

2. 9.81

MR FFORDE
MR GEORGE
MR COLEBY O/R
MR GILL
MR SMITH O/R

MR FOOT
MR W A ALLEN
MR ILES
DGPS
MISS BULLOCH O/R
MR TURNBULL (HMT)

MONEY MARKET REPORT: BANKING AUGUST 1981

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

Money Markets Division HO-G
2 September 1981

A R Letter (4710) *ay.*

MONEY MARKET REPORT: BANKING AUGUST - FINAL

Banking August saw somewhat different conditions in the money markets, compared to the previous 2 months. Broadly speaking, during the second half of July there were continued shortfalls in revenue, but the Bank used the opportunity to sell additional tender Treasury Bills to the market (see below), with the result that daily assistance was needed to relieve overall shortages on all but one occasion (when the Bank mopped up a surplus by selling Treasury Bills to the market in the usual way). In the first half of August the ending of the civil servants' dispute had an increasingly adverse effect on day-to-day conditions and again assistance was necessary on all but three occasions, on two of which Treasury Bills were again sold to mop up, and one of which resulted in no official business.

The Bank varied its operations over the period, making use of both outright purchases of bills and the repo technique. Both outright dealings and repos were mainly for very short maturities, with repos taking over as supplies of suitable bills for outright purchases became scarce. These tactics were consistent, once the end of the civil service dispute was known to be in sight, with the expectation that after an initial burst of revenue catch-up there would be a lull in the second half of August. In the final days of the banking month tactics switched to pushing forward any shortages into the period after 3 September, in order not to add to any remaining difficulties that the £2 bn half-yearly payment of petroleum taxes on 1 September might present. At no time in the month did the Bank operate in maturities beyond one month.

The large revenue payment on 1 September, and the obvious attraction of smoothing it out in advance as far as possible, gave rise to the issue in the Royal Wedding week of an additional £800 mn Treasury Bills (by the regular tender method), to mature on 1 September, with further similar issues of £100 mn the next week and again on 21 August.

The Bank's operations had the effect of gradually soothing market nerves, which had been set on edge earlier in July with fears of a possible across-the-board upward movement in rates. Nevertheless the volatile behaviour of the foreign exchange markets, and uncertainties about the effect on liquidity of the unwinding of the backlog of revenue and about the new monetary control system operative from 20 August, were features which contributed to longer rates remaining firm. The steadiness of the very short-term rates meant that pressures on the banks' base rates were not too pronounced and proved resistable.

The Bank's holdings of bank and local authority bills increased over the month from the very low levels in early July. By 19 August they stood at £1,540 mn and £380 mn respectively out of estimated totals of £4.8 bn and £0.9 bn in existence. However, a large proportion of these bills were due for repurchase by the market (£1,180 mn and £350 mn respectively). Meanwhile, the market's holdings of Treasury Bills rose to about £2.2 bn (of which £900 mn were the special 1 September bills).

