

17. 7.81

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MONEY MARKET REPORT: BANKING JULY 1981

I attach, for the record, a final version of the Report.

Money Markets Division HO-G
17 July 1981

A R Latter (4303)

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MONEY MARKET REPORT: BANKING JULY - FINAL

As in the previous month, day-to-day conditions in the money market were mostly very comfortable, aided by continued shortfalls of revenue. The Bank gave assistance to relieve shortages on ten days, only twice on more than a modest scale; and on five occasions the Bank mopped up surpluses by selling Treasury bills to the market.

The Bank dealt mainly in paper of very short maturity, largely for technical reasons relating to forecasts of the market's future position.

The notable tactical feature of the period was the upward nudge given to interest rates on 6 July. In circumstances where the market is not necessarily short continuously, conditions under which such a nudge can be administered may have to be awaited. Thus, the preceding three working days had been days of surplus, when the market did not bid more than 11 3/8% for the mop-up bills on offer. Had there been higher bids, these might have been accepted so as to help establish the upward movement. On 6 July, the market was short, and bid up to 11 1/2% for repo money; the Bank rejected all the bids and obliged the market to borrow, publicly, at 12 1/4% for 7 days. This action was immediately seized upon as having implications for longer rates: consequently, 3-month rates, for example, quickly established a new plateau some 1/2-3/4% higher; and there were repercussions in the gilt-edged market too.

Meanwhile, overnight and 7-day rates, though firming as a result of the Bank's move on 6 July, continued to be affected by the strike, which tended both to keep rates generally lower than they might otherwise have been, because of the cumulative revenue shortfall, and to induce greater volatility during particular days, as a result of uncertainty as to the market's precise position. There was no evidence, however of hard arbitrage either through overdrafts or bills.

The Bank was again able to reduce its portfolio of bank and local authority bills, to £234 mn (of which 50 repos and £619 mn (of which

267 repos) respectively, out of estimated totals of £4.8 bn and £0.9 bn, respectively, in existence. Meanwhile, the market's holdings of Treasury bills increased to stand at £930 mn (excluding those submitted in repos) at 15 July. These figures confirm that the armoury by which the Bank may provide assistance, should shortages emerge, has been very substantially replenished in the past three months or so.

The Bank has instituted new arrangements for notifying the market of its operations during the day. The news agencies are now informed whether or not the Bank has operated, both before and after lunch, and are told the range of rates for each type of instrument in which any operations have been conducted.

Money Markets Division

17 July 1981.

MONEY MARKET: ANALYSIS OF DAILY INFLUENCES AND OFFICIAL OPERATIONS: BANKING JULY 1981

TABLE 1

£ millions: + = surplus for the market

1 Market's position exclusive of official operations:

1a - as estimated by Bank at time of final operating decision
 1b - actual, ex post

2 Official operations

3 Bankers' balances carried forward, relative to target

4 Influences (= determinants of 1b):

Bankers' balances brought forward, relative to target

Exchequer disbursements¹ less receipts

Net gilts

Notes

Predetermined money market transactions²

Other*

5 Official operations (= composition of 2)

TBs purchased or sold

LA bills purchased

Eligible bank bills purchased

Repos

2.30 lending

2.45 lending

	JUNE								
	18	19	22	23	24	25	26	29	30
1a	+ 54	- 87	- 46	+ 305	+ 293	+46/-6	+ 64	+ 44	- 11
1b	+ 28	- 122	- 55	+ 131	+ 299	- 24	- 3	+ 1	+ 19
2	-	+ 69	+ 74	-	- 123	-	-	+ 64	+ 133
3	+ 28	- 53	+ 19	+ 131	+ 176	- 24	- 3	+ 65	+ 152
4									
Bankers' balances brought forward, relative to target	- 36	+ 28	- 53	+ 19	+ 131	+ 176	- 14	- 3	+ 65
Exchequer disbursements ¹ less receipts	+ 73	- 55	- 193	+ 278	+ 206	- 101	+ 83	+ 78	+ 251
Net gilts	+ 3	+ 40	+ 11	- 54	- 56	+ 10	+ 111	+ 70	- 47
Notes	+ 23	+ 106	+ 34	- 8	+ 5	+ 19	- 130	+ 46	- 10
Predetermined money market transactions ²	+35	- 12	+ 124	- 51	- 58	- 33	- 59	- 145	- 60
Other*	-	- 17	+ 22	- 53	+ 71	- 95	+ 6	- 45	- 180
5									
TBs purchased or sold	-	+ 69	-	-	- 123	-	-	+ 36	+ 4
LA bills purchased	-	-	+ 5	-	-	-	-	-	+ 4
Eligible bank bills purchased	-	-	+ 61	-	-	-	-	+ 28	+ 94
Repos	-	-	-	-	-	-	-	-	-
2.30 lending	-	-	-	-	-	-	-	-	-
2.45 lending	-	-	8 @ 12% 7 days	-	-	-	-	-	31 @ 12% 7 days

