

SECRET

NOTE FOR WEDNESDAY MEETING

MARKETS: 21 MAY 1980 TO 27 MAY 1980

Money

Conditions in the money market were generally short this week, particularly on Thursday and Friday when the unwinding of earlier foreign exchange swaps was the main adverse factor. The market was also faced with the repayment of previous market advances; against this, the net Exchequer position was largely favourable.

Help was given by the Bank on every day, taking the form of purchases of Treasury and Local Authority bills outright and of purchases of Local Authority and eligible bills for resale on 4 June. In addition, small amounts were lent overnight at MLR on every day but Thursday, when exceptionally large lending on the same terms was necessary.

Interbank rates at six months and under showed a generally firm tendency this week, most markedly at the shorter end; the overnight rate rose by $2 \frac{1}{8}\%$, though this was partly due to the unusually low rates prevailing on Wednesday, which was makeup day. The three month rate finished $1 \frac{1}{8}\%$ up at $17 \frac{1}{8}\%$. Twelve month rates have dropped back after their recent rise falling from $15 \frac{1}{8}\%$ to 15% .

Rates this morning mostly easier.

Eurosterling rates have remained firm at six months and over, finishing up to $3 \frac{3}{8}\%$ higher. One and three month rates dropped back by $1 \frac{1}{4}\%$ on Friday, the latter to $17 \frac{1}{4}\%$, but were otherwise unchanged.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.048 to 16.0947.

Local authority bonds

Fixed rate one-year bonds were issued with a coupon of 15 3/8% (1/8% lower than last week) and a price of 99 15/16 - the first time for several years that bonds have been issued at a discount. Issues totalled 15.65 (18.75 last week) and maturities were 12.4.

Gilts

The market has been generally strong, with reported overseas interest drawing in domestic investors.

The week began on a quietly steady note reflecting the strength of sterling and prices gained up to 1/2 by Wednesday lunchtime with little change in the afternoon. The following day prices eased back in very light trading after a steady start. But a firmer tendency re-emerged on Friday aided by the overnight news of an easing in credit curbs by the Federal Reserve and the continuing strength of sterling. Over £240 mn. of the medium tap, 13 1/2% Exchequer 1992, was sold at 20 1/4 and 20 5/16 before the latter price was withdrawn. The market was further encouraged in the afternoon by Citibank's .2% reduction in prime rate to 14 1/2% and by the close prices had risen by up to 1 1/8. A new low coupon tap stock, 3% Treasury 1985 at a minimum price of 69, was announced at 3.30 pm.

After the weekend the market continued very firm with reports of strong overseas buying interest. The medium tap was quickly exhausted on Tuesday morning at 20 3/8. This prompted further gains which reached 1/2 in shorts and 3/4 in longs before being trimmed by profit-taking by the close. In after-hours trading sentiment was again improved by news of further reductions in US prime rate to 14%.

Over the week as a whole prices of shorts rose by around 3/4 and longs by up to 2.

Equities

Prices drifted lower throughout the week reflecting concern at the economic outlook, prompted in particular by pessimistic statements on Thursday by the chairmen of GKN and ICI about current trading conditions and yesterday's NIESR forecast. Over the week as a whole the FT index fell by 13.6 to 420.0.

New Issues

A substantial rights issue of 45 by Harrisons & Crosfield was added to the queue along with placings of 7 and 15 by J.H.Fenner & Co. and Lloyds and Scottish. (Both the latter are being used to finance acquisitions of other companies.) The queue now totals 306.

(Init.EAJG)

