

GE(mmo)  
alc.

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MONEY MARKETS DURING WEEK ENDED 23 SEPTEMBER

General Factors

The money markets remain nervous in the wake of the rise in interest rates last week. The unsettled foreign exchange markets and the gloomy week-end press served to reinforce the concerns over the immediate outlook for the domestic economy, so that since last Wednesday 3 and 6 month money has risen by  $\frac{3}{8}\%$  (at one stage on Monday both were nearly a point higher). There are therefore some who wonder whether base rates will not have to go to 15%, if the current rate structure continues for very long. In the last couple of days very little trading has apparently taken place in longer than 3-month money, including CDs.

Tuesday's announcement about the proposed £400 mn special tender for 21-day Treasury Bills next week and the reasons for it ie rebates of VAT creating a temporary surplus in the markets, have been received relatively calmly by the markets. However the effects which the VAT rebates and the delay in the collection of the backlog of taxes are likely to have on the money supply figures announced in the next 2 months will hardly improve sentiment in that time.

Daily Money Conditions

The continued disruption to the daily figures caused by the unwinding of the civil service dispute and other problems has

contributed to difficult conditions in the money markets. On two occasions we have had to use the '2.45' unpublicised facility to allow a discount house to square its books. On Monday a shortage of £400 mn was relieved by means of an overnight 'repo' amid some worries that the Bank might again employ its previous Monday's tactics (because of the pressures in the foreign exchange markets). In the event the provision of money at 'neutral' rates helped to calm the market.

Outright purchases of bills were made last Friday and yesterday with yesterday's assistance totalling just over £300 mn. Again the rates at which we dealt - in all cases for up to 33 day paper - were interpreted as reflecting current market rates.

#### Treasury Bill Tender

Last Friday's tender outcome, while not unexpected, contributed to the rise in rates on Monday. The fall of 30½p in the pro rata price to £96.39 produced a yield of around 15% on the 3-month bills with the discount market obtaining approximately half of the £100 mn bills on offer. I understand that there have been one or two buyers of the bills this week but with the nervousness over the level of rates generally, it is difficult to forecast where the market will publish its tenders this Friday. With rates this morning (Thursday) showing renewed nervousness we could see a further fall in the pro rata price by up to 10p.

#### Other Points

With no real let up in enquiries on clausings, quality etc of bank bills, we have been discussing in the Division the main general areas of enquiry where further elaboration of the Bank's attitudes may be necessary in the next month or so.

Discount houses are generally keeping a short book and thus bill rates are not proving very attractive to drawers except in the short (1 and 2 months) periods. A few houses were caught out by the rise in rates last week rather more than they would have liked, and one house (Smith St Aubyn) has decided to sell £70 mn of its fairly sizeable fixed gilt holdings, with a resultant drop in its total resources.