

SECRET

NOTE FOR WEDNESDAY MEETING

MARKETS: 24 SEPTEMBER 1980 to 30 SEPTEMBER 1980

MONEY

Conditions in the money market were generally easy this week, influenced once again by a net Exchequer position which was almost consistently in the market's favour. Friday was the shortest day, as a result of the final call on 11½% Treasury 1991 'A', though this was partially counterbalanced by a particularly substantial net excess of Government disbursements. The only other noteworthy factor against the market was the unwinding of a previous purchase of commercial bills by the Bank on Tuesday.

Assistance by the Bank was necessary, in small amounts, only on Friday and Tuesday.

Interbank rates were generally easy in the early part of the week, but firmed at all maturities on Friday. Longer rates continued to harden thereafter, following the usual pattern after the non-appearance of an MLR cut - but also probably influenced by the firming of US rates. Short rates fell back after the weekend, but firmed again on Tuesday, with a particularly sharp rise in the overnight rate despite an apparent surplus. This anomalous movement was due to localised bidding for funds by a few institutions. The three month rate finished ¼% higher at 15 15/16%.

Euro sterling rates tended to easiness before the weekend but firmed on Monday and Tuesday. The three month rate ended the week 1/8% up at 16%.

At the Treasury Bill tender on Friday the average rate of discount rose by 0.2001 to 14.3317.

LOCAL AUTHORITY BONDS

The coupon on fixed rate one-year bonds rose by 1/8% to 14½%. Issues totalled £11.39mm (£15.75mm last week) against maturities of £12.13mm.

Alliance Building Society was able to place only half of its second issue of £5mm of bonds. This is said to reflect the relatively unattractive terms: interest is paid annually and although the coupon is set ¼% above that on local authority bonds, interest on the latter is paid semi-annually, which is worth about ¼% in compounding.

GILTS

Though inactive and unsettled by the continued rise in US interest rates the market displayed an underlying resilience and moved ahead yesterday amid reviving optimism about the monetary outlook.

Helped by the strength of sterling, the market opened steady on Wednesday and firmed slightly in very quiet trading. Conditions remained much the same on Thursday, but an easier tendency was apparent at the outset on Friday, following the increase in the Federal Reserve discount rate. Enthusiasm was further dampened later in the day by a further increase in US prime rate to 13%. Concern at the upward pressure on US interest rates and the continuing Gulf war prompted further selling on Monday - some of it thought to be from overseas sources - but the fall in prices was fairly modest. Yesterday, the market was again initially easier, but optimism that next week's banking figures would show a marked decrease in loan demand prompted renewed hopes of an early cut in MLR, and prices rose quite sharply in thin trading. By the close prices of shorts were up about  $\frac{1}{8}$ - $\frac{1}{4}$  and longs about  $\frac{1}{8}$ - $\frac{1}{4}$ .

Over the week as a whole prices of shorts rose by about  $\frac{1}{8}$  and longs by about  $\frac{1}{4}$ .

#### EQUITIES

The market remained preoccupied during the week by the Gulf war and the flow of poor company results. Business was on a small scale and prices drifted lower until yesterday when the market was encouraged by the better tone in gilts and hopes of an early cut in MLR. The FT index rose by 5.4 on the day to 481.0, a fall of 4.1 over the week as a whole.

#### NEW ISSUES

##### Queue

A rights issue of £100mn by Consolidated Gold Fields was added to the queue along with two small issues of £4mn by Pritchard Services (cleaning, waste disposal etc) and £5mn by Hampton Gold Mining Areas Ltd. The queue now totals £222mn compared with £196mn last week.

#### NET ISSUES

There were net redemptions of £22mn in banking September compared with net issues of £162mn and £179mn in banking July and August respectively. But net issues for banking October could be around £180mn reflecting the recently announced rights issues for Blue Circle and Rio Tinto Zinc.

#### OTHER

National Westminster is issuing \$100mn of 12-year floating rate notes through an overseas financing subsidiary. The margin is  $\frac{1}{8}$  over LIBOR with a minimum of  $5\frac{1}{2}\%$ . The notes are convertible from 1981 to 1986 into 10% fixed interest bonds.

*to mean of LIBOR and*

The US company Eaton Corp is to raise £15mn through a convertible euro-sterling issue. Coupon is an indicated 9% with a 15 year maturity.

