

MARKETS
DAYS
8/13
GAG 3/9

MR GILL
THE GOVERNOR'S PRIVATE SECRETARY

Copies to Mr Fforde
Mr Coleby o/r
Mr George
Mr Byatt
Mr Smith o/r
Mr Foot
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Mrs Drummond
Mr Erskine o/r
DGPS

MONEY MARKETS DURING THE WEEK ENDED 2 SEPTEMBER (4 WORKING DAYS)

This period turned out to be remarkably quiet, and there is consequently little of note to report.

The main feature was the payment of around £2 bn of petroleum taxes on Tuesday of this week. This payment was matched almost totally by maturing Treasury bills (from the special issues) and surrenders of CTDs. Our only operation in the market that day was to lend a small amount (£30 mn) to one house at 2.45. We earned the congratulations of the market for the careful advance management of the day; some market participants were quietly pleased that the day provided the media with no ammunition to fire at the Bank or the market.

The other three days were also quiet, with no official intervention on Thursday or Wednesday, and modest outright purchases of bills on Friday - all in band 2 at rates of 12 5/8 - 3/4% which represented no change from earlier intervention points.

The new era has continued to evolve smoothly; media attention has subsided somewhat after the initial flurry.

Interest rates tightened a bit at the short end ahead of the petroleum tax day - a tightening which was not in the event justified - and eased thereafter, helped by a slightly easier tone in the US. Over the week as a whole, rates moved, on balance, a fraction easier.

We are still fielding a steady stream of enquiries about bill quality.

The discount houses appear to be in reasonably good spirits: I am not aware of any particular issues on their minds at the moment, but they have remarked upon the absence of any special status for secured funds placed with them, in the Bank's liquidity paper.

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