millions: + = surplus for the market

JULY

	16	17	20	21	22	23	24	27	28	30	31
1 Market's position exclusive of official operations:											
1a - as estimated by Bank at time of final operating decision	+ 200	- 90	- 316	- 63	- 74	- 84	- 305	- 295	- 260	- 194	- 16
1b - actual, ex post	+ 165	- 196	- 321	- 121	- 169	- 169	- 388	- 336	- 258	- 281	- 24
2 Official operations	- 79	+ 69	+ 299	+ 68	+ 101	+ 198	+ 311	+ 336	+ 297	+ 373	+ 45
3 Bankers' balances carried forward, relative to target	+ 86	- 127	- 22	- 53	- 68	+ 29	- 77	=	+ 39	+ 92	+ 20
4 Influences (= determinants of 1b):											
Bankers' balances brought forward, relative to target	+ 66	+ 86	- 127	- 22	- 53	- 68	- 26	- 77	=	+ 39	+ 9
Exchequer Disbursements less receipts	+ 49	- 154	- 158	- 12	+ 172	+ 263	+ 345	+ 92	+ 219	+ 100	+ 30
Net gilts	- 49	+ 7	+ 46	+ 2	-	- 62	- 92	- 15	- 66	+ 4	-
Notes	+ 33	- 126	+ 21	- 42	- 21	+ 3	- 146	+ 18	- 2	+ 64	- 9
Predetermined money market transactions	+ 47	- 8	- 135	- 26	- 219	- 292	- 463	- 369	- 342	- 374	- 37
Other	+ 19	- 1	+ 32	- 21	- 48	- 13	- 6	+ 15	- 67	- 114	- 16
5 Official operations (= composition of 2)											
TBs purchased or sold	- 79	-	-	-	-	+ 2	-	+ 18	-	+ 14	-
1A bills purchased	-	-	-	-	-	+ 2	+ 37	-	+ 10	+ 3	-
Eligible bank bills purchased	-	-	-	-	-	+ 157	+ 162	+ 304	+ 259	+ 188	-
Repos	-	+ 69	+ 299	+ 68	+ 101	-	+ 100	-	-	+ 168	+ 45
2.30 lending	-	-	-	-	-	-	-	-	-	-	-
2.45 lending	-	-	-	-	-	+ 37	+ 12	+ 14	+ 28	-	-

TABLE 1

	27	28	30	31	3	4	5	6	7	10	11	12	13	14	17	18	19				
05	- 295	- 260	- 194	- 167	- 47	+ 442	+ 176	- 113	- 259	- 121	- 388	- 265	- 590	- 370	- 480	- 318	- 1				
88	- 336	- 258	- 281	- 246	- 76	+ 499	+ 112	- 118	- 329	- 189	- 441	- 313	- 603	- 363	- 534	- 350	- 42				
11	+ 336	+ 297	+ 373	+ 452	+ 104	- 260	- 95	+ 65	+ 298	+ 71	+ 410	+ 223	+ 505	+ 224	+ 441	+ 516	-				
77	=	+ 39	+ 92	+ 206	+ 33	+ 239	+ 17	- 53	- 31	- 120	- 31	- 90	- 98	- 139	- 93	+ 166	- 42				
26	- 77	=	+ 39	+ 92	+ 206	+ 33	+ 239	+ 17	- 53	- 31	- 120	- 31	- 90	- 98	- 139	- 93	+ 166				
45	+ 92	+ 219	+ 100	+ 300	- 48	+ 297	+ 84	+ 18	- 37	- 164	- 244	- 46	- 255	+ 62	- 512	+ 94	- 47				
92	- 15	- 66	+ 4	-	-	+ 188	+ 1	+ 8	- 6	- 14	- 9	- 88	- 78	- 288	- 1	- 112	- 25				
46	+ 18	- 2	+ 64	- 97	+ 92	+ 38	+ 52	+ 56	- 115	+ 100	+ 29	+ 40	+ 44	- 100	+ 72	+ 9	+ 17				
53	- 369	- 342	- 374	- 379	- 350	+ 5	- 241	- 221	- 52	- 91	- 104	- 177	- 212	+ 36	- 10	- 233	- 177				
6	+ 15	- 67	- 114	- 162	+ 24	- 62	- 23	+ 4	- 66	+ 11	+ 7	- 11	- 12	+ 25	+ 56	- 15	+ 23				
	+ 18	-	+ 14	-	+ 23	- 260	- 95	-	-	-	-	-	-	-	+ 96 ⁺	-	-				
7	-	+ 10	+ 3	-	+ 10	-	-	-	-	-	-	-	-	-	+ 10	+ 13	-				
2	+ 304	+ 259	+ 188	-	+ 71	-	-	-	-	-	-	-	-	-	+ 13	+ 85	-				
0	-	-	+ 168	+ 452	-	-	-	+ 65	+ 298	+ 71	+ 410	+ 215	+ 505	+ 224	+ 322	+ 418	-				
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
2	+ 14	+ 28	-	-	-	-	-	-	-	-	-	+ 8	-	-	-	-	-				

⁺ of which 50 private "2.45" deal

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

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 = 64 to 91.

