

SECRET

NOTE FOR WEDNESDAY MEETING

MARKETS: 14 MAY 1980 TO 20 MAY 1980

Money

The easing of conditions in the money market which began last week continued, due mainly to a consistently favourable net Exchequer position. The market was also helped by the redemption of 9 1/2% Treasury Stock 1980 on Wednesday, and by the fact that market advances outstanding at the end of last week were only moderate in amount. Against this, the 30% call on 13 1/2% Treasury Stock 2004/08 on Friday was an adverse factor, as was the unwinding, on every day but Friday, of previous purchases of commercial and Local Authority bills by the Bank.

Help was given by the Bank on every day but Thursday the first day since 19 March that assistance has been unnecessary. The help took the form of purchases of Treasury and Local Authority bills outright, together with small to moderate lending overnight at MLR on Monday and Tuesday.

With easier conditions persisting, interbank rates at one month and under tended to fall again this week, finishing with reductions of up to 1/2%; the three month rate also fell, by 1/16% to 17%. Rates at six and twelve months continued to rise, however, ending the week 3/16% and 1/8% higher respectively.

Rates this morning have fallen at one month and under; longer rates are firm.

Eurosterling rates followed a different pattern this week, showing a generally firm tendency at all maturities which was particularly evident on Tuesday. The three month rate finished 3/8% up at 17 1/2%.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.0048 to 16.1427.

#### Local authority bonds

The coupon on fixed rate one-year bonds rose by  $1/8\%$  to  $15\ 1/2\%$ , the second week running there has been an increase. Issues totalled 18.75 against maturities of 15.45.

#### Gilts

After a firm start the market was unsettled for much of a week which saw the publication of a number of discouraging monetary and economic statistics. It proved quite resilient however and prices eased only modestly.

The market opened Wednesday on a firm note with further sales of the medium tap at  $20\ 3/16$  before that price was withdrawn. Later in the day, however, prices fell back and the easier tendency continued on Thursday morning as funds were reserved for the imminent call on  $13\ 1/2\%$  Treasury 2004/08. Confirmation in the afternoon of the April money and bank lending figures occasioned some fresh losses; but these were soon recovered, only to be lost again following the Prime Minister's warning against expectations of an early cut in MLR. The market remained slightly unsettled at first on Friday but a rally later developed which left prices little changed on the day, the rise in retail prices and trade figures for April having little impact.

After the weekend the market opened quietly firm. But prices soon began to drift lower before receiving some encouragement in the afternoon from the news of a further cut in US prime rate to  $16\%$ . Concern at the economic outlook led to further light selling yesterday before the market hardened to close with net losses of up to  $5/8$ .

Over the week as a whole prices of shorts fell by about  $3/4$  and longs by about 1.

#### Equities

After quite a firm start the market tended to drift lower in sympathy with gilts for the rest of the week in quiet trading. Main interest

was again provided by oil shares which initially continued in demand, but encountered heavy profit-taking on Friday and Monday on news of lower production estimates for the North Sea Ninian Field. Yesterday, some of the earlier losses were regained and the oil sector was generally quiet but firm.

Over the week as a whole, the FT index fell by 3.3 to 433.6.

New issues

Activity picked up sharply this week with the addition to the queue of a rights issue of 25 by Ferranti (50% owned by NEB) and an offer for sale of 40 by the Charterhouse Group, and a rights issue of convertible loan stock of 25 by British Home Stores. Also added to the queue were a rights issue of 4 by Brown & Jackson and an issue of redeemable preference stock of 6 by a water company. The queue now totals 239.

An issue of 25 of 10-year floating rate euro-sterling notes has been announced on behalf of Scandinavian Bank. The notes have a margin of 1/4% above three-month LIBOR (minimum coupon 9 1/2%).

(Init.EAJG)

21 May 1980

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases - )

1. Transactions (cash value)

	14.5.80 <u>-20.5.80</u>	Cal.Qtr and Fin. Year <u>to date</u>	21.2.80 <u>to date</u>
Issue Department			
Purchases/sales			
Next Maturities	- 35	- 593	- 689
Other short-dated	<u>- 30</u>	<u>+ 1,014</u>	<u>+ 1,102</u>
	- 65	+ 421	+ 413
Mediums	+ 44	+ 112	+ 163
Longs and undated	<u>+ 287*</u>	<u>+ 1,320</u>	<u>+ 1,585</u>
Total Issue			
Department trans-			
actions	+ 266	+ 1,853	+ 2,161
CRND	- 13	+ 3	+ 1
Redemptions	<u>- 16</u>	<u>- 25</u>	<u>- 315</u>
	<u>+ 237</u>	<u>+ 1,831</u>	<u>+ 1,847</u>

\*includes +297 from call on 13 1/2% Treasury 2004/08

2. Redemption Yields (tax ignored)

	<u>13 May</u>	<u>20 May</u>
11 1/2% Treasury 1981	14.21	14.66
8 1/4% Exchequer 1981	13.75	14.04
12% Treasury 1984	13.78	14.03
13 1/4% Exchequer 1987	13.87	14.02
10% Treasury 1992	13.80	13.98
12 1/4% Exchequer 1999	13.93	14.14
11 1/2% Treasury 2001/04	13.74	13.92
12% Exchequer 2013/17	13.28	14.03
3 1/2% War (Flat Yield)	10.59	10.66

