

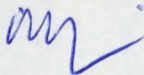
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20.11.81

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MONEY MARKET REPORT - BANKING NOVEMBER 1981

✓ I attach a final version, which supersedes the preliminary material
circulated on 16 November.



Money Markets Division
20 November 1981

A R Letter (4303)

CONFIDENTIAL

MONEY MARKET REPORT: BANKING NOVEMBER 1981

The Bank operated in the money market every day during this period, exclusively to balance shortages. In large part the daily operations merely rolled forward existing assistance, which had been conducted at short maturities, as it matured. In addition, however, Exchequer transactions became more adverse to the market as the period progressed, partly because the revenue backlog was beginning to unwind in significant proportions; and on some days there were substantial gilt sales against the market.

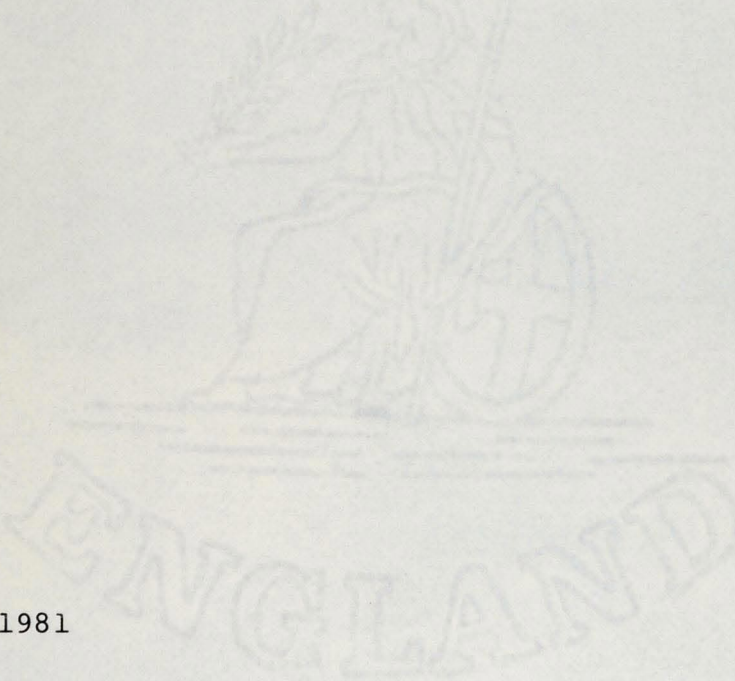
The Bank operated chiefly through outright purchases of bills, concentrated in bands 1 and 2 but extending to band 3 when the stock of bills in the shorter bands appeared to have become heavily depleted. It was partly for this reason, but also to avail itself of some operational flexibility, that the Bank also conducted some short-dated repos. The Bank lent on the published "2.30" basis on two occasions. One of these was 30 October, when funds became stuck with the banks on account of Cable and Wireless applications: ex post it emerged that the money market had not, as a whole, required the borrowing. The other was 16 November, when the Bank wished to steady the decline in interest rates and rejected, on rate grounds, many of the bills offered, so obliging the houses to borrow at a rate of the Bank's choosing. The Bank also lent privately, on penal terms relative to those for published deals, on a number of days, in significant amounts only later in the period when there was a succession of very short days. Some of this lending was to jobbers, associated with the rally in the gilt-edged market.

9 November was notable for the banks being left a record £273 mn beneath their target for operational balances (some going into overdraft). This apparently arose from certain tax payments passing through the Town clearing which were not expected by the banks, nor by the Bank. On this day the estimate of the market's position at 2.00 pm, compiled by the Bank on the basis of information available to it, was some £200 mn astray. Over the remainder of the period these official estimates of the market's position, weighed by the Bank in deciding its after-lunch operations, tracked the true position reasonably well (compare rows 1 and 2 of table 1).

Sentiment in the market was dominated during the period by developments in the US. Period rates fell steeply, for instance, from a peak of nearly 17% for 3 months interbank in late October to well below 15% in mid-November. Shorter rates, more directly influenced by the Bank's dealing rates (see table 2), eased less precipitously as a result of the Bank's steadying operations. Banks lowered their base rates from 15 1/2% to 15% on 9 November.

There were increases in the Bank's holdings of local authority and eligible bank bills during the month, to £0.4 bn and £3.1 bn respectively at mid-November, out of totals of some £1 bn and perhaps £5½-6 bn respectively in existence. The amount of Treasury bills in issue, other than those already held by the Bank, was lower at £1.3 bn. Thus the outstanding capacity for bill operations to relieve shortages was reduced over the month, but not exhausted.

