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6.11.81

MR FFORDE MR FOOT
MR GEORGE MR W A ALLEN
MR COLEBY MR ILES
MR GILL DPGS
MR SMITH MISS BULLOCH

MR TURNBULL, HMT

MONEY MARKET REPORT

I attach, for the record, a final version of the report for banking
October.

Money Markets Division
6 November 1981

A R Latter (4303)
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MONEY MARKET REPORT: BANKING OCTOBER 1981 - FINAL

The first 2½ weeks were a period of much nervousness and uncertainty in the money markets amidst rising rates. Conditions then became more settled for a while with rates falling back a little, before turning somewhat firmer again towards the end of the month.

The day-to-day position of the money market did not of itself pose any operational problems. Few very severe daily shortages were to be expected, at any rate in the early weeks of the month when the aftermath of the civil service strike had, on occasions, the effect of putting money into the market; indeed, two special Treasury bill tenders, for 3-4 week bills*, were introduced to offset prospective surplus conditions. The revival of gilt sales for a time in early October and the emergence of somewhat tighter Exchequer positions contributed to larger daily shortages, on average, during the second half of the period.

Assistance was necessary on the majority of days. This was provided through outright purchases of bills, concentrated in the first two bands (up to one month), and by some short-dated repos. On one occasion Treasury bills were sold to the market to absorb surplus funds - the first instance of "mopping" since the new arrangements took full effect.

Rates at which the Bank dealt rose progressively up to the end of September, in parallel with market movements. It will be recalled that the Bank had signalled higher rates on 14 September and banks had moved their base rates to 14% on 16 September. The Bank's dealing rates were scarcely over 14% on 18 September, but a top rate of 16% (yield basis in band 2) was touched on 30 September. The three-month inter-bank rate climbed 2% over the same period, peaking on 2 October at 17%, on which day the average yield for 3-month Treasury bills at the tender reached 16.6%, having risen sharply on the two previous Fridays too.

The banks announced a further 2% increase in their base rates on 1 October. In its operations on 1 and 5 October the Bank then endeavoured to lean against any further upward pressure on rates,

*£300 mn taken up on 30 September to mature 21 October;
£100 mn taken up 7 and 8 October to mature 2 November.

having judged that a pause for breath, and probably consolidation, was required. The Bank possesses limited facilities to push rates down when the market is short, since it is obliged to accept the highest rates offered to it for assistance. However, it was possible on these days, by confining operations to band 1, where it was judged sufficient bids had been made to cope with the shortage, to avoid the necessity of publishing the higher dealing rates that would have pertained to band 2.

Dealing rates declined, where changed, in subsequent days, reflecting the slightly easier tone of rates in the parallel money markets, lower US money rates, the firmer exchange rate and the revival of the gilt market. Most base rates were lowered by $\frac{1}{2}\%$ on 14 October. Then, however, the market displayed some renewed nervousness and rates firmed a little. At the close of the period the Bank was buying bills in bands 1 and 2 at rates of discount of 15-15 $\frac{1}{4}\%$, thereby again leaning somewhat against a tendency in the market towards higher rates than these. Meanwhile inter-bank rates (middle) stood at 15 $\frac{1}{4}\%$ for 7 days, 16% at one month and 16 $\frac{5}{16}\%$ at three months. Rate relativities between different instruments were, at both 7 days and one-month, broadly consistent with 15 $\frac{1}{2}\%$ base rates, with no obvious incentives for round-tripping.

There was little change on balance over the period in the amount of local authority and bank bills held by the Bank - at £0.2 bn and £1.3 bn respectively (Issue plus Banking departments) on 21 October, out of estimated totals of £1 bn and £5 $\frac{1}{2}$ bn respectively in existence. Holdings of Treasury bills outside the Bank declined, however, from £1.9 bn to £1.1 bn.

