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NOTE FOR WEDNESDAY MEETING

MARKETS: 6 AUGUST 1980 to 12 AUGUST 1980

Money

Conditions in the money market remained short throughout the week. The largest single factor involved was the unwinding on Monday of the gilt purchase and resale facility taken up on 4 July, but the market was also adversely affected on Wednesday by the unwinding of a previous purchase of commercial bills by the Bank, and on Friday by the call on 13% Treasury 2000. Against this, the market benefited on Monday from the final repayment of Supplementary Special Deposits, and the net Exchequer position was almost consistently in the market's favour.

Substantial market shortages and the possibility of a consequent sharp rise in interbank rates again necessitated special assistance by the Bank, and it was announced on Thursday that the gilt purchase and resale agreement due to unwind on Monday would be replaced by a further similar facility. This facility, again available to all listed banks and finance houses above a certain size, would run to 8 September and would offer the banking system some £500 mn of liquidity; £460 mn was taken up, comparing with the £620 mn of the expired facility.

In addition to this special operation the Bank gave regular assistance to the market every day, in the form of outright purchases of Treasury Bills together with Local Authority bills on every day but Monday. Lending overnight at MLR was also necessary on Monday, Tuesday and Friday.

Interbank rates were firm throughout on Wednesday in the wake of the July banking figures. An easier tendency subsequently

developed, particularly at the short end under the influence of the Bank's large-scale assistance, but Tuesday saw rates firming again at all maturities. The three month rate ended the week unchanged at $16\frac{1}{2}\%$.

This morning little change in interbank rates.

One month Eurosterling rates were generally easy throughout the week. Longer rates also showed some softness before the weekend but firmed on Monday and Tuesday, the three month rate finishing $1/16\%$ higher at $16\frac{5}{8}\%$.

At the Treasury Bill tender on Friday the average rate of discount rose by 0.2488 to 14.9564.

Local Authority Bonds

The coupon on fixed rate one year local authority bonds rose by a further $1/2\%$ to $14\frac{5}{8}\%$ and, as last week, a number of local authorities dropped out of the queue. Issues amounted to £11.35 mn (£9.5 mn last week) against maturities of £11.25 mn.

Gilts

After a major setback following publication of the July banking figures, the market staged a good rally before turning easier again in the last two days.

The market opened sharply lower on Wednesday morning following publication of the July banking figures the previous afternoon. Longs bore the brunt of the selling which persisted throughout the day and by the close they had lost about $2\frac{1}{2}$ -3 points; shorts showed smaller losses of about 1 point. The following morning, however, some buyers appeared at the lower levels and sentiment improved markedly during the day, helped by the extension of the purchase and resale agreement with the banks. Prices continued to rally on Friday and the market was reasonably steady at the close.

After the weekend, however, a renewed note of uncertainty was apparent, reflecting adverse press comment on the money supply figures and the possibility of higher US interest rates. Early falls on Monday were extended following the announcement of the July CGBR and wholesale prices figures which were regarded as disappointing, and by the close prices had lost up to 1 point. Yesterday, sentiment remained unsettled by the higher than expected CGBR and prices drifted lower; but a slight recovery in the afternoon trimmed the losses to about 1/4-3/8.

Over the week as a whole, some of the longer shorts showed falls of up to 3/4 while longs fell by around 1 3/4.

Equities

On Wednesday the market followed gilts down with ICI, Unilever and other leading shares showing sizeable losses. Buying interest revived the following day, however, and much of the earlier losses were regained; support for electrical shares was again a major feature. Further modest recovery was seen on Friday. After the weekend, and at the start of the new three-week account, trading conditions were extremely quiet and prices were little changed. The FT index closed yesterday at 480.6, 1.6 up on the day and a fall of only 0.3 over the week.

