

SECRET

3. 10.80

THE GOVERNOR O/R

Copies to: Mr George
Mr Coleby

MARKETS: 26 SEPTEMBER 1980 to 3 OCTOBER 1980

MONEY

Conditions in the money markets were fairly easy throughout the period, chiefly due to a net Exchequer position which was almost consistently in the market's favour. Friday 26 September was the shortest day, as a result of the final call on 11 3/4% 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 previous purchases of commercial bills by the Bank on Tuesday and Wednesday.

Regular assistance by the Bank was necessary, in small amounts, only on Friday 26 September and on Tuesday. In addition, however, it was announced on Wednesday that the gilt sale and repurchase facility due to be unwound on 6 October would be replaced by a further facility on similar terms to run to 7 November.

Short interbank rates were firm on Friday 26 September and on Tuesday but otherwise tended to ease. Overnight rates rose particularly sharply on Tuesday, despite an apparent surplus, due to localised bidding for funds by a few institutions. Longer rates were firm until Tuesday, apparently influenced both by the absence of an MLR cut and by the hardening of US rates; some slackening was, however, evident on Wednesday and Thursday. The three month rate finished the period 1/16% lower at 15 11/16%.

The average rate of discount at the Treasury Bill tender fell from 14.3317 on 26 September to 14.2617 on 3 October.

GILTS

Prices rose sharply on Tuesday and Wednesday amid optimism about next week's banking figures; but this rally has not been sustained in the last two days although the market has been reasonably steady.

Prices tended to ease both before and after the weekend reflecting the continued upward pressure on US interest rates and the tension in the Middle East. On Tuesday, 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 sharply in thin trading. This improvement was extended on Wednesday with prices of longs rising by as much as 1 1/8 by the official close. The recovery was not sustained on Thursday, however, although the market remained reasonably steady in the face of disappointment at no cut in MLR and a rise in Citibank's prime rate to 14%. Today the market has been very quiet with prices generally slightly higher.

Over the period as a whole prices of shorts were little changed and those on longs about 1 point higher.


EQUITIES

The market was initially preoccupied by the Gulf War and the flow of poor company results. Business was on a small scale and prices drifted lower until Tuesday when the market was encouraged by the better tone in gilts and hopes of an early cut in MLR. This rally proved short-lived and conditions in the last two days have been very quiet. At 3.00 pm today the FT index was 478.7, compared with 484.4 on 25 September.

NEW ISSUES

Consolidated Goldfields is planning a £200 mn rights issue to be announced on 12 November. The British Aerospace offer for sale (£150 mn) is due to be announced on 26 November.

3 October 1980

 D T R Carse/G L Drummond (4419)

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

	26. 9.80	Fin.Year
	<u>- 2.10.80</u>	<u>to date</u>
Issue Department		
Purchases/sales	- 15	- 804
Next Maturities		
Other short-dated	<u>+ 6</u>	<u>+ 1,495</u>
	- 9	+ 691
Mediums	+ 425*	+ 4,166
Longs and undated	<u>- 10</u>	<u>+ 2,619</u>
Total Issue		
Department trans-		
actions	+ 406	+ 7,476
CRND	- 1	+ 44
Redemptions	-	- 511
	<u>+</u>	<u>+</u>
	405	7,010

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

2. Redemption Yields (tax ignored)

	<u>25 September</u>	<u>2 October</u>
11 1/2% Treasury 1981	13.65	13.78
8 1/4% Exchequer 1981	13.70	13.65
12% Treasury 1984	12.66	12.68
13 1/4% Exchequer 1987	13.07	13.04
10% Treasury 1992	13.20	13.07
12 1/4% Exchequer 1999	13.35	13.23
11 1/2% Treasury 2001/04	13.08	12.94
12% Exchequer 2013/17	12.74	12.58
3 1/2% War (Flat Yield)	11.08	10.97