28 May 1980

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

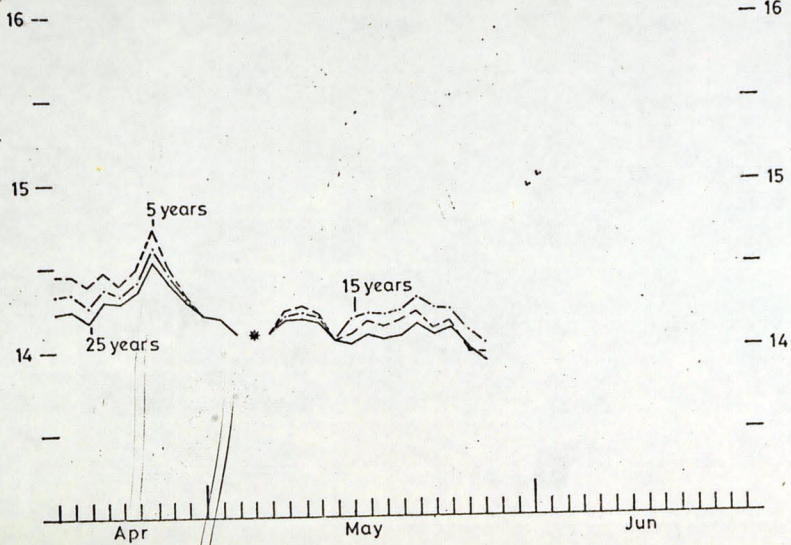
	21.5.80 <u>-27.5.80</u>	Cal.Qtr and Fin. Year <u>to date</u>	21.2.80 <u>to date</u>
Issue Department			
Purchases/sales			
Next Maturities	- 10	- 603	- 699
Other short-dated	<u>- 15</u>	<u>+ 999</u>	<u>+ 1,087</u>
	- 25	+ 396	+ 388
Mediums	+ 87	+ 200	+ 250
Longs and undated	<u>+ 5</u>	<u>+ 1,325</u>	<u>+ 1,590</u>
Total Issue			
Department trans-			
actions	+ 67	+ 1,921	+ 2,228
CRND	+ 27	+ 30	+ 28
Redemptions	<u>- 181</u>	<u>- 206</u>	<u>- 496</u>
	<u>- 87</u>	<u>+ 1,745</u>	<u>+ 1,760</u>

2. Redemption Yields (tax ignored)

	<u>20 May</u>	<u>27 May</u>
11 1/2% Treasury 1981	14.66	14.59
8 1/4% Exchequer 1981	14.04	14.00
12% Treasury 1984	14.03	13.81
13 1/4% Exchequer 1987	14.02	13.75
10% Treasury 1992	13.98	13.71
12 1/4% Exchequer 1999	14.14	13.88
11 1/2% Treasury 2001/04	13.92	13.66
12% Exchequer 2013/17	14.03	13.25
3 1/2% War (Flat Yield)	10.66	10.56

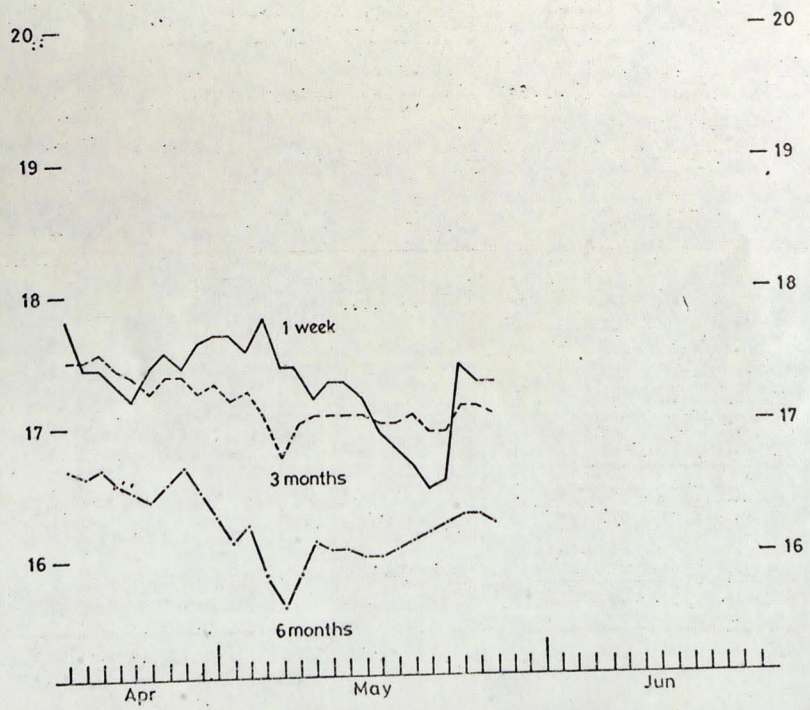
Gilt edged yields (F.T. high coupon)

Yields



* Not available

Interbank rates



Per cent Time Yield Curves of British Government Stocks

28th May 1980

