

19. 6.81

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I attach a final version of the Money Market Report for banking June. This is primarily intended as a convenient statistical record; the text has been further condensed. Technically, it should form part of the briefing for the next Ryrie meeting, but in practice one can expect that meeting to focus on the preliminary report for banking July, if anything.

I am sending a copy to Turnbull.

Money Markets Division (HO-G)
19 June 1981

A R Letter (4303)

am

MONEY MARKET REPORT: BANKING JUNE - FINAL

Day-to-day conditions continued to be more than comfortable throughout the month. This induced, on occasions, fairly soft market interest rates at the very short end. Rates for longer than a week were markedly affected by the more bearish rate expectations that took hold as a result of the US situation and outlook and the associated events in the foreign exchange markets. The hardening of the three-month interbank rate is apparent from Table 2 and reflected a 1% rise in the Treasury bill rate on 5 June. Rates subsequently eased somewhat, however, as exchange markets calmed and on reflection of the preliminary UK money figures, but rates other than at the very short end recorded increases on balance over the month.

On the comparatively few occasions when the market was short, the Bank had no difficulty providing relief through bill purchases at rates in a narrow band up to MLR, while keeping in line with prevailing market rates for the paper in which the Bank was dealing. On two days of significant shortages, relief was provided by repos, in order to be sure of pushing the shortage forward to particular expected surplus days.

On a number of days the Bank mopped up surpluses by inviting the market to bid for Treasury bills. Funds were taken thus for a range of rates from 10.0% to 11.5%. The Bank followed the practice of offering the facility first to the houses, and subsequently to the banks if insufficient bids were received from the houses, at acceptable rates, to eliminate the surplus. It was mostly possible thereby to draw forth the surpluses on a satisfactory scale, and hence prevent short rates from persisting at exceptionally easy levels. With shorter rates subdued, there were no opportunities for hard arbitrage through either overdrafts or bills. The firmer tone that appeared in slightly longer rates would not have been sufficient to induce arbitrage, since it was accompanied by more bearish sentiment over base rates.

The Bank's holdings of eligible paper declined by a substantial further amount:

	<u>15 April</u>	<u>20 May</u>	<u>17 June</u>
Bank holdings of eligible bank and LA bills purchased outright	2,129	2,136	1,078
Bank holdings of eligible bank and LA bills against repos	<u>739</u>	<u>-</u>	<u>-</u>
	<u>2,868</u>	<u>2,136</u>	<u>1,078</u>

At 17 June the Bank held some £0.8 bn of eligible bank bills, out of an estimated £4.8 bn in existence. Holdings at 20 May had been some £1.6 bn.

There were no changes during the month in the Bank's range of operating techniques.

BANKING JUNE 1981

TABLE 1

MAY										JUNE									
21	22	26	27	28	29	1	2	3	4	5	8	9	10	11	12	15	16	17	
- 68	+230	-223	+ 48	+101	+ 63	- 25	-132	+213	+ 79	+217	- 95	+106	+160	-302	- 68	- 3	-123	- 51	
-140	+165	-168	+ 22	+115	+ 69	+ 47	-162	+212	+ 98	+161	- 91	+ 87	+177	-302	-116	+ 3	-142	- 66	
+ 68	-140	+217	-	-	-	+ 20	+217	-222	-	-248	+ 25	-	-262	+184	+ 68	-	+175	+ 30	
- 68	+ 25	+ 51	+ 22	+115	+ 69	+ 67	+ 55	- 10	+ 98	- 87	- 66	+ 87	- 85	-118	- 48	+ 3	+ 33	- 36	
-	- 80	+ 25	+ 51	+ 22	+ 66	+ 69	+ 67	+ 55	- 10	+ 98	- 87	- 66	+ 87	- 85	-118	- 48	- 17	+ 33	
- 10	+449	+214	+ 82	+ 96	+393	- 93	+ 72	+156	+141	+ 32	- 41	+244	+153	- 60	+305	-190	+231	+ 53	
+ 10	+ 5	-279	- 20	- 39	- 38	- 43	-109	+ 14	+ 7	+129	+ 41	+ 37	+ 27	- 82	- 53	- 15	-194	+ 10	
- 10	- 45	- 15	- 21	+ 2	- 22	+ 6	- 26	- 14	- 8	+122	+ 12	- 13	- 5	+ 4	+ 13	+267	- 26	+ 14	
- 10	- 19	-183	-129	- 37	- 95	-110	-199	- 73	- 66	- 26	- 40	- 79	- 49	- 84	-108	-112	-204	-226	
+ 10	-145	+ 72	+ 59	+ 70	-235	+218	+ 32	+ 74	+ 34	-194	+ 20	- 36	- 36	+ 5	-156	+101	+ 67	+ 50	
+ 10	-140	-	-	-	-	-	+ 44	-222	-	-248	-	-	-262	-	+ 68	-	+ 35	-	
+ 10	-	-	-	-	-	-	+ 14	-	-	-	-	-	-	-	-	-	-	+ 10	
+ 10	-	+ 51	-	-	-	+ 20	+159	-	-	-	+ 25	-	-	-	-	-	+140	+ 20	
-	-	+166	-	-	-	-	-	-	-	-	-	-	-	+184	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

ation listed for the same day, but excluding any TR repos unwinding
banks, other Bank customers, etc.