¹ Net Treasury bills (before any intervention listed for the same day) and maturing LA and bank bills at the Bank (in all cases both outright and repo); and repayments of lending.

*Foreign exchange, central banks, other Bank customers, etc.

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

T = Treasury bills;

L = Local authority bills;

B = Bank bills;

R = Repos.

Numbers immediately after letters denote the following maturity bands:

1 = 1 to 14 days;

2 = 15 to 33;

3 = 34 to 63;

4 = 64 to 91.

Subsequent figures are amounts (£ millions) of official purchase of paper, unless asterisked (= official sale).

Rates shown are approximate rates (yield basis) at which funds provided or taken (range shown where significant)

Date	Operations	Inter-bank rates	
		Overnight, day's range	3 months, middle
June			
18	None	10.0-11.5	12.7
19	B1 44 @ 11.6. B3 25 @ 12.2	11.0-11.8	12.7
22	L1 5 @ 11.3. B1 61 @ 11.6	11-15	12.6
23	None	6-11.4	12.6
24	T1 *123 @ 11.0-11.3	3-10.9	12.5
25	None	10.0-11.0	12.5
26	None	10.8-13	12.4
29	T1 31 @ 11.3. T2 5 @ 11.4. B1 28 @ 11.5	11.0-12.5	12.6
30	T1 4 @ 11.3. L1 4 @ 11.3. B1 94 @ 11.5	6-20	12.6
July			
1	T1 *64 @ 11.0-11.3	10.0-11.3	12.7
2	T1 *118 @ 11.0-11.4	5-11.2	12.7
3	T1 *42 @ 11.0-11.4	3-12	12.3
6	None	9.0-11.5	13.2
7	R1 86 @ 12.0-12.3	10.0-12.0	13.3
8	None	1-12	13.3
9	T1 *200 @ 11.3-12.3	10-12	13.4
10	L1 10 @ 12.3 BI 112 @ 12.3-12.6 RI 171 @ 12.0-12.3	11.5-12.3	13.5
13	RI 268 @ 12.0-12.3	11.7-12.5	13.4
14	RI 91 @ 12.1	11.8-15.0	13.4
15	None	10.0-12.2	13.5

TABLE 3

RECONCILIATION

(Banking months)

Monetary ReviewMoney Market Report (categories as in Table 1)

	<u>June</u>	<u>July (forecast)</u>		<u>June</u>	<u>July</u>
<u>Influences</u>			<u>Influences</u> (other than bankers' balances)		
CGBR	+2,680	+1,580			
National savings	-281	-140	Balance of Exchequer		
CTDS	-18	-320	receipts and		
Other Exchequer	-122	--	disbursements		
	<u>+2,259</u>	<u>+1,120</u>	(ex post)	+2,177	+1,135
BGS	-599	-245	BGS	-585	-222
Note circulation	+148	-390	Notes	+148	-240
Reserves	-264	-100	Aggregate of daily		
Other, including			predetermined money		
customers (residual)	+3	--	market transactions		
			(as defined in Table 1)	-1,684	-798
Total influences	<u>+1,547</u>	<u>+335</u>	Other (residual)	-106	-479
			Total influences	<u>-50</u>	<u>-604</u>
<u>Operations</u>			<u>Operations</u>		
Commercial bills	-787		Treasury bills	-722	-448
LA bills	-271		LA bills	+27	+19
Treasury bills	-406		Eligible bank bills	+477	+295
Market advances	--		Repos	+350	+616
Total operations	<u>-1,464</u>	<u>-370</u>	Lending	--	+209
			Total operations	<u>+132</u>	<u>+691</u>
Total	<u>+83</u>	<u>+15</u>	Total	<u>+82</u>	<u>+87</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 predetermined money market transactions, except that central bank transactions in TBs are included in TB figures on the left but excluded from money market figures on the right (with compensating differences in the residual categories).