

SECRET

Prime Minister ⁽²⁾

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MCS 19/10

FUNDING AND CONVERSION


I am happy to report that last week the Bank really did rather well in our programme of surreptitious conversion. They bought in £300 million worth of long dated gilts.


This they managed to do without the market detecting what the authorities were about. It was represented that some mysterious buyer was in the market for odd lots of longs. The Government Broker and the Bank managed rather skilfully to dovetail the buying operation into their tactical market management. Yields did not move at all.

At the same time the short 1988 9½% partly paid sold very well, as everyone expected. But more important the indexed gilts moved ahead in quite a convincing manner. There will be another issue of indexed gilts this week in order to take advantage of a bullish market.

I think it is wise to continue with this surreptitious operation. At £300 million a week it could go on for quite a long time with little risk of being discovered. However, I think the Bank and the Government Broker are unduly concerned about exposure. After all the market would interpret it as a very sensible move in minimising the cost of financing the public debt. And so it would be. Nevertheless I think we can happily go along with the Bank's attitude.

This buying in operation enables us to offset any untoward overfunding that takes place. It gives us a degree of flexibility both in terms of the total quantity and cost of the debt.


18 October 1982


ALAN WALTERS

SECRET