

Mr. Sargaster

SECRET

2. 7.80

Gr H - Edged

NOTE FOR WEDNESDAY MEETING

MARKETS: 25 JUNE TO 1 JULY 1980

MONEY

Conditions in the money market continued tight throughout the week, the main adverse factors being the good response to two new stocks on Wednesday and Thursday's unwinding of a previous purchase of commercial bills by the Bank. The market was also affected by a sharp rise in the note circulation on Friday and on Monday by the monthly oil revenue payment to Nigeria. Against this, the net Exchequer position was almost consistently favourable.

Assistance by the Bank was necessary on every day of the week, taking the form of purchases of Treasury and Local Authority bills outright and of purchases of eligible bank bills for resale at future dates. The Bank also lent small to moderate amounts to the market on every day but Monday.

In addition to this regular assistance, the Bank also announced on Friday the offer of a further £700 mn facility for the sale and repurchase of gilts from 4 July to 11 August. This facility is not limited to the clearers but will be available to listed banks and finance houses above a certain size.

Interbank rates showed a generally firm tendency throughout the week at all maturities, particularly at the short end as the market responded to continuing stringency: on Monday overnight rates leapt temporarily to over 100% when an extreme shortage of reserve assets developed. The three month rate finished 3/16% higher at 17 1/8%.

Rates this morning easier throughout.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.537 to 15.6801.

LOCAL AUTHORITY BONDS

Reflecting the rise in money market rates, the coupon on fixed rate one-year bonds rose by a further $3/8\%$ to $14\ 3/4\%$. Issues totalled £15.5 mn (£16.75 mn last week) against maturities of £17.45 mn.

GILTS

Prices tended to ease after heavy sales of the new long-dated issue at the beginning of the week.

The market opened the week quietly firm as investors awaited the result of the tenders for $12\ 1/4\%$ Exchequer 1985 A and 13% Treasury 2000. Both issues were undersubscribed but the long tap attracted a good response. When dealings started the next morning sizeable sales of the long tap were made at $30\ 1/8$ ($1/8$ premium) before that price was withdrawn. But after the initial firmness sellers appeared and the market closed about $1/4-1/2$ lower. The easier tendency continued on Friday, as the market reacted to the continuing problems at British Steel, and after the weekend, although falls of $1/4-1/2$ on Monday morning were partly regained in the afternoon. Yesterday saw renewed weakness in the morning on concern at the industrial outlook and by midday the market had lost $3/8-1/2$. However, buyers then appeared at the lower prices and the losses were quickly retrieved, with the market closing reasonably steady.

Over the week as a whole prices of shorts fell by up to $5/8$ and longs by around 1.

EQUITIES

The market was firm to steady at the beginning of the week but fell back on Friday on profit-taking. After little change on Monday, prices eased yesterday amid concern at the deepening recession and the FT index closed at 461.4, making a fall of 1.4 over the week as a whole.

The NEB's stake in Ferranti was placed with institutions yesterday, raising a total of £54 mn.

NEW ISSUES

Queue

Two new issues were added to the queue: a placing of £7 mn by Marinex Petroleum Ltd and a rights issue of £6 mn by the Law Land Company Ltd. The queue now totals £87 mn.

Others

Barclays Overseas Investment Company has cancelled its proposed issue of \$200 mn of euro-dollar floating rate notes.

(init EAJG)

2 July 1980.

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

	25.6.80 <u>- 1.7.80</u>	Cal.Qtr. <u>to date</u>	Fin.Year <u>to date</u>	21.2.80 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 11	-	626	- 722
Other short-dated	<u>+ 27</u>	<u>-</u>	<u>+ 1,064</u>	<u>+ 1,151</u>
	+ 16	-	+ 438	+ 429
Mediums	+ 24	-	+ 920	+ 970
Longs and undated	<u>+ 211</u>	<u>-</u>	<u>+ 1,968</u>	<u>+ 2,234</u>
Total Issue				
Department trans-				
actions	+ 251	-	+ 3,326	+ 3,633
CRND	- 9	- 5	+ 85	+ 83
Redemptions	<u>- 10</u>	<u>- 1</u>	<u>- 496</u>	<u>- 786</u>
	<u>+ 232</u>	<u>- 6</u>	<u>+ 2,915</u>	<u>+ 2,930</u>

