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MR COLBY
THE GOVERNOR'S PRIVATE SECRETARY

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GR 30/4

MONEY MARKETS DURING WEEK ENDED 29 APRIL

General Features

The markets are in a somewhat uneasy state, mainly as a result of the continuing uncertainties and the lack of any significant developments. Trading is very thin in the inter-bank and CD markets, except in the short-term periods (1 month and under) where the restoration of the 10% RAR by today has resulted in considerable activity since the beginning of the week. Rates have shown a firmer tendency in the 1-week and 1-month periods as a result (but we have certainly not seen the hectic conditions prior to the restoration of the 10% RAR on 10 March). This has fed through to the longer rates to some extent, but the general market impression is that these rates are now on the high side.

Daily Money Conditions

Conditions have been easier than expected due to very heavy shortfalls in Government revenue on Thursday and Friday last week. The major part can be attributed to employers' national insurance payments which were also the subject of blocking action by civil servants in March. The Bank has provided assistance every day except yesterday, but much of the shortage over the week has been due to maturing bills in the Bank's hands and the unwinding of 'repo' transactions in bills.

The most significant feature this week was that in our open-market operations the Bank did not follow the downward trend (albeit slight) in bill rates resulting from the result of the Treasury Bill tender last Friday. This was fairly quickly seized by the market and, as a result, we bought in nearly £100 mn. of 3-month Treasury bills

and £65 mn. of 3-month Local Authority Bills in our operations on Tuesday. Apart from stopping the creeping downward trend in bill rates, the Bank's action is likely to feed through to the tender this Friday and result in a slightly lower pro rata price (last Friday £97.19½).

The turnover in eligible bank bills is still very satisfactory, with a preponderance of 1-month paper being issued. Moreover, a total of over £400 mn. bills (of which some are Treasury and L/A Bills) are being resold to the market this week (the last outstanding repo transactions which resulted from the tight money market conditions in March). Thus the houses should have more than sufficient paper to relieve what are expected to be large shortages today and tomorrow.

Yesterday's surplus conditions undoubtedly will have helped to smooth the transition from 8% to 10% RAR. Most of the clearing banks have been well placed for some days for the 10% RAR, but brokers report quite a lot of demand from non-clearing banks for 1 and 2-week money this week.

Other Points

Three discount houses have their year-end at close of business tonight (Thursday), while two houses, Gerrard and National and Jessel Toynbee, have announced their results for 1980/81. Both have shown very significant improvement over their 1979/80 figures, with Gerrard and National announcing a £5.8 mn. profit (after providing for tax and a transfer to Inner Reserves) as against a loss of £1.1 mn. last year and Jessel Toynbee a profit of £1.1 mn. after a loss of £50,000. Another house, Smith St Aubyn, is due to announce its results next week.

The houses are generally running very short and, in some cases, smaller books at the moment and there has been some selling of fixed-rate gilts. Many are building up higher proportions of 'fixtures' - thus reducing their exposure to fluctuating day-to-day call money.

The LDMA has provided a brief paper on 'Monetary Control - Next Steps' which, along with general issues, will be the subject of a meeting here in the Bank next Thursday afternoon.

MTS
30 April 1981

M T R Smith (4710)
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