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MR COLBY  
THE GOVERNOR'S PRIVATE SECRETARY

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*GR 14/5*

## MONEY MARKETS DURING WEEK ENDED 13 MAY

### General Conditions

The influence of high US rates - not to mention events elsewhere - continues to affect market sentiment and the outlook for any movement in rates in the UK. Domestically the uncertainties aroused by the Civil Servants' dispute - despite the feeling that these will be removed fairly quickly when the dispute finishes - really centre on how much longer the dispute will last and the effects of continued disruption on the Government's borrowing requirements.

### Daily Money Conditions

Conditions have been very comfortable with the result that very short-term rates have remained easy throughout the week. This has fed through to rates up to 3 months which have eased by up to 1/4% in the period (but with virtually no movement in 6 or 12-month money). Even with a large shortage on Tuesday and a moderate shortage yesterday, overnight rates stayed generally in the range 11 3/8% - 11 1/2% and discount houses were able to pick up very cheap money (in small quantities) at the end of the day, despite the Bank not being asked to take out the full shortage on both days.

On Thursday and Friday last week the Bank were able to mop up surpluses by selling Treasury Bills to the houses (and to one of the banks on Thursday). This week we have bought bills totalling nearly £200 mn, most of which have been Treasury Bills (but only a few of those we sold to the market last week). The rates at which we dealt showed no change since we last bought out a shortage the week before last.

### Treasury Bill Tender

Somewhat surprisingly, the discount houses put in a common bid for last week's offering of Treasury Bills. Their bid was 8p less than

the previous week's pro rata price and reflected their view that yields on Treasury Bills had gone too low and had become unattractive to hold in relation to the cost of their money and the yield on other liquid assets. However, the 'outsiders' ie banks, the money brokers and money-trading banks, obtained the bills with the pro rata price remaining unchanged from the previous week's.

Other Points

The increase last Friday in the houses' undefined assets limit from 20x resources to 25x resources has helped to remove pressures which some houses were experiencing in the management of their books. On the whole, houses are keeping books short and taking as much longer-term (up to 3 months) money as possible.

The houses undoubtedly found our meeting with them last Thursday of considerable benefit, providing an opportunity to air some of their concerns about the new system.

More houses, including the Bank's own brokers, Seccombes, have announced results for 1980/81 this week. Seccombes and King & Shaxson have both shown significant improvements of over 50%, while Cater Ryder have revealed a 20% rise in published profits (from £1.0 mn to £1.2 mn).

Members of the central banking course spent part of yesterday with some of the discount houses to see at first hand their rôle in London's financial system.

MSG

Money Markets Division (HO-G)  
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