

Domestic Markets: 12 May - 5 June

The good news
seen

MONEY MARKETS

Money remained tight at the beginning of the period but conditions have recently eased considerably. During the first three weeks assistance was necessary from the Bank on most days - taking the form of purchases of Treasury bills, local authority bills and eligible bank bills, some of these on a resale basis; additionally, the Bank lent at MLR overnight. But in the last week action has been taken to reduce market surpluses in the form of small to moderate Treasury bill sales. The gilt-edged sale and repurchase facilities due to be unwound on 12 May (some £500 million) and 19 May (some £500 million) were extended to 12 and 17 June, respectively. On 5 June it was announced that the facilities due 12 and 17 June would not be extended when they expired. Against this, the recall of Special Deposits amounting to 1% of eligible liabilities payable on 16 June had been cancelled.

INTEREST RATES

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

	12. 5.80	5 .6.80
Inter-bank		
7 days	17 1/4 -17 5/8	15 7/8-16 5/8
1 month	17 1/4-17 3/8	16 3/4-17
3 months	17-17 3/16	16 3/4-16 15/16
6 months	15 15/16-16 1/8	15 3/4-16 1/16
Local Authority		
7 days	17 5/8-17 3/4	16 7/8-17
1 month	17 1/2-17 5/8	16 7/8-17
3 months	17 1/8-17 1/4	16 7/8-16 15/16
6 months	16 1/8	16-16 1/4
Sterling CDs		
1 month	17 3/16-17 5/16	16 7/8-17
3 months	16 7/8-17 1/8	16 3/4-16 7/8
6 months	15 3/16-16	15 9/16-15 3/4

GILT EDGED

Aided by the strength of sterling and reported demand from overseas, and encouraged by falling US interest rates, the market has remained generally resilient in the face of unfavourable indicators and gloomy forecasts about the economic outlook. One tap stock, 13 1/2% Exchequer Stock 1992, was exhausted during the period and two new issues by tender were made: 3% Treasury Stock 1985 which was undersubscribed at the tender on 29 May, take up by the public being at the minimum tender price of £69 (fully paid); 13 1/2% Exchequer Stock 1994 was undersubscribed on 4 June and all tenders were allotted at the minimum price of £96.00 (£40% paid).

YIELDS BASED ON OFFICIAL CLOSING PRICES

	13%	8 1/4%	12%	13%	15 1/2%
	Exchequer	Exchequer	Treasury	Treasury	Treasury
	1980	1981	1983	1990	1998
13 May	14.47	13.75	14.21	13.87	14.34
15 May	14.61	13.94	14.42	14.00	14.44
20 May	14.95	14.04	14.42	14.10	14.51
22 May	14.50	14.04	14.37	14.01	14.49
27 May	14.09	14.00	14.09	13.75	14.30
29 May	14.37	13.92	14.24	13.85	14.38
3 June	14.52	14.03	14.30	13.97	14.47
5 June	14.46	13.73	14.11	13.86	14.40.

12-16 MAY

The market was firm at the beginning of the week encouraged by further reductions in US prime rates and the authorities were able to sell supplies of the new medium-dated tap stock - 13 1/2% Exchequer 1992 - at prices up to 3/16 premium (£20% paid). The market however turned easier during the second half of the week following the announcement of the money supply and bank lending figures for April and subsequent warnings by the Prime Minister against an early reduction in MLR. But the market closed the week looking steady the rise in retail prices and trade figures for April having had little effect.

19-23 MAY

The market fluctuated at the beginning of the week but with sterling strong and amid reports of foreign buying interest, a firmer tendency developed on Wednesday. On Friday quite substantial demand developed for the medium-dated tap stock - 13 1/2% Exchequer 1992 - and official sales were made at between 20 1/4 and 20 5/16 (£20% paid). The market ended the week firm with rises in all sections having been further encouraged by Citibank's 2% reduction in prime rate to 14 1/2%. A new low coupon tap stock, 3% Treasury 1985 at a minimum tender price of 69 was announced on Friday.