MONEY MARKET: ANALYSIS OF DAILY INFLUENCES AND OFFICIAL OPERATIONS

£ millions: + = surplus for the market

Market's position exclusive of official operations:

- as estimated by Bank at time of final operating decision
- actual, ex post

Official operations

Bankers' balances carried forward, relative to target

Influences (= determinants of lb):

Bankers' balances brought forward, relative to target

Disbursements less revenue

Net gilts

Treasury bills[†]

Maturing eligible bills, repos unwinding, and repayments of lending

Other*

Official operations (= composition of 2)

TBs purchased or sold

LA bills purchased

Eligible bank bills purchased

Repos

2.30 lending

2.45 lending

[†] Ex ante - i.e. before any intervention
*Notes, foreign exchange, central bank

ANALYSIS OF DAILY OFFICIAL MONEY MARKET OPERATIONS IN BILLS: BANKING JUNE

A = amount £ million, official purchases of paper unless asterisked (=official)
 r = approximate rate (yield basis) at which funds provided or taken: range
 significant;

T = Treasury bills;

L = Local authority bills;

= eligible bank bills;

R = repos

Bands: 1 = 1 to 14 days, 2 = 15 to 33, 3 = 34 to 63, 4 = 64 to 91

Date	T1		T2		T3		T4		L1	
	A	r	A	r	A	r	A	r	A	r
May										
21	-		1	11.4	2	11.4	-		-	
22	-		140*	11.5	-		-		-	
26	-		-		-		-		-	
27	No business									
28	No business									
29	No business									
June										
1	-		-		-		-		-	
2	33	11.5	1	11.6	-		10	11.7	4	11.7
3	222*	10.8	-		-		-		-	
		-11.4								
4	No business									
5	248*	11.0	-		-		-		-	
		-11.4								
8	-		-		-		-		-	
9	No business									
10	262*	10.0	-		-		-		-	
		-11.3								
11	-		-		-		-		-	
12	68	11.4	-		-		-		-	
15	No business									
16	35	11.3	-		-		-		-	
17	-		-		-		-		10	11.3

sale);
shown where

L2		L3		L4		B1		B2		B3		B4		R1		Inter-bank rates	
A	r	A	r	A	r	A	r	A	r	A	r	A	r	A	r	Overnight day's range	3 months, middle
-		-		2	11.6	1	11.8	4	11.8	22	11.8	36	11.8	-		9-12	12.4
-		-		-		-		-		-		-		-		8-11.4	12.4
-		-		-		51	11.8	-		-		-		166	11.4	11.4-12.3	12.5
																11.4-11.9	12.5
																11.0-11.6	12.5
																10.5-11.6	12.5
						20	11.8	-		-		-		-		11.5-11.8	12.6
5	11.7	5	11.7	-		59	11.8	22	11.8	63	11.9	15	12.0	-		3-14	12.7
-		-		-		-		-		-		-		-		8-11.4	12.5
-		-		-		-		-		-		-		-		1-10.9	12.6
-		-		-		-		-		-		-		-		6.5-10.3	13.1
-		-		-		-		25	12.0	-		-		-		9-10.5	13.3
-		-		-		-		-		-		-		-		3-9.7	13.2
-		-		-		-		-		-		-		-		10.0-10.9	12.9
-		-		-		-		-		-		-		184	11.3	10.1-11.4	12.6
-		-		-		-		-		-		-		-	-11.5		
-		-		-		-		-		-		-		-		8-11.7	12.7
-		-		-		83	11.5-11.8	-		43	12.3	14	12.4	-		10.8-14.0	12.6
-		-		-		20	11.5	-		-		-		-		8-12.2	12.7
																10.0-11.5	12.6

TABLE 3

RECONCILIATION

(Banking months: June provisional)

Monetary Review

	<u>May</u>	<u>June (forecast)</u>
<u>Influences</u>		
CGBR	+1,964	+2,846
National savings	-741	-295
CTDs	-96	-55
Other Exchequer	-6	-
	<u>+1,121</u>	<u>+2,496</u>
BGS	-555	-375
Note circulation	+155	+87
Reserves	-19	-180
Other, including customers (residual)	-106	-
	<u>+30</u>	<u>-468</u>
Total influences	<u>+596</u>	<u>+2,028</u>
<u>Operations</u>		
Commercial bills	-869	
LA bills	+150	
Treasury bills	+201	
Market advances	-106	
Total operations	<u>-624</u>	<u>-2,018</u>
Total	<u>-28</u>	<u>+10</u>

Money Market Report (categories as in Table 1)

	<u>May</u>	<u>June</u>
<u>Influences</u> (other than bankers' balances)		
Balance of revenue and disbursements (ex post)	+1,124	+2,177
BGS	-562	-585
Treasury bills	+382	+242
Maturing eligible bills, repos unwinding & repayments of lending	-3,336	-1,926
Other (residual)	-87	+42
Total influences	<u>-2,479</u>	<u>-50</u>
<u>Operations</u>		
Treasury bills	-22	-722
LA bills	+566	+27
Eligible bank bills	+1,851	+477
Repos	-	+350
Lending	+56	-
Total operations	<u>+2,451</u>	<u>+132</u>
Total	<u>-28</u>	<u>+82</u>

Minor discrepancies arise from rounding and from differences in valuation (eg bills are entered at discounted values in the Monetary Review but at nominal values in the Money Market Report. Total operations on the left correspond to, on the right, total operations plus Treasury bills plus maturing eligible bills etc, except that central bank transactions in TBS are included in TB figures on the left but excluded on the right (with compensating differences in the residual categories).