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MONEY MARKETS DURING WEEK ENDED 24 JUNE

General Features

Another relatively calm week, as a result of which the general mood is beginning to improve slightly after the nervousness earlier this month. All eyes continue to focus on movements in the US with a strengthening view that US rates are likely to fall in the next few months. But it is probably equally true to say that such predictions are very tentative given the volatility in recent weeks of US rates and the difficulty the New York market seems to have in interpreting the Fed's open-market policies. However, in the last week the signs have been favourable enough to give some life to the gilt market and with relatively easy money conditions, here to prompt a small downward drift in sterling rates.

Daily Money Conditions

Very little assistance has been required in the daily money markets, with some £120 mn. of bank bills purchased on Friday and Monday. Surplus conditions emerged on Tuesday and Wednesday, and the Bank was able to mop up yesterday with sales of £120 mn. Treasury Bills to discount houses and banks (in the range 11-11 1/4%). The surplus conditions resulted principally from a shortfall in Government revenue (in particular monthly National Insurance and PAYE money) on these two days, which probably amounted to some £350-400 mn.

The surplus conditions have contributed in part to the easing of rates in the various markets with period rates in the inter-bank market down generally by 3/16% over the week, and 3-month bill rates down by 1/8%. Despite the comfortable conditions, the inter-bank market experienced a late flurry of higher overnight rates on Monday when problems in the 'system' led to some banks paying up to 20% for their money. It is still obvious that 'information' flows in the clearers are very vulnerable, which, with the disappearance of the 'averaging' facility on balances here, could have difficult consequences for the clearers.

Treasury Bill Tender

With an apparent market appetite for Treasury Bills (and Local Authority Bills) last week, the tender saw the pro rata price rise by 3 1/2p to £97.01 (12% discount). Eight houses obtained 66% of the bills on offer with the rest going to Bank customers. Again this week there appears to be good demand for Treasury Bills - which could mean a rise of some 3p this coming Friday.

Other Points

The Bank's draft paper on the details of the new monetary control system has not created a great deal of initial debate, since most of the fundamental concepts had already been raised and aired. Of more practical relevance to the market are (a) the date of implementation and (b) the list of eligible banks (on which we are currently working).

Latest returns for the discount houses (as at June make-up day) show that there has been a drop of nearly £100 mn. in their gilt holdings in the month and an increase - by £275 mn. - to nearly £1,850 mn. in their holdings of eligible bank bills. Despite the increase in the latter, there are reports of some lines not being renewed at the present time (presumably on cost grounds vis-a-vis other forms of short-term financing, or because funds are not being required).

A broker contact reports quite a lot of activity in the issue of 1 and 2-month sterling CDs in the last week - again by lesser names (than the generally-agreed 20 or so big names which have managed to trade their CDs successfully since the secondary banking crisis).

It would seem that perhaps four discount houses will have applied for seats on the futures exchange by the closing date of 29 June.

Money Markets Division (HO-G)
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