last week, the houses were reasonably well placed to cope with such shortages, but purchases of £800 mn. commercial bills on these 2 days (and another £170 mn. yesterday) will have stretched their liquidity. However, prospective heavy shortages today and tomorrow will probably not materialise because of a shortfall in expected Government revenue.

The supply of commercial bills shows no sign of being reduced to any large extent. Certainly some lines have not been renewed but it is probably still cheaper for bank customers to draw bills than to pick up market lines (and, of course, more so than drawing on overdraft). If anything, it is only the relative cheapness of this form of finance which attracts some companies into any type of borrowing.

GMG 23/4 · DG 23/4

Treasury Bills

The discount houses obtained some 77% of last Thursday's tender when the pro rata price rose by 1p to £97.18. As the Bank followed the market rate downwards (by 1/16) in its purchases of Treasury Bills this week, it is likely that the rate will rise by another 1 or 2p this Friday.

Inter-Bank Market

Rates have shown a slight firming in the last week but only because of the effect of the heavy daily shortages feeding through to the longer-term. Virtually no business has been seen beyond the 1-month period. Even the short-term rates have not come under too great a pressure despite the heavy shortages on Thursday and Tuesday.

Other Points

As the 30 April deadline for restoring the reserve asset ratio to 10% draws near, there is some speculation that the Bank will make an announcement beforehand either removing the RAR requirement or allowing banks to remain at 8% pro tem. The clearing banks, however, are, for the most part, working on the assumption that they will need to hold 10% on the night of 30 April.

The discount houses are hoping to have a paper drawing together their comments on 'Monetary Policy - Next Steps' ready by next Monday when ALC returns. However, with 13 separate views to consider, a meeting will probably be more productive in airing the broad range of issues which they are likely to raise.

Gilletts, the last house to hold a stake in money broking, have sold Kirkland-Whittaker to Fulton Packshaw for £2.8 mn.

One clearing bank (Barclays) told me that they had received a small number of new borrowing applications, one of which was for re-stocking. But equally they believe that many of their customers could run into severe problems when activity picks up - and fear that many could still go to the wall when cash flow problems bite.

MTRS

23 April 1981
M T R Smith (4710)