

Domestic Markets: 11 February - 6 March

MONEY MARKET

Money remained short throughout the period. The Bank assisted the market by purchasing Treasury bills, local authority bills and eligible bank bills, some of the latter on a resale basis. The Bank also lent at MLR, occasionally for two and three days as well as overnight.

During the period, temporary facilities were made available to the London and Scottish Clearing banks for the sale and repurchase of gilt-edged stocks for amounts of up to 1 1/2% of the eligible liabilities of each bank. The facilities, which total some £500 mn., came into effect on 15 February and are due to be unwound on 13 March. On 29 February, the Bank announced that the recall of Special Deposits amounting to 1% of eligible liabilities payable on 7 March would be postponed until 14 May.

INTEREST RATES

MLR and the clearing banks' base rates have stayed at 17%.

11. 2.80

6. 3.80

Interbank

7 days	17 1/4 - 18 1/8	17 1/4 - 18 1/8
1 month	17 1/2 - 17 15/16	18 1/8 - 18 7/16
3 months	17 9/16 - 17 7/8	18 3/16 - 18 7/16
6 months	16 3/4 - 17 1/16	17 3/8 - 17 11/16

Local Authority

7 days	17 3/4 - 17 7/8	18 3/8 - 18 5/8
1 month	17 3/4	18 1/4 - 18 5/8
3 months	17 3/4 - 17 7/8	18 3/8 - 18 1/2
6 months	16 7/8	17 3/4 - 18

Sterling CDs

1 month	17 3/4 - 17 7/8	18 1/8 - 18 1/4
3 months	17 11/16 - 17 13/16	18 - 18 1/8
6 months	16 13/16 - 16 15/16	17 1/4 - 17 3/8

GILT-EDGED MARKET

The market fluctuated during the month with periods of steadiness alternating with bouts of weakness which reflected unfavourable economic statistics and the continuing tightness in the domestic money market. In the latter part of the month in particular, the market was unsettled by uncertainty regarding the course of short term interest rates. Over the month as a whole, short-dated issues fell by around 1/4 point and longs by around 2 points.

One new tap stock was issued, 14% Treasury Stock 1996, which was undersubscribed at the tender on 27 February, take-up by the public being at the minimum tender price of £95.50 (20% paid).

Yields based on official closing prices

	<u>9 1/2%</u> Treasury 1980	<u>8 1/4%</u> Exchequer 1981	<u>12%</u> Treasury 1983	<u>13%</u> Treasury 1990	<u>15 1/2%</u> Treasury 1998	<u>3 1/2%</u> War Loan
12 February	16.94	15.61	15.56	14.57	14.86	11.01
14 February	16.72	15.09	15.13	14.30	14.67	10.86
19 February	16.75	15.30	15.35	14.52	14.85	10.11
21 February	16.72	15.24	15.08	14.42	14.81	11.18
26 February	16.66	15.23	15.03	14.58	14.91	11.19
28 February	16.63	15.28	15.15	14.57	14.91	11.34
4 March	16.50	15.98	15.69	14.88	15.14	11.93
6 March	16.47	15.69	15.45	14.86	15.13	12.16

11-15 February

The market eased in the early part of the week reflecting the unsettled industrial situation and the rise in wholesale prices in January. Late on Tuesday a rally developed which was further encouraged by the sale and repurchase agreement with the clearing banks. However, the January money supply figures then weakened sentiment, and were followed by disappointing retail prices and trade figures for January on Friday; further selling was prompted by the increase to 13% in the US Federal Reserve's discount rate.

18-22 February

The market steadied after falls during late trading on the previous Friday. By the close on Thursday short and medium dated stocks were showing a modest improvement while longs were little changed. On Friday afternoon, following news of US prime rate increases (to 16 1/4%) prices were marked down quite sharply, particularly at the long end where the new tap stock was announced.

25-29 February

On Monday the market recovered most of the previous Friday's losses and then remained quiet but generally steady until towards the end of the week. Tenders for the new tap stock on Wednesday were moderate. News of interest rate rises in Switzerland and Germany had little impact on Thursday, but the increase in US prime rates to 16 3/4% on Friday led to widespread falls in prices particularly at the short end.

3-7 March

The market was quiet and subdued early in the week although some cheap buying buoyed up prices to a certain extent. 9% Treasury Convertible 1980 was redeemed on the 3rd. A further increase (to 17 1/4%) in a major US bank's prime rate led to sharp falls on Tuesday, but the market bounced back the following day as short-term interest rates began to ease. On Thursday, gains made in the morning were reversed following a forecast of further rises in US prime rates to around 19-20%.

OFFICIAL STOCK TRANSACTIONS
(Sales +/Purchases -)

	<u>11 February - 6 March</u>	<u>Financial Year to date</u>
<u>ISSUE DEPARTMENT</u>		
Next Maturities	- 29.5	- 2,030.9
Other short dated	+ 42.2	+ 2,915.2
Medium dated	+ 15.0	+ 2,912.9
Longs and undated	+ <u>471.9</u>	+ <u>6,739.1</u>
Total ISSUE DEPARTMENT TRANSACTIONS	+ 499.6	+ 10,536.3
CRND	+ 0.1	- 153.5
Cash Redemptions	- <u>275.7</u>	- <u>1,086.9</u>
	+ 224.0	+ <u>9,295.9</u>

EQUITY MARKET

Equities moved up sharply early in the period, reacting favourably in line with gilts to the Bank's move to ease money market pressures. However, gains were short-lived and the market settled into a quiet and fairly uneventful period, with turnover comparatively low. The FT 30-share index closed at 458.0 on 6 March, compared with 461.4 on 8 February.

