Re Governor

CONFIDENTIAL

28. 5.81

MR COLEBY
THE GOVERNOR's PRIVATE SECRETARY

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

28/5

MONEY MARKETS DURING WEEK ENDED 27 MAY

In the absence of the chairman of the LDMA, the Deputy Chairman will be accompanied by Mr Chamberlen (Clive Discount).

General Points

Very little of note has happened in the last week to change any of the underlying uncertainties/nervousness about the future course of interest rates. There are the two schools of thought, the main one holding the view that the next move in interest rates will be downwards, but probably some way ahead; the other (very much in the minority) believing that the next move will be upwards. Rates in the longer periods have, in the meantime, continued to drift slightly upwards with the 6 and 12-month rates up 1/8th/3/16th on the week. The short periods are still relatively soft due to the considerable quantity of liquidity 'overhanging' the market as a result of 'blocked' tax payments.

Daily Money Conditions

The market position has varied from a large surplus last Friday to a large shortage on Tuesday. Last Friday we were able to sell 24-day Treasury Bills to mop up the surplus, while on Tuesday the shortage, caused mainly by the final call on the index-linked stock, was relieved by outright purchases of bank bills maturing within two weeks and by a 'repo' involving the provision of money for 7 and 14 days. With the money market forecasts looking very comfortable indeed for the next three weeks, this operation was designed to avoid buying longer paper (which would certainly have been offered) and to help offset the likely surpluses in the immediate future.

Treasury Bill Tender

The discount houses again tendered at a jointly-agreed price last Friday and for the third week running did not obtain any of the bills on offer. The pro rata price fell - again for the second successive week - by 1p to £97.155, only 1/2p above the discount houses' tender price. This week's tender will probably show little change, perhaps down 1/2p.

Other Points

The ripples felt in the market as a result of press comment last week on local authority finances continue with some reports that banks and building societies are reviewing their lending to local authorities. Most of the effect is being felt in the longer-term local authority market with signs of a tiering system emerging. (Lothian were reported to be paying 3/4% of a premium.) Two discount houses refused to take yearling bonds without knowing the name of the authority.

Latest figures show that discount houses built up their books by just over £500 mn. during banking May, with a composite rise of over £700 mn. in holdings of eligible bank bills and reductions of £250 mn. in Treasury Bill holdings and £200 mn. in gilts.

With the volatile behaviour in dollar rates, two houses have considerably reduced their dollar holdings while another, Alexanders, have closed down their New York representative office (opened in October 1979). The houses are all considering the question of membership of the futures market with a deadline of 29 June for applications and payment of £10,000 (half of the total subscription). Enthusiasm appears to be muted with few houses keen to commit themselves at this early stage.

MGRS

Money Markets Division
28 May 1981

M T R Smith (4710)