£ millions: + = surplus for the market

SEPTEMBER

OCTOBER

	17	18	21	22	23	24	25	28	29	30	1	2
1 Market's position exclusive of official operations:												
1a - as estimated by Bank at time of final operating decision	+ 33	- 3	- 268	+ 38	- 285	+ 56	- 95	+ 72	- 151	- 241	+ 20	+
1b - actual, ex post	- 26	- 33	- 386	- 1	- 264	- 30	- 142	+ 23	- 112	- 202	+ 6	-
2 Official operations	+ 58	+ 112	+ 414	-	+ 317	-	+ 164	- 5	+ 77	+ 294	+ 127	-
3 Bankers' balances carried forward, relative to target	+ 32	+ 79	+ 28	- 1	+ 53	- 30	+ 22	+ 18	- 35	+ 92	+ 133	- 4
4 Influences (= determinants of 1b):												
Bankers' balances brought forward, relative to target	+ 100	+ 47	+ 79	+ 28	- 1	+ 53	- 30	+ 23	+ 18	- 35	+ 92	+ 13
Exchequer disbursements less receipts	+ 64	+ 361	- 122	+ 438	- 106	+ 10	+ 36	+ 192	- 79	+ 373	- 32	- 4
Net gilts	- 29	+ 5	- 62	+ 30	- 135	+ 49	+ 63	+ 30	+ 2	- 5	+ 31	+ 1
Notes	+ 39	- 124	+ 86	+ 12	+ 31	+ 28	- 130	+ 62	+ 3	+ 18	+ 17	- 12
Predetermined money market transactions ^{1/}	- 200	- 283	- 316	- 459	- 48	- 116	- 45	- 262	- 67	- 380	- 88	- 4
Other*	-	- 39	- 51	- 50	- 5	- 54	- 36	- 21	+ 11	- 173	- 14	+ 2
5 Official operations (= composition of 2)												
TBs purchased or sold	-	+ 26	-	-	+ 25	-	+ 44	-	-	+ 10	+ 13	-
LA bills purchased	-	-	-	-	+ 11	-	+ 39	-	-	+ 30	+ 1	-
Eligible bank bills purchased	-	+ 86	-	-	+ 281	-	+ 81	-	-	+ 244	+ 113	-
Repos	-	-	+ 403	-	-	-	-	-	+ 60	-	-	-
2.30 lending	-	-	-	-	-	-	-	-	-	-	-	-
2.45 lending	58 @ 14½-½ O/N	-	11@ 14½ O/N	-	-	-	-	-	17@ 15% O/N	10@ 14½ O/N	-	-

^{1/} Ex ante - i.e. before any intervention listed for the same day, but excluding any TB repos unwinding
 *Notes, foreign exchange, central banks, other Bank customers, etc.

TABLE 1

OCTOBER

	25	28	29	30	1	2	5	6	7	8	9	12	13	14	15	16	19	20	21			
66	- 95	+ 72	- 151	- 241	+ 20	+ 42	- 91	- 334	+ 6	- 326	- 516	- 358	- 214	- 126	- 113	- 353	- 181	- 116	- 395			
80	- 142	+ 23	- 112	- 202	+ 6	- 41	- 112	- 315	- 73	- 371	- 534	- 409	- 235	- 149	- 142	- 364	- 173	- 83	- 454			
	+ 164	- 5	+ 77	+ 294	+ 127	-	+ 123	+ 379	-	+ 279	+ 441	+ 397	+ 201	+ 193	+ 101	+ 312	+ 180	+ 120	+ 398			
80	+ 22	+ 18	- 35	+ 92	+ 133	- 41	+ 11	+ 64	- 73	- 92	- 93	- 12	- 34	+ 44	- 41	- 52	+ 7	+ 37	- 56			
53	- 30	+ 23	+ 18	- 35	+ 92	+ 133	- 43	+ 11	+ 64	- 73	- 92	- 93	- 12	- 34	+ 44	- 41	- 52	+ 7	+ 37			
10	+ 36	+ 192	- 79	+ 373	- 32	- 40	+ 22	- 34	+ 145	+ 45	+ 71	- 65	- 50	+ 11	- 242	- 106	- 144	+ 62	- 357			
49	+ 63	+ 30	+ 2	- 5	+ 31	+ 10	-	- 315	- 146	- 164	- 324	- 106	- 104	+ 10	+ 95	+ 43	+ 137	+ 5	- 22			
28	- 130	+ 62	+ 3	+ 18	+ 17	- 126	+ 80	+ 7	+ 23	+ 39	- 137	+ 99	+ 11	+ 32	+ 39	- 119	+ 83	+ 16	+ 17			
16	- 45	- 262	- 67	- 380	- 88	- 44	- 223	- 22	- 152	- 225	- 62	- 241	- 140	- 129	- 113	- 162	- 183	- 153	- 132			
54	- 36	- 21	+ 11	- 173	- 14	+ 26	+ 52	+ 38	- 7	+ 7	+ 10	- 3	+ 60	- 39	+ 31	+ 21	- 14	- 20	+ 3			
	+ 44	-	-	+ 10	+ 13	-	+ 23	+ 61	-	+ 101	+ 187	+ 17	+ 67	+ 37	-	-	-	-	+ 125			
	+ 39	-	-	+ 30	+ 1	-	-	+ 28	-	-	+ 18	+ 26	+ 28	+ 10	-	-	-	-	+ 42			
	+ 81	-	-	+ 244	+ 113	-	+ 100	+ 160	-	+ 178	+ 236	+ 279	+ 104	+ 146	-	-	-	-	+ 231			
	-	-	+ 60	-	-	-	-	+ 130	-	-	-	-	-	-	+ 101	+ 312	+ 180	+ 120	-			
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
	-	-	17@	10@	-	-	-	-	-	-	-	+ 75@	+ 2@	-	-	-	-	-	-			
	-	-	15%	14½	-	-	-	-	-	-	-	16-	16	-	-	-	-	-	-			
	-	-	O/N	O/N	-	-	-	-	-	-	-	16½ O/N	O/N	-	-	-	-	-	-			

