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MONEY MARKETS IN WEEK ENDED 20 MAY

General Features

There are few new factors which have had any bearing on the money markets this last week. The same uncertainties i.e. US rates, the Civil Servants' dispute, overhang the market and cloud the outlook for rates. In such conditions any press comment - favourable or unfavourable - can have a disproportionate effect on attitudes and thus yesterday's article by Patrick Sergeant in the Daily Mail reflecting on the possibility of the next move in MLR/ interest rates being upward (in which Gerrard & National's view on the future trend in interest rates was called in evidence) was the subject of some debate and speculation. The gilt market, which had shown a slightly more bullish tone earlier in the week, drifted off while the longer period rates in the inter-bank market, particularly the 1-year rate, hardened with a rise of 1/4% over the week.

Another unsettling factor in the markets was the publicity given to local authorities' finances, particularly the powers given by recent legislation to the Scottish Office to withhold grants from Scottish authorities which have not cut their spending. There are reports that some lenders to Scottish names (especially Lothian) have called back their money and the market will not have been helped by a subsequent announcement that the Government is planning to withhold £900 mn. in grants to local authorities in England and Wales for much the same reasons.

Daily Money Conditions

These have been, on the whole, very quiet with no large shortages and relatively little assistance required. Indeed, on Monday and

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Wednesday no assistance was necessary and the May make-up day passed off without problem. As in April, bank lending by the non-clearers is likely to be unaffected by the money market conditions which will have persuaded borrowers to persist in market-related lines rather than reverting to overdraft.

In total we have purchased nearly £300 mn. in paper over the last week, of which about 1/3 has been bank bills - all at much the same level of rates as before. With the cumulative revenue shortfall, there have been no problems with the supply of reserve assets and overnight inter-bank rates have generally been soft.

Treasury Bills

The discount market again tendered at a jointly-agreed price (£97.15) but obtained none of the bills on offer for which the pro rata price proved to be £97.165, down 1 1/2p on the previous week. Although the yield on Treasury Bills is now marginally higher than the average cost of houses' money, there is still little attraction for houses to hold them in preference to other higher-yielding 'eligible' assets and I would therefore expect tenders this Friday to be at last week's price or a little less.

Other Points

Some houses are running faily full books at the moment, as a result of the easy money conditions and the fact that the Bank has not had to buy many bills in open-market operations. One or two are feeling a little uneasy about the size of their gilt books but there has been no sign of any major selling since last month.

The detailed break-down of bank lending in April last Thursday has caused some surprise, particularly the increase among the non-clearers, especially when companies are benefiting from delayed tax payments. The clearing banks do not detect any real change in their levels of lending.

MTRS

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