

SECRET

NOTE FOR WEDNESDAY MEETING

MARKETS: 3 SEPTEMBER 1980 TO 9 SEPTEMBER 1980

MONEY

Conditions in the money markets continued rather easier before the weekend, but tightened on Monday when the market was affected by Friday's gilt sales and by the unwinding of substantial previous purchase of commercial bills by the Bank. Other factors against the market during the week included the repayment of previous market advances on Wednesday, the unwinding of previous smaller bill purchases by the Bank on Wednesday, Thursday and Friday and further sales of gilts on Thursday and Tuesday. Against this, the net Exchequer position was almost consistently, and on Wednesday and Monday very appreciably, in the market's favour.

The Bank gave assistance chiefly by the replacement of the gilt purchase and resale agreement which matured on Monday with a further facility on similar terms to run to 6 October. In addition, regular assistance was necessary on every day, taking the form of outright purchases of Treasury Bills on Thursday, Monday and Tuesday and of Local Authority bills on every day but Thursday. The Bank also lent overnight at MLR on Friday, Monday and Tuesday.

Interbank rates showed a generally easier tendency throughout the week, though some firmness at the short end was evident on Monday. The three month rate finished 7/16% down at 16 1/8%.

Eurosterling rates were also easier for most of the week, but steadied at all maturities on Tuesday. The three month rate ended the week 1/8% lower at 16 1/8%.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.1973 to 14.7524.

LOCAL AUTHORITY BONDS

The coupon on fixed rate local authority bonds fell by $\frac{1}{2}\%$ to $14\frac{1}{2}\%$, the first decline for seven weeks. Issues were well up on last week (£17.9mn against £10.3mn) while maturities amounted to £13.9mn.

GILTS

The firmer trend which emerged last week gathered strength and the medium tap was exhausted yesterday morning after being reactivated on Friday. Prices rose very sharply yesterday following the Treasury statement on monetary policy.

The market continued to strengthen on Wednesday amid renewed hopes of a cut in MLR, with short-dated stocks in particular demand. Thursday saw some profit-taking, although a recovery developed in the afternoon to leave prices only $\frac{1}{2}$ - $\frac{1}{4}$ lower at the official close. Further substantial buying developed in after-hours trading and the market opened firm on Friday. Considerable demand developed firm on Friday. Considerable demand developed for the medium tap which was reactivated at prices of 46-46 $\frac{1}{2}$ (50-paid). The market continued to strengthen throughout the day, hesitating only briefly on news of Citibank's increase in prime rate to 12% and by the close shorts had gained up to $\frac{1}{2}$ and longs up to $1\frac{1}{4}$.

After the weekend the market opened steady. Little activity was seen until the publication of the favourable wholesale price index for August, after which prices improved by around $\frac{1}{4}$ and further sales were made of the medium tap. Yesterday, the tap was exhausted in early trading at a price of 46 $\frac{1}{4}$ and the market improved further ahead of the publication of the August banking figures. These were in line with expectations but the accompanying Treasury statement, which implied that the Government's demands on the gilt market would be reduced, was received with enthusiasm. After a temporary halt to dealings, prices rose sharply before the official close, ending with gains of around $1\frac{1}{2}$ in all sections. These rises were further extended in after-hours trading, particularly at the long end.

Over the week as a whole prices of shorts rose by up to $2\frac{1}{2}$ and longs by $3\frac{1}{2}$ or more.

EQUITIES

The market responded on Wednesday to the better tone in gilts with an advance which left the FT index 7.1 higher on the day. Prices were supported on Thursday by better than expected results from BP and moved further ahead on Friday in line with gilts. Oil and gold shares were in particular demand. After the weekend, prices tended to drift lower on Monday, but South African gold shares rose to record levels reflecting the continuing strength of the bullion price. Yesterday, the market was slightly firmer ahead of the Treasury statement and moved sharply ahead afterwards on hopes of an early cut in MLR. The FT index rose by 11.9 to a 1980 peak of 503.9, an increase of 21.2 over the week as a whole.

NEW ISSUES

Queue

Three rights issues were added to the queue: straight equity offerings of £6mn. by Mills & Allan International (foreign exchange broking, advertising, leisure etc) and £3mn. by Argyll Foods; and an issue of £5mn. of Convertible unsecured loan stock by Town Centre Securities. The queue now totals £331mn., about the same level as in recent weeks.

Other

FFI announced last night an issue of £15mn. of 7-year euro-sterling notes with an indicated coupon of 13½%.

(Init EAJG)

10 September 1980

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

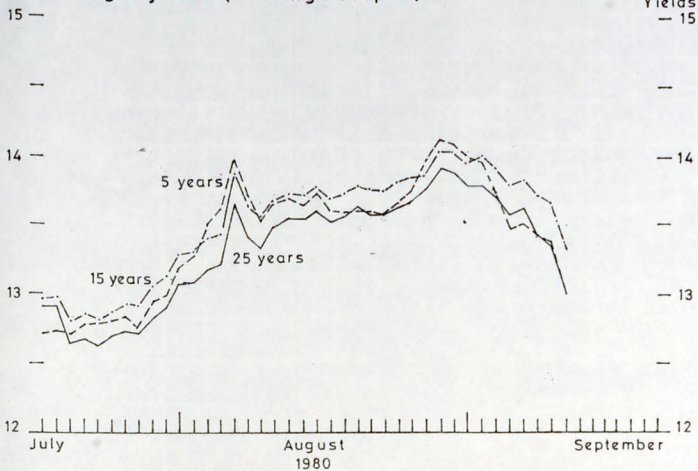
1. Transactions (cash value)