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

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 = 34 to 63;

4 = 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
September			
17	No bill operations	12.0-14.5	14.8
18	B1 20 @ 14.1, T2 26 @ 14.0, B2 66 @ 14.1-14.3	2-14.5	15.0
21	R1 403 @ 14.2	12.5-16.0	15.4
22	No bill operations	12.5-14.5	15.3
23	B1 131 @ 14.3, T2 25 @ 14.3, L2 11 @ 14.3, B2 150 @ 14.3-14.6	8-14.1	15.3
24	No bill operations	10-14.2	15.6
25	B1 26 @ 14.6, T2 44 @ 14.9, L2 39 @ 14.8, B2 55 @ 14.9	13.2-14.5	15.8
28	*T1 5 @ 14.6	6-14.5	16.5
29	R1 60 @ 14.2	13.9-20	16.6
30	T1 3 @ 14.8, L1 30 @ 14.8-15.3, B1 136 @ 14.8-15.5, T2 7 @ 15.2, B2 108 @ 15.1-16.0	7-17	16.8
October			
1	T1 13 @ 15.3, L1 1 @ 15.3, B1 113 @ 15.1-15.9	11.0-17	16.9
2	No bill operations	12.0-15.7	17.0
5	T1 23 @ 15.4, B1 100 @ 15.5-15.9	14.0-15.6	16.9
6	T1 32 @ 15.3, L1 12 @ 15.3, B1 95 @ 15.3-15.6, R1 130 @ 15.3, T2 29 @ 15.9, L2 16 @ 15.9, B2 65 @ 16.0	9-15.7	16.6
7	No bill operations	12.0-16.0	16.3
8	T1 100 @ 15.3 B1 124 @ 15.1-15.4 T2 1 @ 15.6 B2 54 @ 15.6-15.9	15.0-15.7	16.2
9	T1 104 @ 15.1, T2 83 @ 15.3, L1 9 @ 15.1, L2 9 @ 15.4, B1 75 @ 15.2, B2 161 @ 15.4	20.0-14.8	15.7
12	T1 17 @ 15.0, L1 1 @ 15.0, L2 25 @ 15.3, B1 100 @ 15.0 B2 179 @ 15.3	16.5-16.3	15.6
13	T1 39 @ 15.0, T2 28 @ 15.3, L1 3 @ 15.0, L2 25 @ 15.3, B1 9 @ 15.0, B2 60 @ 15.3, B3 35 @ 15.3	15.6-10.0	15.8
14	T1 32 @ 15.0, T2 5 @ 15.3, L1 10 @ 15.0, B1 56 @ 15.0, B2 69 @ 15.3, B3 21 @ 15.3	15.8-10.0	15.8
15	R1 101 @ 15.0-15.4	15.6-12.0	16.0
16	R1 312 @ 15.0-15.3	15.6-13.0	16.3
19	R1 180 @ 15.0-15.3	16.0-15.3	16.1
20	R1 120 @ 15.1-15.5	15.8- 3.0	15.9
21	T1 60 @ 15.0, T2 65 @ 15.3, L1 15 @ 15.0, L2 27 @ 15.3, B1 103 @ 15.0-15.4, B2 128 @ 15.4	17.0-14.5	16.3

RECONCILIATION

(Banking months)

Monetary Review

Money Market Report (categories as in Table 1)

	<u>September</u>	<u>October forecast as at 7 October</u>		<u>September</u>	<u>October</u>
<u>Influences</u>			<u>Influences</u> (Other than bankers' balances)		
CGBR	- 206	+1,841	Balance of Exchequer receipts and disbursements (ex post)	+ 76	+ 453
National savings	- 179	- 245	BGS	+ 78	- 902
CTDs	+ 502	+ 200	Notes	+ 14	+ 106
Other	+ 13	-	Aggregate of daily predetermined money market transactions (as defined in Table 1)	-2,330	-4,248
	<u>+ 130</u>	<u>+1,796</u>	Other (residual)	- 250	- 269
BGS	+ 72	- 522	Total influences	<u>-2,412</u>	<u>-4,860</u>
Note circulation	+ 13	+ 27			
Reserves	- 281	- 230	<u>Operations</u>		
Other, including customers (residual)	+ 4	-	Treasury bills	+ 198	+ 735
	<u>- 62</u>	<u>+1,071</u>	L A bills	+ 168	+ 233
			Eligible bank bills	+1,369	+2,239
<u>Operations</u>			Repos	+ 412	+1,306
Commercial bills	- 169		Lending	+ 367	+ 173
L A bills	- 268		Total operations	<u>+2,514</u>	<u>+4,686</u>
Treasury bills	+ 529				
Market advances	+ 71		Total	+ 102	- 174
	<u>+ 163</u>	<u>-1,065</u>			
Total	<u>+ 101</u>	<u>+ 6</u>			