2. Redemption Yields (tax ignored)

	<u>24 June</u>	<u>1 July</u>
11 1/2% Treasury 1981	14.04	14.09
8 1/4% Exchequer 1981	13.23	13.70
12% Treasury 1984	12.69	12.90
13 1/4% Exchequer 1987	13.02	13.08
10% Treasury 1992	13.27	13.46
12 1/4% Exchequer 1999	13.57	13.75
11 1/2% Treasury 2001/04	13.36	13.56
12% Exchequer 2013/17	13.00	13.18
3 1/2% War (Flat Yield)	10.72	10.91

SECRET

£ millions

NEW ISSUES OF 3 OR OVER

Date	Government, etc.	Other Fixed Interest (excl. Convertibles)	Convertible Stocks	Others
1980				
Current Week (2/7-4/7)				Coalite Group Ltd. (rights) (4/7) 10
Week 2 (7/7-11/7)				McKay Securities Ltd (rights) (8/7) 4
				<u>Marinox Petroleum Ltd (placing) (10/7) 7</u>
Week 3 (14/7-18/7)				Norcros Ltd (rights) (18/7) 10
Week 4 (21/7-25/7)				The Charterhouse Group Ltd (offer for sale) (24/7) 40
Week 5 (28/7-1/8)				
Week 6 (4/8-8/8)		Newcastle and Gateshead Water Company (tender) (5/8) 6		
Week 7 (11/8-15/8)				
Forthcoming		Lee Valley Water Company (tender) (7/10) 4		<u>Law Land Company Ltd (rights) (2/9) 6</u>
		TOTAL	10	TOTAL
				TOTAL 77

*Issues announced:	1977	118	815
	1978	60	959
	1979	162	946
	1980 to date	76	343
*Issues completed	1977	143	784
	1978	63	910
	1979	150	979
	1980 to date	54	135

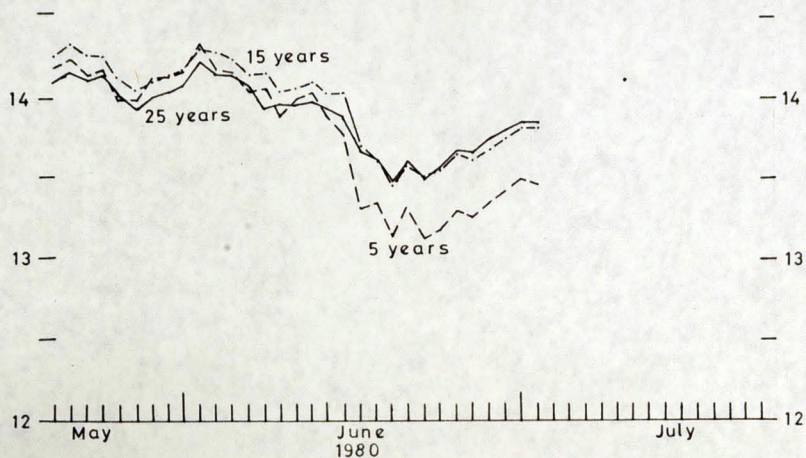
*Includes issues of less than 3.

2 July 1980

Gilt edged yields (F.T. high coupon)

yields
15 —

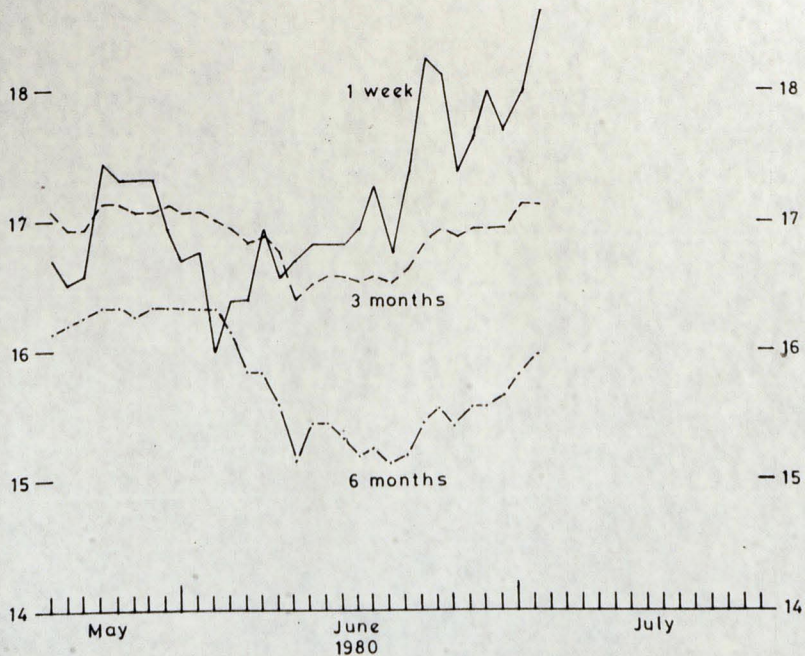
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Interbank rates

