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MR COLEBY  
THE DEPUTY GOVERNOR'S  
PRIVATE SECRETARY

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MONEY MARKETS DURING WEEK ENDED 4 NOVEMBER

General Features

The gradual restoration of calm in the money markets last week was reinforced last Friday by news from the US which, based on indications that the recession was deeper than expected, culminated in the Fed's cut in its discount rate and subsequently cuts in US banks' prime rates. The effect of these developments on UK interest rates was marked with the most noticeable fall occurring, as it were, over the weekend. On Monday there was a lot of activity (despite the BL position) and one large money broking firm told me that they experienced near-record turnover on the day. Trading was heavy in all periods up to 1 year and while it has dropped off in the last two days, the market is still seeing two-way trading in all periods. In the inter-bank market the most marked fall over the week has been in the 6-month rate, down 7/8, while 3-month and 1-year rates are down 3/4. The overnight and week rate have remained virtually unchanged - mainly as a result of our operations - except that the vast amount of money put up last Friday for Cable & Wireless (of which some £650 mn was actually cleared on the day by Nat West) inevitably put pressure on the week-end rate.

The discount houses remain cautious although taking the opportunity this week to increase and lengthen their books somewhat. However, while 3-month bill rates have dropped by 7/8 over the last week, the average cost of their money has shown very little change in the same period - most overnight money is being taken at 15 1/4%.

Daily Money Conditions

We have had to relieve shortages daily, with our operations being entirely done by outright purchases of Band 1 and Band 2 bills.

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During the period the lowest rates accepted have consistently been 15 1/8 and 15 1/4 respectively and there has been a sufficient supply of bills in these Bands to avoid any operations in Band 3. In total we have bought around £900 mn bills in the last week, of which £400 mn were in Band 1. The shortages have been higher than expected, with the payment of some backlog tax contributing, as well as gilt sales.

Additional assistance was given to the market last Friday as a result of the very considerable quantity of money put into applications for Cable & Wireless. Having undertaken sufficient bill operations for the size of the day's shortage, we then lent £120 mn to five houses at 2.30 pm (ie publicised) at 15 1/2% in order to take the steam out of the inter-bank market where the potential difficulties caused by Cable & Wireless were being felt. With the Nat West sending out unsuccessful applicants' money later today (probably at least £500 mn), there may be further distortions in inter-bank rates tomorrow.

#### Treasury Bill Tender

Although there had been a steadier tone to rates last week, houses were, I suspect, somewhat hesitant and cautious in deciding on their tenders last Friday. However, the outcome was that the bills were all taken up by houses at an average rate of 15 11/16% (down by 1/4%) and these are now trading at 15%. On this basis the tender tomorrow is likely to result in a drop of at least 5/8% in the average rate (a rise of 16p in the pro rata price to around £96.25).

*MTR*  
Money Markets Division  
5 November 1981

M T R Smith (4710)