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MONEY MARKETS IN WEEK ENDED 6 MAY

General Features

The most significant development in the last week has been the rise on Monday of US rates. Given the underlying uncertainties in the sterling money markets, this could have had a more marked effect on the rate structure here but for particularly easy day-to-day money conditions on Tuesday and yesterday. Nevertheless, the rise in dollar rates, with the expectation of more to come, has influenced the longer rates with the 1-year inter-bank rate showing a rise of 1/4 - 3/8 since last Wednesday.

The other main feature was the sterling M3 figure for April which was announced yesterday afternoon. Initially there was considerable confusion over the effects of the Civil Servants' dispute on the figures, but the estimate of an underlying rise of 3/4% was taken quite well by the markets.

In general, the markets have become more and more uncertain about the likely course of interest rates and while most feel there would be no justification at present for a rise in MLR, some point to the slightly upward sloping yield curve and wonder what reactions banks might have to the pressures of continuing higher market rates on their base rates.

Daily Money Conditions

The return to a 10% RAR last Thursday night had little effects on the very short rates in the market and, indeed, overnight inter-bank rates last Thursday eased off during the day. The Bank's open-market operations were more than sufficient to meet the expected shortage on the day and, in addition, helped Friday's potentially very short position when the second (30%) call on the index-linked gilt was due. Over the 2 days we bought a total of nearly £600 mn. bills, half of which were bank bills, while the other half included a large (by recent standards) volume of 3-month Local Authority Bills - a reflection of the Bank's dealing rates earlier in the week.

This week has seen surplus conditions on both days, with a very significant contribution being made by purchases of the next stock maturity. For the first time since we abandoned our set dealing rates at the end of March, the houses and, indeed, some banks, bid rates for the mop-up Treasury Bills which we were prepared to sell yesterday - and not all of the bids were accepted! With a likely surplus for today and tomorrow, there will be further opportunities for the market to 'get used' to this technique.

Treasury Bills

As expected, the market bid less for last Friday's Treasury Bills, but the 1½p drop in the pro rata price was not as much as some expected. Certainly with subsequent events and the doubts about the timing of any cut in MLR, we shall probably see a further drop in this week's tender price by 1 or 2p.

Other Points

The easier money conditions have helped to bring houses' money costs down to a level which gives them a small but positive margin on their eligible assets. Books are being kept short and some houses are attempting to move to matching the maturity of their liabilities to that of their assets - which involves taking a greater number of fixtures. Many (but not all) of the houses have been selling gilts - indeed a total of about £200 mn. was sold in the 2 weeks ended 29 April.

A meeting takes place this afternoon with the Chairmen of the Houses to discuss their response to the "Monetary Control: Next Steps" paper.

Another house, Smith St Aubyn, has reported good disclosed profit figures (£3.2 mn.) for 1980/81.

MTRS

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