27-30 MAY

The market opened the week after the Bank holiday very firm reflecting the strength of sterling and reported demand from overseas. On Tuesday the authorities were able to sell remaining supplies of the partly-paid medium-tap - 13 1/2% Exchequer 1992 - at 20 3/8 and prices rose. However some profit taking then took place and, with sterling weaker, foreign buying appeared at least temporarily to have dried up. The market weakened further in after-hours trading on Friday following the announcement of £1,000 million of 13 1/2% Exchequer 1994 partly-paid by tender at a minimum price of 96.

2-5 JUNE

The decline in late trading on the previous Friday was given added impetus by unfavourable weekend press comment about the industrial and monetary outlook. Much of the losses were however reversed on 3 June, the market having been encouraged by the Prime Minister's remarks about the possible effects on interest rates of the EEC settlement. Although the implication of an early cut in MLR was subsequently denied, the market remained quietly firm. Applications for the 1994 Stock were minimal. With fresh reports of foreign buying and further reductions in US prime rates the market continued higher on Thursday.

OFFICIAL STOCK TRANSACTIONS

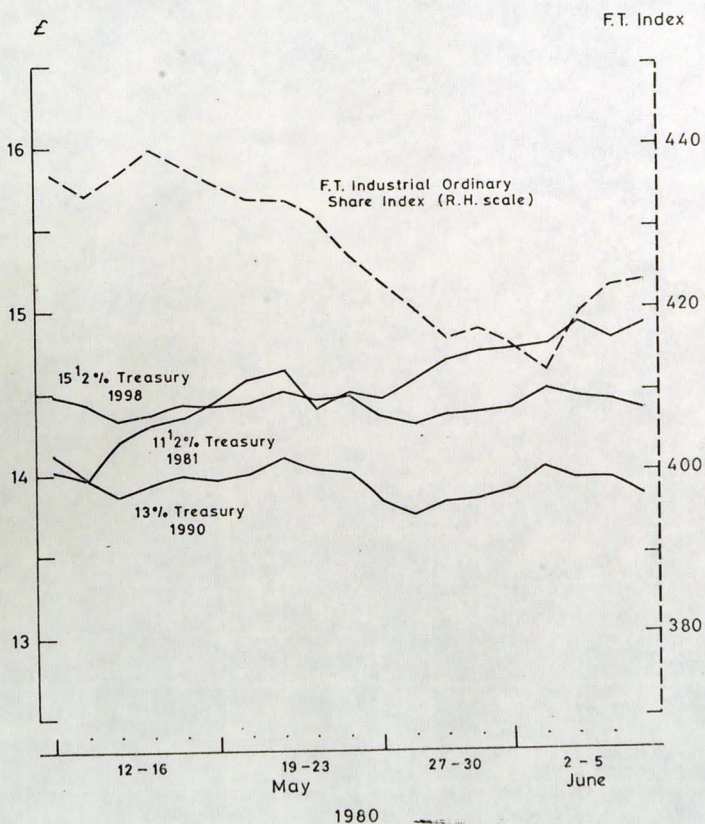
(Sales+/Purchases -)

	12 May-5 June	1980/81 Financial Year to date
ISSUE DEPARTMENT		
Next Maturities	-56.6	-603.5
Other short dated	-68.5	+963.6
Medium dated	+208.0	+200.3
Longs and undated	<u>+253.8</u>	<u>+1,286.8</u>
TOTAL ISSUE DEPARTMENT TRANSACTIONS		
	+336.7	+1,847.2
CRND	+23.9	+23.2
Cash Redemptions	<u>-206.1</u>	<u>-214.5</u>
GRAND TOTAL	<u>+154.5</u>	<u>+1,655.9</u>

EQUITY MARKET

The market continued to drift lower during the first three weeks of the period, sentiment being depressed by the concern about the industrial and economic outlook. Activity was on the whole low with interest mainly focussed on the oil sector. On Monday, 2 June the FT 30 share index reached a 1980 low of 412.7. Following the successful renegotiation of the UK budget contribution to the EEC the market improved amid hopes of a relaxation of monetary policy. But after a good start yesterday the market was unsettled by a downgraded profits estimate for ICI. Property shares were hit by the announcement of a £108 million rights issue by Land Securities Investment Trust, the largest such issue for four years. The FT 30 share index closed at 423.4 on 5 June compared with 436.7 on 8 May.