New Issues

Queue

A substantial rights issue of £100-125 mn by Rio Tinto Zinc was added to the queue, the largest such offering since Land Securities Investment Trust's issue of similar size announced in June. Sizeable rights issues of £12 mn by Burnett & Hallamshire Holdings (mining, civil engineering, plastics etc) and £20 mn by Guinness Peat Group were also added, bringing the total queue to £313 mn, about twice the total in recent weeks.

(init ALC)

13 August 1980

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

	6.8.80 <u>-12.8.80</u>	Cal.Qtr. <u>to date</u>	Fin.Year <u>to date</u>	21.2.80 <u>to date</u>
Issue Department				
Purchases/sales	- 14	- 101	- 727	- 823
Next Maturities	+ 55	+ 341	+ 1,404	+ 1,490
Other short-dated	+ 41	+ 240	+ 677	+ 667
Mediums	+ 10	+ 1,816	+ 2,737	+ 2,787
Longs and undated	+ 419*	+ 458	+ 2,427	+ 2,693
Total Issue				
Department trans-				
actions	+ 470	+ 2,514	+ 5,841	+ 6,147
CRND	- 10	- 34	+ 55	+ 54
Redemptions	-	- 16	- 510	- 800
	<u>+ 460</u>	<u>+ 2,464</u>	<u>+ 5,386</u>	<u>+ 5,401</u>

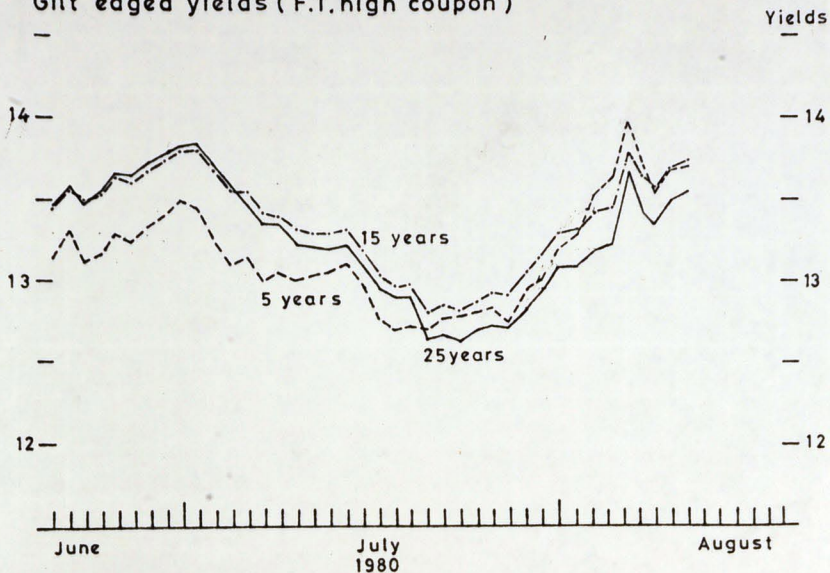
* Includes + 446 from call on 13% Treasury 2000