20 November 1981



£ millions: + = surplus for the market

	OCTOBER						NOVEMBER		
	22	23	26	27	28	29	30	2	3
1 Market's position exclusive of official operations:									
1a - as estimated by Bank at time of final operating decision	- 327	- 237	- 175	- 18	- 236	- 237	- 265	- 115	- 161
1b - actual, ex post	- 372	- 300	- 194	- 73	- 275	- 206	- 265	- 233	- 198
2 Official operations	+ 326	+ 231	+ 213	+ 63	+ 261	+ 198	+ 409	+ 150	+ 175
3 Bankers' balances carried forward, relative to target	- 46	- 69	+ 19	- 10	- 14	- 8	+ 144	- 83	- 23
4 Influences (= determinants of 1b):									
Bankers' balances brought forward, relative to target	- 56	- 46	- 59	+ 19	- 10	- 14	- 8	+ 144	- 83
Exchequer disbursements less receipts	- 295	+ 138	+ 40	+ 29	- 26	+ 92	+ 135	- 200	+ 281
Net gilts	+ 21	+ 4	- 3	+ 9	- 10	- 92	- 79	- 36	- 169
Notes	+ 34	- 139	+ 81	-	+ 4	+ 21	- 146	+ 80	+ 4
Predetermined money market transactions /	- 60	- 250	- 327	- 87	- 246	- 169	- 80	- 257	- 208
Other*	- 16	- 7	+ 74	- 43	+ 13	- 44	- 87	+ 36	- 23
5 Official operations (= composition of 2)									
TBs purchased or sold	+ 59	-	-	-	+ 43	+ 2	+ 12	-	+ 36
LA bills purchased	+ 72	-	-	-	+ 15	+ 13	+ 62	+ 4	+ 17
Eligible bank bills purchased	+ 195	-	-	-	+ 203	+ 183	+ 214	+ 146	+ 115
Repos	-	+ 216	+ 213	+ 63	-	-	-	-	-
Published lending	-	-	-	-	-	-	121 @ 15½% W/E	-	-
Unpublished lending	-	15 @ 16% W/E	-	-	-	-	-	-	7 @ 15½% O/N

/Net Treasury bills (before any intervention listed for the same day) and maturing LA and bank bills at the Bank (in all cases both outright and repo); and repayments of lending.

*Foreign exchange, central banks, other Bank customers, etc.

	4	5	6	9	10	11	12	13	16	17	18							
	- 97	- 115	- 293	- 113	- 655	- 19	- 354	- 805	- 294	- 548	- 180							
	- 85	- 130	- 419	- 332	- 649	- 56	- 407	- 813	- 422	- 613	- 246							
	+ 120	+ 115	+ 286	+ 59	+ 663	+ 37	+ 588	+ 967	+ 283	+ 629	+ 217							
	+ 35	- 15	- 133	- 273	+ 14	- 19	+ 181	+ 154	- 139	+ 16	- 29							
	- 23	+ 35	- 15	- 133	- 273	+ 14	- 19	+ 181	+ 154	- 179	+ 56							
	+ 83	- 30	- 136	- 183	- 107	- 10	- 69	- 9	- 172	- 255	- 42							
	- 27	- 7	- 30	- 1	- 303	+ 46	- 72	- 666	- 209	+ 127	+ 2							
	+ 22	+ 40	- 141	+ 94	+ 9	+ 26	+ 37	- 122	+ 94	+ 5	+ 14							
	- 123	- 175	- 88	- 123	- 37	- 121	- 221	- 177	- 323	- 434	- 217							
	- 17	+ 7	- 9	+ 14	+ 62	- 11	- 63	- 20	+ 34	+ 123	- 59							
	+ 21	-	+ 3	-	+ 7	-	+ 61	+ 16	-	+ 30	+ 10							
	-	-	+ 5	+ 10	+ 6	-	+ 46	+ 39	+ 10	+ 27	+ 2							
	+ 99	+ 115	+ 278	+ 49	+ 545	+ 37	+ 316	+ 220	+ 105	+ 488	+ 124							
	-	-	-	-	+ 79	-	-	+ 565	-	-	-							
	-	-	-	-	-	-	-	-	+ 115	-	-							
	-	-	-	-	-	-	-	-	@15 1/8	-	-							
	-	-	-	-	-	-	-	-	O/N	-	-							
	-	-	-	-	26@	-	+ 165	127	+ 53@	+ 84@	+ 81@							
	-	-	-	-	15 1/4	-	@15	@15%	15 1/8	15 1/8	15 1/2							
	-	-	-	-	-15 1/2%	-	15 1/4	O/N	-5/8%	-3/4%	-16%							
					O/N		O/N		O/N	O/N	O/N							

