

NOTE FOR WEDNESDAY MEETING

MARKETS: 4 JUNE 1980 TO 10 JUNE 1980

MONEY

Conditions in the money market were generally easy this week under the influence of a net Exchequer position which remained almost consistently in the market's favour. There were two major adverse factors: the unwinding on Wednesday of a previous purchase of commercial bills by the Bank which was largely counterbalanced by the maturing of Treasury bills sold to the market on the two preceding days, and the balance call on 13 1/2% Treasury 2004/08 which resulted in a moderate shortage on Friday.

Assistance by the Bank was necessary only on Friday and Tuesday, Treasury and Local Authority bills being purchased on both days while on Friday a small amount was also lent over the weekend at MLR. On Wednesday and Thursday action to reduce market surpluses was taken, in the form of small Treasury bill sales.

In response to the recent easing of conditions, the Bank announced on Thursday that the gilt purchase and resale agreements with the clearers would not be extended for a further period but would be unwound on 12 and 17 June. The recall of Special Deposits due on 16 June was however cancelled.

Overnight and seven day interbank rates rose sharply on Friday in response to the temporary stringency and despite subsequent softening finished the week higher by 1 3/8% and 3/8% respectively. Longer rates, particularly at three months and over, fell throughout the week, reflecting more optimistic views on the likely date for a cut in MLR. Six month rates dropped most sharply, by 1 1/8% to 15%, while the three month rate finished 5/8% down at 16 5/16%.

Rates this morning firmer throughout.

Eurosterling rates at three months and over have also fallen over the week, most noticeably at the longer maturities. The three month rate finished $1/16\%$ down at $16 \frac{11}{16}\%$.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.1102 to 15.9506.

LOCAL AUTHORITY BONDS

Reflecting the decline in money market rates, the coupon on fixed rate one-year bonds dropped by 1% to $14 \frac{1}{2}\%$, the lowest level since November of last year. Issues totalled £14.5 mn (£11.75 mn last week) against maturities of £16.25mn.

GILTS

With renewed reports of foreign buying the market was firm for the first four days. The advance was, however, halted by yesterday's banking figures which dashed hopes of an early cut in MLR.

The market was quietly firm on Wednesday with slight gains, concentrated mainly at the short end. Tenders for $13 \frac{1}{2}\%$ Exchequer 1994 were, however, minimal. With reports of renewed foreign buying and further reductions in US prime rate to 13% the market continued higher on Thursday, hesitating only briefly on the news that the purchase and resale agreements with the clearers would not be renewed. Friday saw a lull, but demand revived after the weekend amid fresh optimism about an early cut in MLR. Further encouragement was given by the wholesale price figures for May and, with foreign buying again apparent, shorts and longs closed with gains of around $5/8$ and $3/4$ respectively. The firm trend continued yesterday morning and the new tap stock was activated at $40 \frac{1}{8}$ ($1/8$ premium). But after the announcement of the disappointing banking figures for May the market fell back and shorts ended the day with net losses of up to $1/2$ while the bulk of longs were little changed on balance.

Over the week as a whole, shorts rose by around $5/8$ and longs by around $1 \frac{1}{4}$.

EQUITIES

The improvement in sentiment following the EEC settlement continued on Wednesday and initially on Thursday. The market was then unsettled by a broker's down-graded profits estimate for ICI and property shares were shaken by the announcement of a £108 mn rights issue for Land Securities Investment Trust, the largest such issue for four years. From Friday onwards, the market advance resumed, on hopes of lower interest rates, until the announcement of the May banking figures yesterday afternoon. Nevertheless, the FT index finished 5.9 higher on the day at 440.3, an increase of 20.3 over the week.

NEW ISSUES

Queue

A rights issue of £10 mn for Mallison-Denny (international merchants and timber products) was re-inserted into the queue, after having been earlier postponed. Otherwise, no new issues were added to the queue which now totals £201 mn.

Others

Barclays Overseas Investment Company is proposing to raise \$200 mn by means of an issue of 15-year euro-dollar floating rate notes. The notes will carry the right to convert into a fixed rate bond up to January 1988 and will be guaranteed by Barclays Bank International.

Orient Finance Co Ltd is to raise £15 mn of 15-year eurosterling convertible bonds with a likely coupon of 9%.

(Init.EAJG)

11 June 1980

NEW ISSUES OF 3 OR OVER

Date 1980	Government, etc.	Other Fixed Interest (excl. Convertibles)	Convertible Stocks	Others
Current Week (11/6-13/6)			British Home Stores Ltd. (rights) (13/6) 25	
Week 2 (16/6-20/6)		South Staffordshire Waterworks Company (tender) (19/6) 7	The Daiei Inc. (placing) (16/6) 25	Candecca Resources Ltd (rights) (16/6) 5 Mallinson-Denny Ltd (rights) (19/6) 10 Harrisons & Crosfield Ltd. (rights) (20/6) 45
Week 3 (23/6-27/6)				Ferranti Ltd. (rights) (24/6) 25 Anderson Strathclyde (rights) (26/6) 6
Week 4 (30/6-4/7)		Sunderland and South Shields Water Company (tender) (1/7) 3		
Week 5 (7/7-11/7)				
Week 6 (14/7-18/7)				
Week 7 (21/7-25/7)				The Charterhouse Group Ltd (offer for sale) (24/7) 40
Forthcoming		Newcastle and Gateshead Water Company (tender) (5/8) 6 Lee Valley Water Company (tender) (7/10) 4		
		TOTAL 20	TOTAL 50	TOTAL 131
*Issues announced:	1977	118		815
	1978	60		959
	1979	162		946
	1980 to date	41		231
*Issues completed	1977	143		784
	1978	63		910
	1979	150		979
	1980 to date	43		113