2. Redemption Yields (tax ignored)

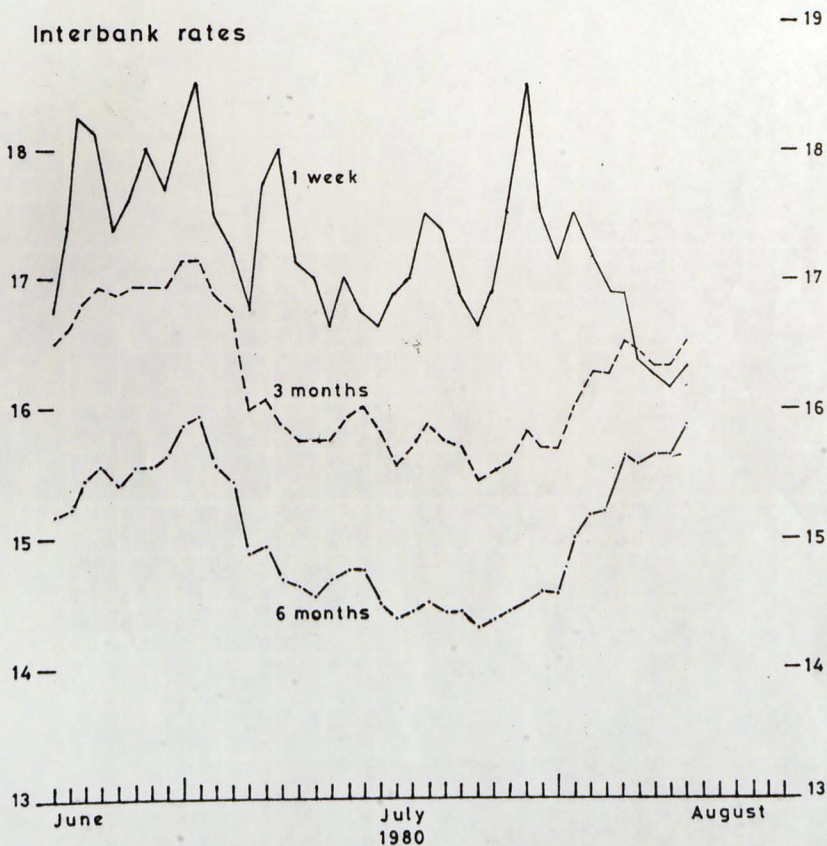
	<u>5 August</u>	<u>12 August</u>
11 1/2% Treasury 1981	14.61	15.03
8 1/4% Exchequer 1981	14.20	14.33
12% Treasury 1984	13.27	13.50
13 1/4% Exchequer 1987	13.19	13.45
10% Treasury 1992	13.10	13.29
12 1/4% Exchequer 1999	13.30	13.55
11 1/2% Treasury 2001/04	13.05	13.25 [†]
12% Exchequer 2013/17	12.69	12.96
3 1/2% War (Flat Yield)	11.16	11.32

[†] Went ex-dividend during week

Gilt edged yields (F.T.high coupon)



Interbank rates



NEW ISSUES OF 3 OR OVER

Date 1980	Government, etc.	Other Fixed Interest (excl. Convertibles)	Convertible Stocks	Others
Current week (11/8-15/8)				
Week 2 (18/8-22/8)				Pict Petroleum Ltd (rights) (20/8) 5
Week 3 (26/8-29/8)				Blue Circle Industries Ltd (rights) (27/8) 50
Week 4 (1/9-5/9)				Law Land Company Ltd (rights) (2/9) 6
Week 5 (8/9-12/9)			Jusco Co Ltd (placing) (8/9) 10	British Vita Co Ltd (rights) (10/9) 5
				Electra Investment Trust Ltd (offer for sale) (11/9) 35
				<u>Burnett & Hallamshire Holdings Limited</u> (rights) (12/9) 12
Week 6 (15/9-19/9)				<u>Rio Tinto Zinc Corp Ltd (rights)</u> (17/9) 125
Week 7 (22/9-26/9)				
Forthcoming				<u>Guinness Peat Group Ltd (rights)</u> (7/10) 20
		Lee Valley Water Company (tender) (7/10) 4	Orient Leasing Co Ltd (placing) (3/11) 12	Peachey Property Corporation Ltd (rights) (21/10) 7
		Essex Water Company (tender) (2/12) 7		Samuel Properties Ltd (rights) (30/10)
				Intersun Ltd (offer for sale) (3/12) 7
		TOTAL 11	TOTAL 22	TOTAL 280
*Issues announced:	1977 110	1977 110	1977 815	
	1978 60	1978 60	1978 955	
	1979 162	1979 162	1979 945	
	1980 to date 85	1980 to date 85	1980 to date 470	
*Issues completed	1977 143	1977 143	1977 784	
	1978 53	1978 53	1978 910	
	1979 150	1979 150	1979 979	
	1980 to date 88	1980 to date 88	1980 to date 107	

*Includes issues of less than 3.

Per cent *Time Yield Curves of British Government Stocks*

13th August 1980