30 September 1980

(init EAJG)

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases - )

1. Transactions (cash value)

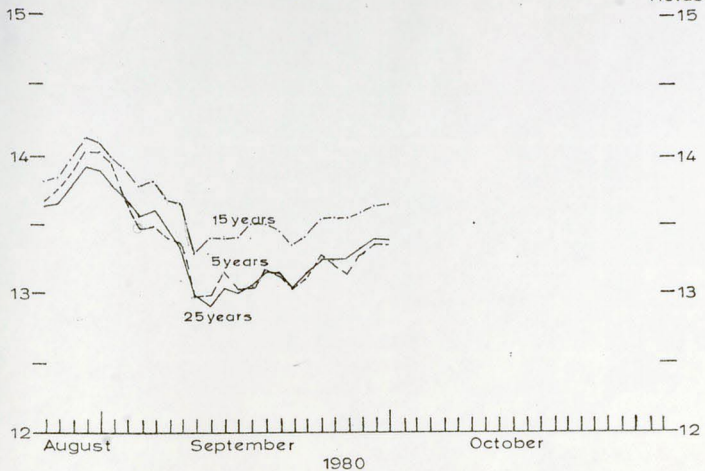
	24.9.80 <u>-30.9.80</u>	Cal.Qtr. to date	Fin.Year to date	21.2.80 to date
Issue Department				
Purchases/sales				
Next Maturities	- 20	- 178	- 804	- 900
Other short-dated	-	+ 426	+ 1,489	+ 1,574
	<u>= 20</u>	<u>+ 248</u>	<u>+ 685</u>	<u>+ 674</u>
Mediums	+ 426*	+ 3,244	+ 4,165	+ 4,216
Longs and undated	- 10	+ 651	+ 2,619	+ 2,885
Total Issue				
Department trans-				
actions	+ 396	+ 4,143	+ 7,469	+ 7,775
CRND	- 3	- 44	+ 46	+ 48
Redemptions	-	- 16	- 511	- 800
	<u>+ 393</u>	<u>+ 4,083</u>	<u>+ 7,004</u>	<u>+ 7,023</u>

\* Final call on 11 3/4% Treasury 1991 A

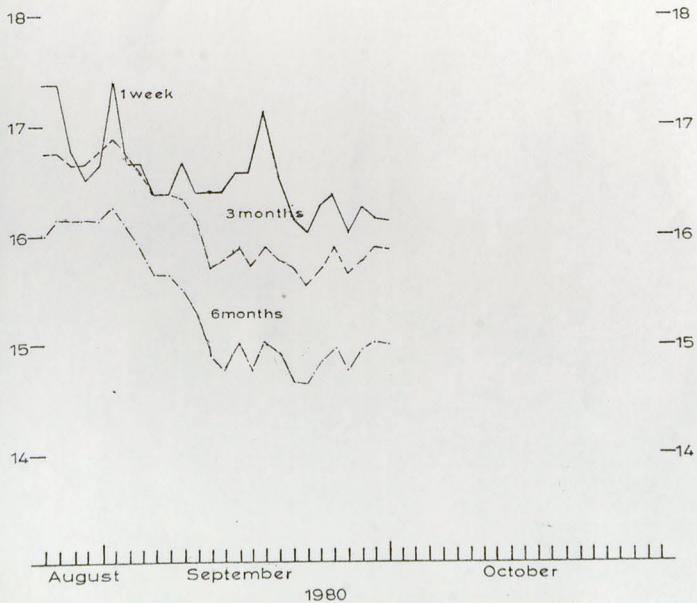
2. Redemption Yields (tax ignored)

	<u>23 September</u>	<u>30 September</u>
11 1/2% Treasury 1981	13.79	13.93
8 1/4% Exchequer 1981	13.61	13.66
12% Treasury 1984	12.77	12.75
13 1/4% Exchequer 1987	13.09	13.15
10% Treasury 1992	13.20	13.22
12 1/4% Exchequer 1999	13.37	13.35
11 1/2% Treasury 2001/04	13.10	13.07
12% Exchequer 2013/17	12.75	12.70
3 1/2% War (Flat Yield)	11.11	11.09

