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4. 6.81

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MONEY MARKETS IN WEEK ENDED 3 JUNE

General Features

Another quiet week, with comfortable day-to-day conditions in the money markets and the same uncertainties overhanging the market as have been there for some weeks viz high US rates and the Civil Service dispute. There was some concern yesterday about the downward slide of sterling against the dollar and the possible consequences for interest rates here if the pound fell below \$2.00 (as it in fact did in New York last night) - and gathered pace downwards. But on the whole, the market are a little surprised that the rate is as low as it is.

The local authority market has been relatively quiet with little business, and while there is a continuing nervousness among lenders and a few name problems, the situation has certainly not worsened in the last week.

Daily Money Conditions

With surplus liquidity in the system and few market shortages, short-term interest rates have continued to be soft. Other rates have shown little change with, for example, the 6-month inter-bank rate easing by 1/8th, while the 12-month rate remained unchanged.

Virtually no intervention was necessary last Thursday, Friday or Monday, but we bought just over £200 mn. bills on Tuesday at rates which reflected market (slightly higher) trends since we last dealt a week before. Yesterday we sold a similar amount of 2-day Treasury Bills to the discount houses and banks to mop up a large surplus - at rates which ranged from 10 3/4 to 11 3/8.

Treasury Bill Tender

The pro rata rate rose again - this time by 1½p - and for the first time for some weeks, the houses who again tendered at a jointly-agreed rate, obtained some 47% of the bills at the pro rata price. With houses having little appetite - and need - for TBs (on May make-up day, the houses together held only £18 mn.), we may see the pro rata price rising yet again this week - by perhaps 1p.

Other Points

Houses are continuing to experience favourable margins between the cost of their money (helped by the softness of overnight call money and inter-bank rates) and the return on their assets.

Banks are somewhat anxiously looking to the possible problems for their liquidity when the Civil Service dispute ends and the backlog of tax comes through - but, for the most part, have plenty of spare liquidity at the moment, including a very large amount (£4.5 bn.) placed with the discount houses.

MTRS

Money Markets Division (HO-G)
4 June 1981

M T R Smith (4710)