	<u>3.9.80</u> <u>- 9.9.80</u>	<u>Cal.Qtr.</u> <u>to date</u>	<u>Fin.Year</u> <u>to date</u>	<u>21.2.80</u> <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 3	- 133	- 758	- 854
Other short-dated	-	+ 364	+ 1,427	+ 1,512
	- 3	+ 231	+ 669	+ 658
Mediums	+ 264	+ 2,459	+ 3,379	+ 3,430
Longs and undated	+ 24	+ 689	+ 2,657	+ 2,924
Total Issue				
Department trans-				
actions	+ 285	+ 3,379	+ 6,705	+ 7,012
CRND	+ 1	-	+ 35	+ 36
Redemptions	-	-	- 511	- 800
	+ 286	+ 3,308	+ 6,229	+ 6,248

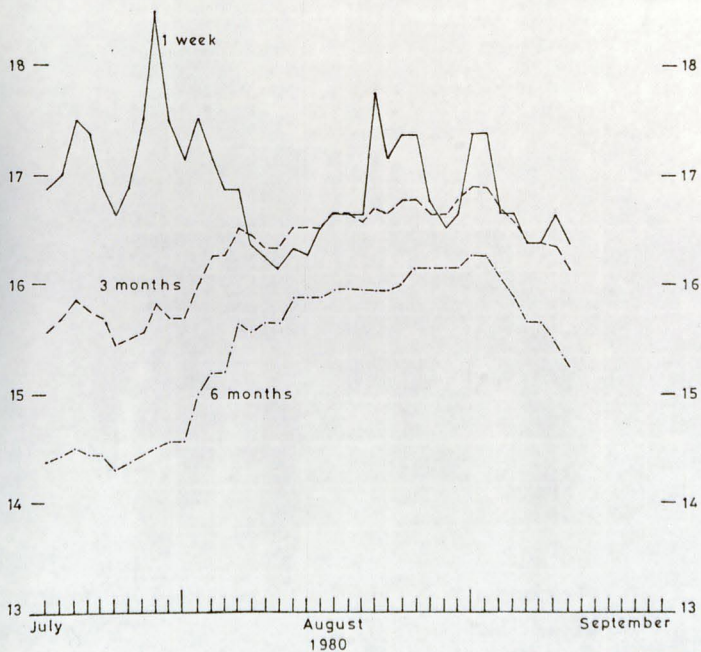
2. Redemption Yields (tax ignored)

	<u>2 September</u>	<u>9 September</u>
11 1/2% Treasury 1981	15.47	14.90
8 1/4% Exchequer 1981	14.77	13.62
12% Treasury 1984	13.58	12.64
13 1/4% Exchequer 1987	13.72	13.07
10% Treasury 1992	13.51	13.02
12 1/4% Exchequer 1999	13.68	13.16
11 1/2% Treasury 2001/04	13.45	12.94
12% Exchequer 2013/17	13.17	12.69
3 1/2% War (Flat Yield)	11.49	11.06

Gilt edged yields (F.T. high coupon)



Interbank rates



SECRET

£ millions

NEW ISSUES OF 3 OR OVER

Date 1980	<u>Government, etc.</u>	<u>Other Fixed Interest</u> (excl. Convertibles)	<u>Convertible Stocks</u>	<u>Others</u>
Current week (10/9-12/9)				British Vita Co Ltd (rights) (10/9) 5 Electra Investment Trust Ltd (offer for sale) (11/9) 35 Burnett & Hallamshire Holdings Limited (rights) (12/9) 12 Rio Tinto Zinc Corp Ltd (rights) (17/9) 125
Week 2 (15/9-19/9)				Pict Petroleum Ltd (rights) (23/9) 4 Mills & Allen International Ltd (rights) (24/9) 6 Brixton Estate Ltd (rights) (25/9) 13
Week 3 (22/9-26/9)				BTR Ltd (rights) (30/9) 45
Week 4 (29/9-3/10)				Guinness Peat Group Ltd (rights) (7/10) 20
Week 5 (6/10-10/10)		Lee Valley Water Company (tender) (7/10) 4	<u>Town Centre</u> <u>Securities Ltd</u> (rights) 5 (9/10) Cape Industries Ltd (?) (10/10) 12	Argyll Foods Ltd (rights) (15/10) 3 Peachey Property Corporation Ltd (rights) (21/10) 7
Week 6 (13/10-17/10)				Samuel Properties Ltd (rights) (30/10) 8
Week 7 (20/10-24/10)				Intasun Ltd (offer for sale) (3/12) 7
Forthcoming		Essex Water Company (tender) (2/12) 7	Orient Leasing Co Ltd (placing) (3/11) 12	
		TOTAL 11	TOTAL 30	TOTAL 290
*Issues announced:	1977 118	1977 118	1977 118	1977 815
	1978 60	1978 60	1978 60	1978 959
	1979 162	1979 162	1979 162	1979 946
	1980 to date 89	1980 to date 89	1980 to date 89	1980 to date 524
*Issues completed	1977 143	1977 143	1977 143	1977 784
	1978 63	1978 63	1978 63	1978 910
	1979 150	1979 150	1979 150	1979 979
	1980 to date 94	1980 to date 94	1980 to date 94	1980 to date 468

*Includes issues of less than 3.

Per cent Time Yield Curves of British Government Stocks

10th September 1980