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



M. J. J. J. J.

FOR BASLE

Financial Markets Supplement as at
4.00 pm on Friday, 6 June 1980

Treasury Bill Tender

Offered:	£300,000,000.
Average Tender Rate:	£15.9506.
Lowest Price Accepted:	£96.020.
Minimum Lending Rate:	17%.

Parallel Market Closing Rates

Inter- bank	- 7 days: 16 5/8-17 1/8	1 month: 16 15/16-17 1/16	3 months: 16 3/4-16 15/16
Local Authority	- 7 days: 16 7/8-17	1 month: 17-17 1/8	3 months: 16 7/8
Sterling C.D.s	-	1 month: 16 7/8-17 1/16	3 months: 16 11/16-16 7/8

The Gilt-Edged Market

The market opened quietly steady and prices remained generally unchanged for the rest of the day.

Official Stock Transactions: £429 mns. net sales

The Equity Market

After a slow start leading industrials took on a brighter outlook. Oil shares were weak and the property sector remained depressed following Thursday's Land Securities' rights issue.

F.T Index: (at 3.00 pm) 428.3 (up 4.9).

[Signature]
6 June 1980

SECRET

£ mns.

Gilt sales (+)/Purchases (-)

Actual and Required 1980/81
(as at close of business 5 June 1980)

Banking Months	Total Net Sales	(of which non-bank private sector)	Net non-bank private sector sales required to meet EM3 target*
Feb.	+ 296	(+ 428)	
March	+ 2	(+ 172)	+ 455
April:	+ 1,116	(+ 801)	+ 455
May: to date	+ 547	(+ 480)	+ 455
June: to date	+ 43	(+ 115) ⁽¹⁾	
redemption of stock held by market	-296 ⁽²⁾		+ 455
instalments on part paid stocks	+748 ⁽³⁾	(+ 451) ⁽¹⁾	
July: Instalment on part paid stocks	+ 447 ⁽⁴⁾	(+ 447) ⁽¹⁾	+ 455
Aug: Instalment on part paid stock	+ 1 ⁽⁵⁾	(+ 1) ⁽¹⁾	+ 455
Sept.			+ 455
Oct.			+ 455
Nov: redemption of stock held by market	- 586 ⁽⁶⁾	(- 426) ⁽¹⁾	+ 450
Dec.			+ 450
Jan: redemption of stock held by market	- 401 ⁽⁷⁾	(- 331) ⁽¹⁾	+ 450
Feb: redemption of stock held by market	- 390 ⁽⁸⁾	(- 388) ⁽¹⁾	+ 450
Mar:			+ 450
April: redemption of stock held by market	- 709 ⁽⁹⁾	(- 586) ⁽¹⁾	+ 450
	+ 522	(+ 736)	+ 6,340

(1) Broad estimate.

(2) 5 1/4% Funding 1978/80 (-94) and 3 1/2% Treasury 1977/80 (-202).

(3) 13 1/2% Treasury Stock 2004/08 (+ 457) and

13 1/2% Exchequer Stock 1992 (+291).

(4) 13 1/2% Exchequer Stock 1992 (+446) and 13 1/2% Exchequer Stock 1994 (+1)

(5) 13 1/2% Exchequer Stock 1994

(6) 13% Exchequer 1980

(7) 11 1/2% Treasury 1981

(8) 3 1/2% Treasury 1979/81

(9) 9 3/4% Treasury 1981

* Figures are monthly averages based on the forecast of sales to non-bank private sector contained in the Financial Statement and Budget Report forecast

Chief Cashier's Office,
Markets Post (4564)
6 June 1980.