# Gilt edged yields (F.T. high coupon)



# Interbank rates



## NEW ISSUES OF 3 OR OVER

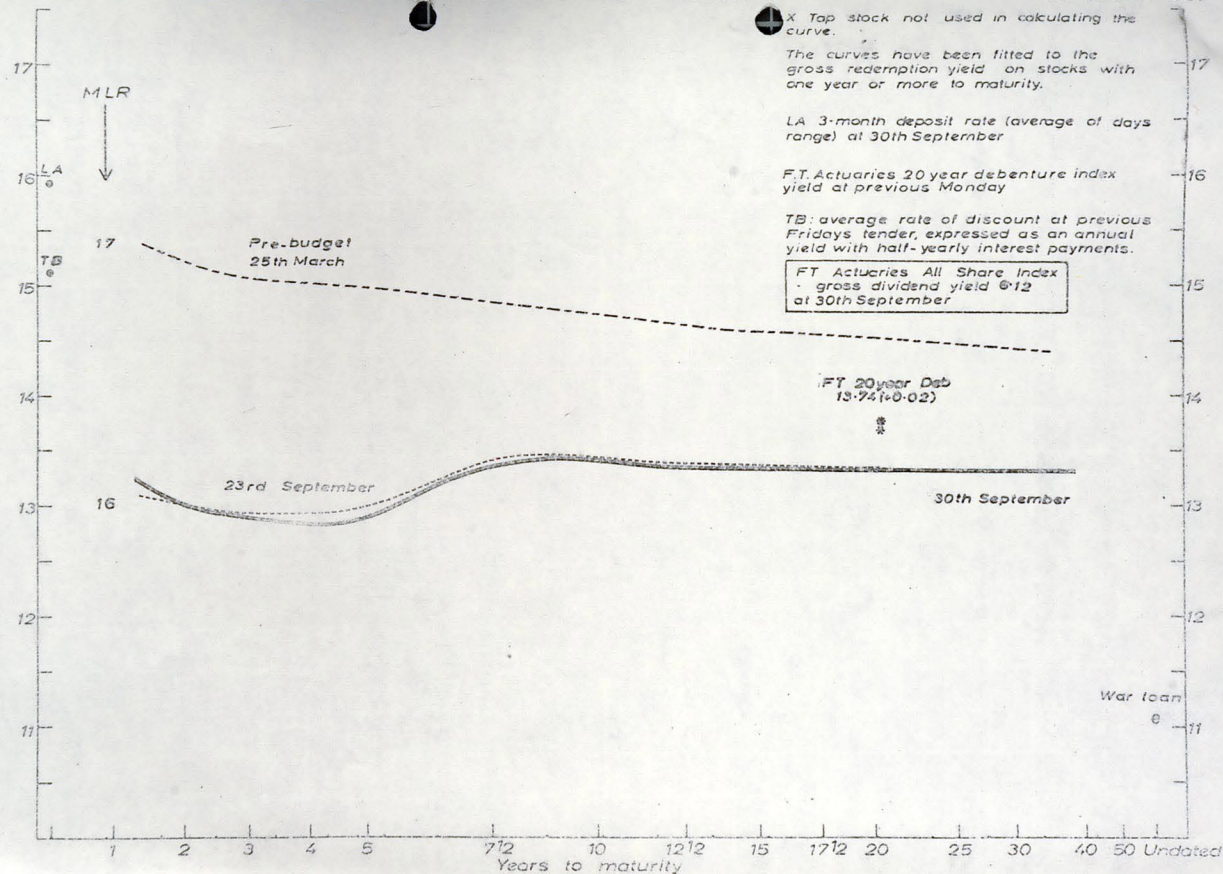
Date	Government, etc.	Other Fixed Interest (excl. Convertibles)	Convertible Stocks	Others
1980				
Current Week (29/9-3/10)				
Week 2 (6/10-10/10)		Lee Valley Water Company (tender) (7/10) 4	Town Centre Securities Ltd (rights) (9/10) 5	Guinness Peat Group Ltd (rights) (7/10) 20
Week 3 (13/10-17/10)			Cape Industries Ltd (2) (10/10) 13	American Oil Field Systems Ltd (offer for sale) (8/10) 15
Week 4 (20/10-24/10)				Britchard Services (rights) (14/10) 4
Week 5 (27/10-31/10)				Peachey Property Corporation Ltd (rights) (21/10) 7
Week 6 (3/11-7/11)			Orient Leasing Co Ltd (placing) (3/11) 12	Samuel Properties Ltd (rights) (6/11) 8
Week 7 (10/11-14/11)				Consolidated Gold Fields (rights) (12/11) 100
Forthcoming		Essex Water Company (tender)* (2/12) 7		East Midland Allied Press Ltd (rights) (13/11) 3
				Hampson Cold Mining Areas Ltd (rights) (18/11) 5
				RCA Offshore Drilling (private placement) 2/12) 12
				Intasun Ltd (offer for sale) (3/12) 7
		TOTAL 11	TOTAL 30	TOTAL 181

*Issues announced:	1977	118	815
	1978	60	959
	1979	162	946
	1980 to date	217	666
*Issues completed	1977	143	784
	1978	63	910
	1979	150	979
	1980 to date	95	554

\*Includes issues of less than 3.

Percent Time Yield Curves of British Government Stocks.

1st October 1960



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 30th September

F.T. Actuaries 20 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.