CCO
Markets
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FOR BASLE.

Financial Markets Supplement as at
4.00 p.m. on Friday, 7 March 1980

Treasury Bill Tender

Offered: £300,000,000
Average Tender Rate: 16.1211
Lowest Price Accepted: 95.98
Minimum Lending Rate: 17

Parallel Market Rates

Inter-bank - 7 days: 17 -17½ 1 month: 17 3/16-18½ 3 months: 17½-18½
Local Authority- 7 days: 17½-18½ 1 month: 18 -18½ 3 months: 18½-18½
Sterling CD's - 1 month: 17½ -18½ 3 months: 17½-18½

The Gilt-edged Market

The market was generally steady throughout the day. After easing slightly on fears of higher interest rates shorts were encouraged by the extension of the repurchase agreement with the clearers. An increase in Citibanks prime rate in the afternoon (to 17½%) had little impact.

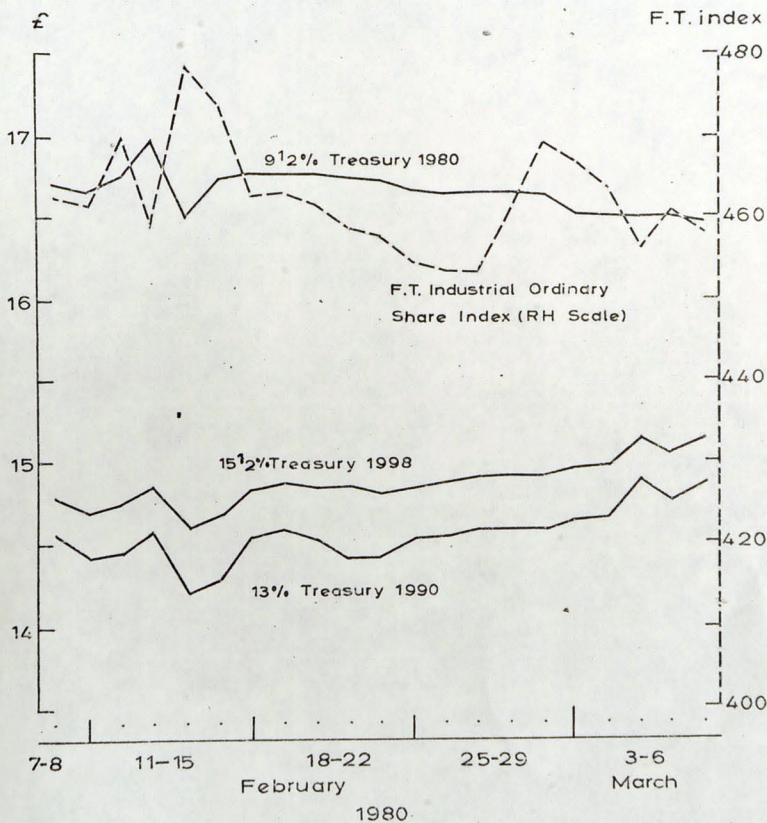
Official Stock Transactions: £5.2 mn. net purchases.

The Equity Market

The market opened a little easier and continued quietly dull for the rest of the day, with leading industrials a shade lower.

F.T.Index: (at 3.00 p.m.) 453.7 (down 4.3)

Gross Redemption Yields on Gilt-edged Stocks
 F T Share Index



SECRET

£ mns.

Gilt sales (+)/Purchases (-)Actual and Required 1979/80
(as at close of business 6 March 1980)

<u>Banking Months</u>	<u>Total Net Sales</u>	<u>(of which non-bank private sector)</u>	<u>Net non-bank private sector sales required to meet £M3 target*</u>
May	+ 620	(+ 578)	
June	+ 1,171	(+ 1,118)	
	+ 1,791	(+ 1,696)	
July	+ 1,132	(+ 887)	} + 5,683
August	+ 614	(+ 434)	
Sept	+ 923	(+ 955)	
Oct.	- 68	(- 264)	
Nov.	+ 795	(+ 911)	
Dec.	+ 1,358	(+1,134)	
Jan.	+ 1,914	(+1,626)	} + 300
Feb:	+ 296	(+ 390) ⁽¹⁾	
March: to date	- 230	(- 447)	
Redemption of stock held by market	- 25 ⁽²⁾	(- 25)	
Instalments on part paid stocks	+336 } + 311	(+336) ⁽¹⁾ } (+ 311)	+ 400
April: instalment on part paid stocks	+ 31	(+ 31)	+ 350
	+ 7,076	(+ 5,968)	+ 6,733

(1) Broad estimate.

(2) Redemption of 9% Treasury Convertible 1980.

*Based on (and subject to the qualifications to) the short-term forecast adopted at Monetary Review Committee on 7th February which showed annualised £M3 growth just within the top end of the target range by April.

Low
Chief Cashier's Office,
Markets Post (4564)
7 March 1980.