Subsequent figures are amounts (£ millions) of official purchases 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
July			
16	T2 *79 @ 12.7	10.5 - 12.3	13.6
17	R1 69 @ 12.0 - 12.5	11.5 - 17.0	13.9
20	R1 299 @ 12.0 - 12.4	12.0 - 13.0	14.3
21	R1 68 @ 12.1	12.0 - 12.5	14.5
22	R1 101 @ 12.2	12.0 - 15.0	14.4
23	T1 2 @ 12.5, L1 2 @ 12.5, BI. 157 @ 12.5	12.4 - 13.5	14.4
24	L1 37 @ 12.5, B1 162 @ 12.5, R1 100 @ 12.1 - 12.5	12.3 - 13.0	14.5
27	T1 18 @ 12.5, B1 157 @ 12.5, B2 148 @ 13.4 - 13.9	12.0 - 13.0	14.5
28	L1 2 @ 12.5, L2 8 @ 13.4, B1 98 @ 12.5, B2 161 @ 13.5	12.8 - 13.3	14.5
30	T2 14 @ 13.4, L1 3 @ 12.5, B1 116 @ 12.5, B2 72 @ 13.4, R1 168 @ 12.1 - 12.5	12.0 - 13.0	14.6
31	R1 452 @ 12.1 - 12.6	11.5 - 12.8	14.6
August			
3	T1 23 @ 12.5, L1 10 @ 12.5, B1 58 @ 12.5, B2 13 @ 13.4	11.8 - 12.8	14.6
4	T2 *260 @ 12.6 - 13.3	7.0 - 12.8	14.6
5	T1 *95 @ 12.3	10.6 - 12.8	14.4
6	R1 65 @ 12.1	10.0 - 13.0	14.4
7	R1 298 @ 12.4	10.5 - 12.5	14.4
10	R1 71 @ 12.2	11.8 - 20.0	14.3
11	R1 410 @ 12.2	12.3 - 12.5	14.2
12	R1 215 @ 12.1	11.8 - 14.0	14.1
13	R1 505 @ 12.2	11.8 - 12.6	14.0
14	R1 224 @ 12.2	12.3 - 13.0	14.0
17	T1 50 7 @ 12.3, T2 46 @ 12.8, L2 10 @ 12.8, B2 13 @ 12.8, R2 322 @ 12.2	12.8 - 13.5	14.0
18	L2 13 @ 12.8, B2 85 @ 12.8, R2 418 @ 12.2	13.0 - 13.7	14.2
19	No business	12.5 - 40	14.2

TABLE 3

RECONCILIATION

(Banking months)

Monetary Review

	<u>July</u>	<u>Aug (forecast)</u>
<u>Influences</u>		
CGBR	+1,724	+1,740
National savings	- 239	- 270
CTDs	- 312	+ 100
Other Exchequer	+ 41	-
	<u>+1,214</u>	<u>+1,570</u>
BGS	- 229	- 345
Note circulation	- 246	- 50
Reserves	- 357	- 100
Other, including customers (residual)	- 40	-
Total influences	<u>+ 342</u>	<u>+1,175</u>
<u>Operations</u>		
Commercial bills	- 73	
LA bills	- 86	
Treasury bills	- 157	
Market advances	- 65	
Total operations	<u>- 251</u>	<u>-1,165</u>
Total	<u>+ 91</u>	<u>+ 10</u>

Money Market Report (categories as in Table 1)

	<u>July</u>	<u>Aug</u>
<u>Influences</u> (other than bankers' balances)		
Balance of Exchequer receipts and disbursements (ex post)	+1,135	+ 673
BGS	- 222	- 571
Notes	- 240	- 5
Aggregate of daily predetermined money market transactions (as defined in Table 1)	- 798	-4,175
Other (residual)	- 479	- 393
Total influences	<u>- 604</u>	<u>-4,471</u>
<u>Operations</u>		
Treasury bills	- 448	- 281
LA bills	+ 19	+ 85
Eligible bank bills	+ 295	+1,239
Repos	+ 616	+3,280
Lending	+ 209	+ 99
Total operations	<u>+ 691</u>	<u>+4,422</u>
Total	<u>+ 87</u>	<u>- 49</u>