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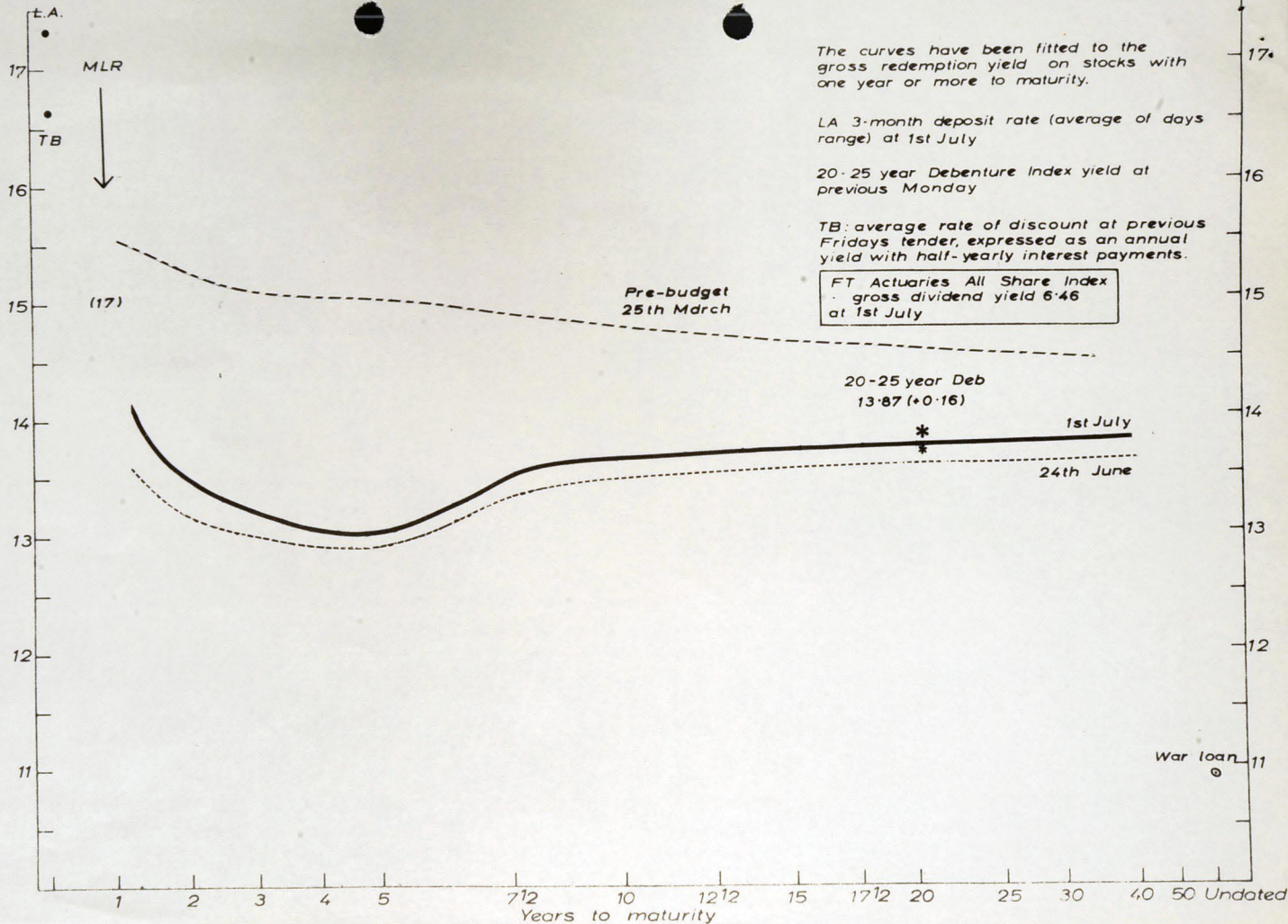
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Per cent

Time Yield Curves of British Government Stocks

2nd July 1980



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 1st July

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 6.46
at 1st July

Pre-budget
25th March

20-25 year Deb
13.87 (+0.16)

1st July

24th June

War loan
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