## NEW ISSUES OF 3 OR OVER

Date 1980	Government, etc.	Other Fixed Interest (excl. Convertibles)	Convertible Stocks	Others
Current Week (14/5-16/5)				
Week 2 (19/5-23/5)				
Week 3 (27/5-30/5)				Mallison-Denny Ltd. (rights) (28/5) 10
Week 4 (2/6-6/6)				Land Securities Investment Trust Ltd. (rights) (5/6) 100
Week 5 (9/6-13/6)				Carless, Capel & Leonard Ltd. (rights) (10/6) 7
				Oriflame International S.A. (Offer for sale) (11/6) 3
				Ashe Chemical Co. Ltd. (Offer for sale) (12/6) 9
Week 6 (16/6-20/6)		South Staffordshire Waterworks Company (tender) (19/6) 7		
Week 7 (23/6-27/6)				Norcross Ltd. (rights) (27/6) 10
Forthcoming		Sunderland and South Shields Water Company (tender) (1/7) 3		
		TOTAL	TOTAL	TOTAL
		10		139

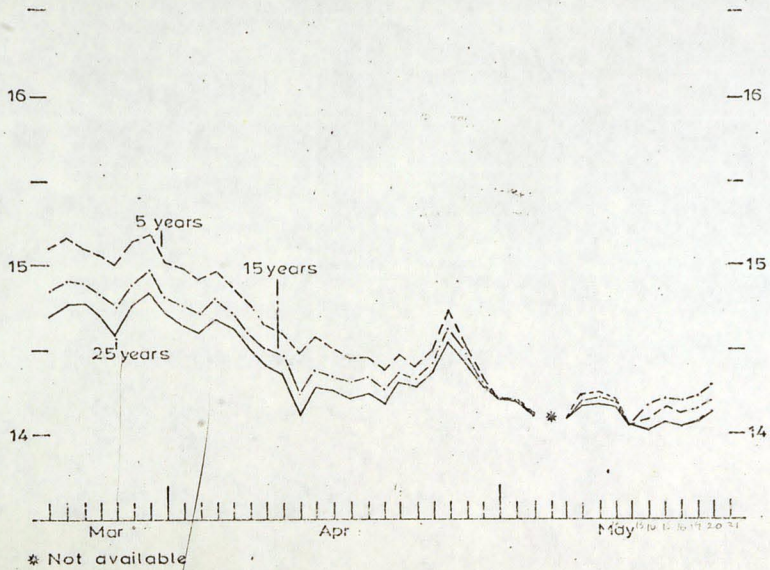
*Issues announced:	1977	118	815
	1978	60	959
	1979	162	946
	1980 to date	29	101

*Issues completed	1977	143	784
	1978	63	910
	1979	150	979
	1980 to date	34	85

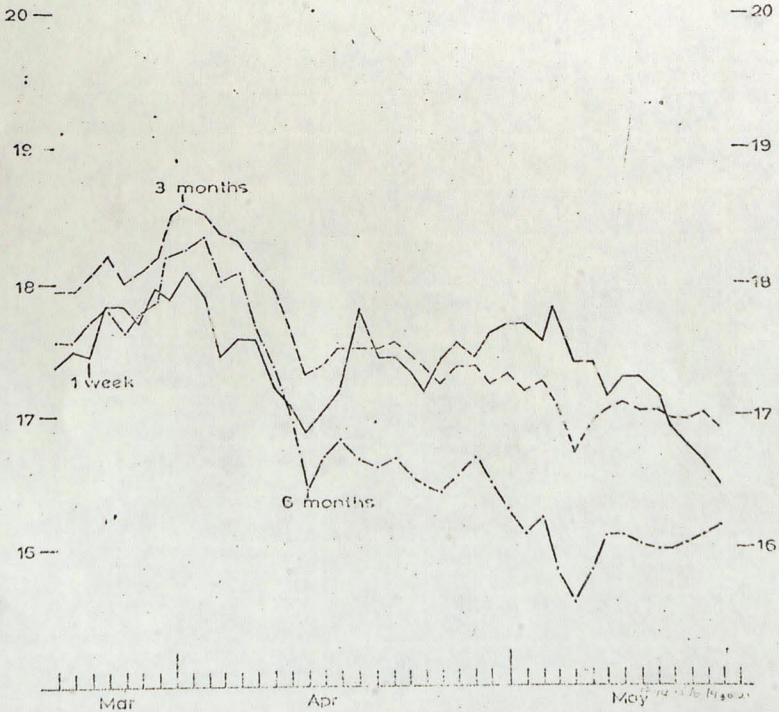
\*Includes issues of less than 3.

Gilt edged yields ( F.T high coupon)

Yields



Interbank rates



Per cent Time Yield Curves of British Government Stocks

21st May 1980

