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18 September 1984

MR TURNBULL

FUNDING MEETING, 18 SEPTEMBER

I attended the Funding Meeting today.

National Savings. The 28th Issue has now been withdrawn. It was such a success that National Savings are now well ahead of their target. They will launch the 29th Issue soon at a lower interest rate.

The Bank in its Review drew attention to the upward movement in money market rates. Eddie George agreed that the domestic monetary situation was not worrying, but the strength of the dollar, combined with worries about the industrial situation in the UK, was putting pressure on markets.

The Economic Secretary said that a rise in base rates now would be unhelpful, and urged the Bank to finesse their gilt sales programme and their approach to markets to try and avoid it. I backed him up, pointing out that the markets have taken the rise in the dollar quite well so far. The success of funding in August - when £1.9 billion of gross sales of gilts were achieved - coupled with the seasonal reduction in the PSBR, greatly strengthened the Bank of England's hand against this renewed pressure on the pound.

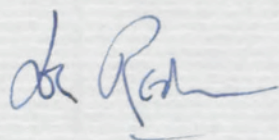
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There was general agreement that the approach to funding should remain opportunistic, attempting to sell stock whenever possible, and using tranchettes unless the market is very strong.

The institutions currently have considerable quantities of cash, which is a good prelude to the BT issue. There was inconclusive debate about tactics for handling the market in late November and December, to give the BT issue the best send off possible.

Monetary growth is now reasonable, with M0 at 4.4 per cent for the target period, and sterling M3 at 9 per cent.

Banking September ends today: gilt sales were only around £570 million. This will be offset by sales of the 28th Issue which brought in £1 billion in banking August and banking September together, the bulk of it taking place in banking September.



JOHN REDWOOD