*Includes issues of less than 3.

11 June 1980

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

	4.6.80 <u>-10.6.80</u>	Cal.Qtr and Fin. Year <u>to date</u>	21.2.80 <u>to date</u>
Issue Department			
Purchases/sales			
Next Maturities	-	- 604	- 699
Other short-dated	+ 35	+ 990	+ 1,077
	+ 35	+ 386	+ 378
Mediums	+ 17	+ 217	+ 267
Longs and undated	+ 440 ^ø	+ 1,746	+ 2,011
Total Issue			
Department trans-			
actions	+ 492	+ 2,349	+ 2,656
CRND	- 4	+ 21	+ 19
Redemptions	- 3	- 214	- 504
	<u>+</u> 485	<u>+</u> 2,156	<u>+</u> 2,171

^øIncluding +445 from call on 13 1/2% Treasury 2004/08.

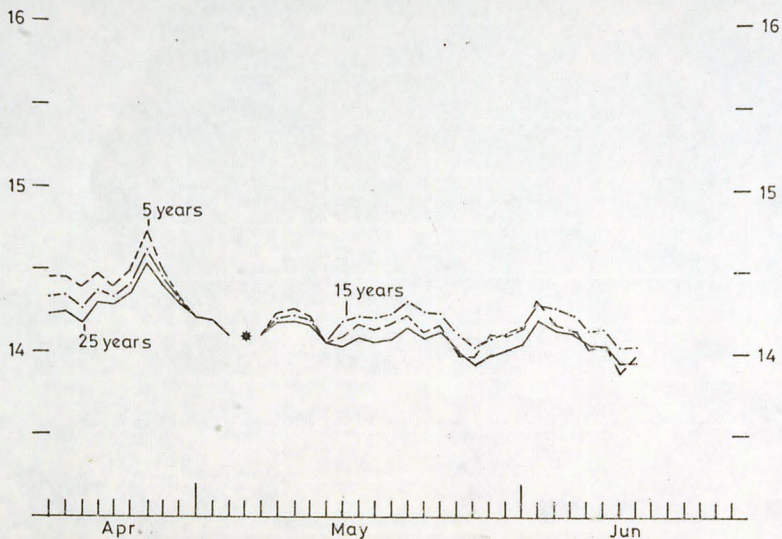
2. Redemption Yields (tax ignored)

	<u>3 June</u>	<u>10 June</u>
11 1/2% Treasury 1981	14.92	13.96*
8 1/4% Exchequer 1981	14.03	13.48
12% Treasury 1984	13.92	13.65
13 1/4% Exchequer 1987	14.00	13.76
10% Treasury 1992	13.91	13.79
12 1/4% Exchequer 1999	14.09	13.94
11 1/2% Treasury 2001/04	13.87	13.74
12% Exchequer 2013/17	13.42	13.26
3 1/2% War (Flat Yield)	10.91	10.97

*Went ex-dividend during week

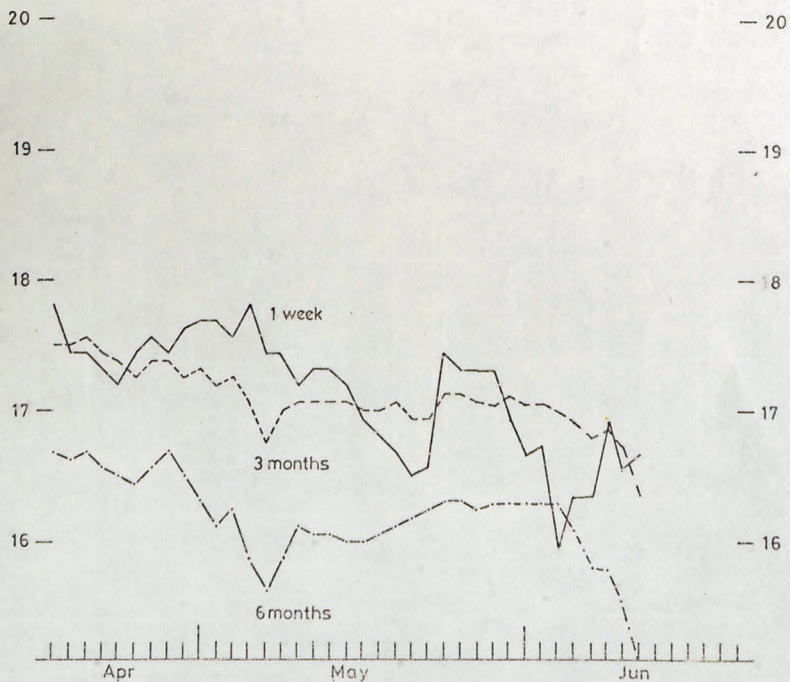
Gilt edged yields (F.T. high coupon)

