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20. 8.81

MR GEORGE
THE DEPUTY GOVERNOR'S
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MONEY MARKETS DURING WEEK ENDED 19 AUGUST

General Features

The main focus of attention in the last week has been on the daily money conditions which were, until yesterday, very tight (see below). In more general terms the outlook remains cloudy with the market adopting a wait-and-see attitude. There are many who wonder what will happen to base rates after the demise of MLR yesterday - and some who fear an upward movement in very short-term rates. Inevitably a lot of questions are still being aired about the new monetary control system operative from today, with considerable focus on the question of liquidity.

Daily Money Conditions

This last week has again seen larger-than-expected receipts of 'blocked' revenue with a total of nearly £600 mn. (net) coming through. As a result of this and some gilt sales, the market shortages have required considerable assistance, mostly by way of the 'repo' technique which has been used to smooth out positions both before and after 1 September. The repos have totalled £1.5 bn. and the funds released into the market by this means have been at rates of 12 1/8% (mainly) and 12 1/4% - which has, of course, contributed in no small way to maintaining the present rate structure. But even then, the heavy shortages, allied to the uncertainties surrounding the change-over today, led to higher overnight and week rates, especially on Tuesday morning. Apart from the round-tripping which the clearers had been experiencing for some days, there was also some evidence of hard arbitrage on Tuesday which could have some impact on the August money supply figures.

DG 20/8

Despite a square market position yesterday, the last make-up day under the RAR system saw overnight inter-bank rates climbing to as high as 40% in the last 1/2 hr. of dealing. Apparently quite a lot of business was done at 25% with overseas banks prominent among the takers. As well as repos, we have been buying bills outright from the market in the last few days, but the quantities raised by this means have been small, given the relative attractiveness of the 'repo' to discount houses.

During the week, rates have fluctuated quite a bit, but over the week the 6 month and 1 year rate is unchanged with increases of 1/4-1/2% in the 1 week and 1 month rate, reflecting the tighter money conditions.

Treasury Bill Tenders

There have been 2 tenders this last week, both originally for £200 mn bills, but in both cases (because of the tighter money conditions) reduced to £100 mn. Last Friday the 91-day bills were allotted at a pro rata price 5 1/2p higher than the previous week (with a drop of 1/4% in the average rate) while on Tuesday £100 mn 1 September bills were allotted at rates of discount between 12 3/4-13 1/4% (for take-up on Friday, when there are large redemption proceeds from 3% Exchequer Stock).

With £100 mn bills on offer this Friday, I would not expect much change on last week's price - with a possibility of a slight rise of 1-2p.

Local Authority Market

Market sources report the continuation of greater discrimination on the part of traditional institutions in lending to certain local authorities, notably Scottish ones. The GLC is now attracting some hesitation and evidence of the problem of names was forthcoming yesterday in that Lothian apparently took 2 hours to attract £1 1/2mn 'week fixed' money at what was considered a reasonable 'bid' rate.

Other Points

Today sees the first day of the 6% average placement of secured money with discount houses and money-brokers, and houses were already seeing signs of increased availability of funds yesterday (for instance, I understand that Barclays were trying to place some £300 mn of secured money with houses yesterday).

We have this morning started our new arrangements for communicating the morning forecast to the markets early by use of our own pages on the Reuter monitor.

MTRS

Money Markets Division HO-G
20 August 1981

M T R Smith (4710)