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

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
October			
22	T1 7 @ 15.2, L1 7 @ 15.1, B1 25 @ 15.1, L2 8 @ 15.4 B2 102 @ 15.4, T3 52 @ 15.6, L3 57 @ 15.6, B3 68 @ 15.6	15.3-16.0	16.4
23	R1 216 @ 15.1	15.3-75	16.7
26	R1 213 @ 15.2	15.0-30	16.8
27	R1 63 @ 15.4	13.0-15.8	16.8
28	T1 7 @ 15.2, L1 5 @ 15.2, B1 49 @ 15.3, T2 36 @ 15.4, L2 10 @ 15.4, B2 154 @ 15.5	13.0-15.8	16.7
29	T1 1 @ 15.2, L1 7 @ 15.2, B1 37 @ 15.3, T2 1 @ 15.4, L2 6 @ 15.4, B2 146 @ 15.4	15.5-16.0	16.7
30	T1 6 @ 15.2, L1 11 @ 15.2, B1 59 @ 15.2, T2 6 @ 15.4, L2 51 @ 15.4, B2 155 @ 15.4	5.0-18.0	16.5
November			
2	B1 83 @ 15.2, L2 4 @ 15.4, B2 63 @ 15.4	15.0-16.0	15.8
	T1 10 @ 15.2, B1 115 @ 15.2, T2 26 @ 15.4, L2 17 @ 15.4	15.3-15.8	15.9
	T1 5 @ 15.2, B1 36 @ 15.2, T2 16 @ 15.4, B2 63 @ 15.4	15.0-15.8	15.8
5	B1 45 @ 15.3, B2 70 @ 15.4	8.0-15.6	15.7
6	B1 120 @ 15.2, T2 3 @ 15.3, L2 5 @ 15.3, B2 158 @ 15.3	8.0-15.5	15.8
9	B1 28 @ 14.8, L2 10 @ 14.7, B2 21 @ 14.7	13.8-25	15.1
10	T1 7 @ 14.7, L1 1 @ 14.7, B1 150 @ 14.7, R1 79 @ 14.9, L2 5 @ 14.7, B2 395 @ 14.7	10.0-15.8	15.0
11	B2 37 @ 14.7	14.0-15.0	15.1
12	B1 63 @ 14.7, T2 48 @ 14.7, L2 20 @ 14.7, B2 229 @ 14.7, T3 10 @ 14.9, L3 19 @ 14.8, B3 24 @ 14.9	15.1-21.0	15.0
13	T1 6 @ 14.7, L1 7 @ 14.7, B1 22 @ 14.7, R1 565 @ 15.0 T2 10 @ 14.7, L2 20 @ 14.7, B2 181 @ 14.7, L3 12 @ 14.8, B3 17 @ 14.8	10.0-17.5	14.7
16	B1 35 @ 14.7, L2 10 @ 14.7, [†] B2 40 @ 15.7	15.1-16.0	14.3
17	T1 3 @ 14.7, L1 7 @ 14.6, B1 91 @ 14.6, T2 5 @ 14.7, L2 20 @ 14.7, B2 337 @ 14.7, [†] T3 17 @ 14.8/9, [†] B3 53 @ 14.8/9	15.3-18.0	14.6
18	B1 13 @ 14.7, T2 5 @ 14.7, B2 78 @ 14.7, T3 5 @ 14.8 L3 2 @ 14.8, B3 33 @ 14.8	15.5-20.0	14.9

[†]Wholly or partly unpublished

TABLE 3

RECONCILIATION

(Banking months)

Monetary ReviewMoney Market Report (categories as in Table 1)

	<u>October</u>	<u>November (forecast at 11 Nov)</u>		<u>October</u>	<u>November</u>
<u>Influences</u>			<u>Influences</u> (other than bankers' balances)		
BR	+439	+ 345	Balance of Exchequer receipts and disbursements (ex post)	+ 453	- 736
National savings	-254	- 275			
DS	- 98	- 30			
Other Exchequer	+435	-			
	+522	+ 40			
BGS	-857	-1,300	BGS	- 902	-1,495
Note circulation	+ 99	- 85	Notes	- 106	+ 17
Reserves	-336	- 200	Aggregate of daily predetermined money market transactions (as defined in Table 1)	-4,248	-3,723
Other, including customers (residual)+ 40		-	Other (residual)	- 269	- 36
Total influences	-532	-1,545	Total influences	-4,860	-5,973
<u>Operations</u>			<u>Operations</u>		
Commercial bills	- 16		Treasury bills	- 735	+ 300
Government bills	+132		LA bills	+ 233	+ 328
Treasury bills	+318		Eligible bank bills	+2,239	+3,432
Market advances	- 71		Repos	+1,306	+1,136
Total operations	+363	+1,550	Lending	+ 173	+ 794
			Total operations	+4,688	+5,990
Total	-169	+ 5	Total	- 174	+ 17

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

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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
	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			
Other, including customers (residual)	+ 4	-			
	<u>- 62</u>	<u>+1,071</u>			
<u>Operations</u>			<u>Operations</u>		
Commercial bills	- 169		Treasury bills	+ 198	+ 735
L A bills	- 268		L A bills	+ 168	+ 233
Treasury bills	+ 529		Eligible bank bills	+1,369	+2,239
Market advances	+ 71		Repos	+ 412	+1,306
	<u>+ 163</u>	<u>-1,065</u>	Lending	+ 367	+ 173
			Total operations	<u>+2,514</u>	<u>+4,686</u>
Total	<u>+ 101</u>	<u>+ 6</u>	Total	<u>+ 102</u>	<u>- 174</u>