Yields



* Not available

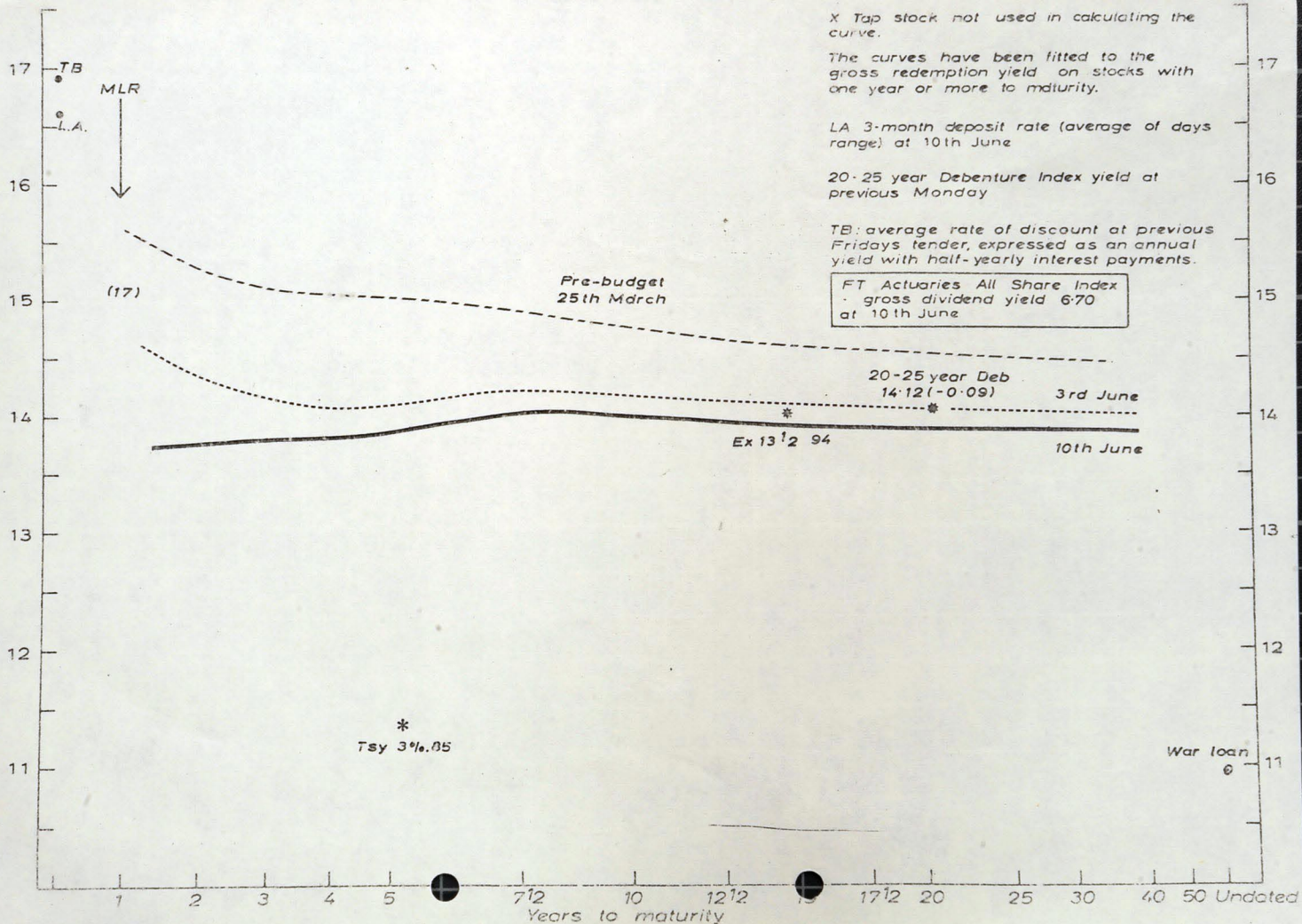
Interbank rates



Per cent

Time Yield Curves of British Government Stocks

11th June 1980



X Tap stock not used in calculating the curve.

The curves have been fitted to the gross redemption yield on stocks with one year or more to maturity.

LA 3-month deposit rate (average of days range) at 10th June

20-25 year Debenture Index yield at previous Monday

TB: average rate of discount at previous Fridays tender, expressed as an annual yield with half-yearly interest payments.

FT Actuaries All Share Index gross dividend yield 6.70 at 10th June

20-25 year Deb 14.12 (-0.09) 3rd June

Ex 13 1/2 94 10th June

* Tsy 3% .05

War loan 0