

Markets
DSS

SECRET

NOTE FOR WEDNESDAY MEETING

MARKETS: 1 OCTOBER 1980 to 7 OCTOBER 1980

MONEY

Money market conditions remained fairly easy this week, the main factor in the market's favour being further substantial net excesses of Government disbursements on Wednesday (though this was partially counterbalanced by the unwinding of a previous purchase of commercial bills by the Bank) and on Friday. Bankers' balances remained well over target throughout the week.

Regular assistance by the Bank was necessary only on Tuesday. In addition, however, the gilt sale and repurchase facility which matured on Monday was replaced by a further facility on similar terms to run to 7 November; this reflected longer term forecasts of a renewal of reserve asset pressures.

Interbank rates tended to easiness at all maturities throughout the week. A slight firmness at the short end was evident on Monday, while longer rates hardened temporarily on Friday after MLR was unchanged. The softness in longer rates after the weekend probably again reflected movements in US rates, which fell back following the announcement on Friday of a sharp decline in money supply.

The three month rate finished the week 5/16% down at 15 7/16%.

Eurosterling rates were similarly easy throughout the three month rate finishing 9/16% lower at 15 5/16%.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.07 to 14.2617.

LOCAL AUTHORITY BONDS

The coupon on fixed rate one-year bonds fell by 1/2% to 13 7/8%. Issues totalled £16.0 mn (£11.38 mn last week) against maturities of £13.0 mn.

GILTS

Optimism about the September banking figures led to a generally firm tone and enabled the long tap to be activated for the first time.

The market continued to benefit on Wednesday from optimism about the September banking figures and, with the jobbers short of stock, prices rose by as much as 1 1/8 at the long end. 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%. Conditions remained quiet, but with a firm undertone, on Friday.

After the weekend, the market showed renewed confidence on Monday ahead of the banking figures and the long tap, 12% Exchequer 1998, was activated at 50 1/8 before that price was withdrawn. Sentiment was also encouraged by slower monetary growth in the US, which was seen to reduce the threat of rising US interest rates and by the September wholesale price figures. The market closed with gains of up to 5/8 in longs. Yesterday saw little business until the announcement of the banking figures, after which a fairly large amount of the tap stock was sold at 50 1/4. Other longs also improved, but some profit-taking developed before the close and longs ended only up to 1/4 higher while shorts were generally slightly lower.

Over the week as a whole prices of shorts rose by about 1/8 while longs were about 1 1/2-2 higher.

EQUITIES

The market initially improved on Wednesday on hopes of lower interest rates but prices later drifted below the best levels. Over the next two days the market was extremely quiet. After the weekend some selective demand was apparent on Monday, but yesterday the market failed to respond to the banking figures and the FT index eased slightly to close at 483.3, a fall of 2.1 over the week as a whole.

NEW ISSUES

Queue.

Consolidated Goldfields' proposed rights issue has been doubled in size to £200 mn. This would make it the largest issue since ICI's £203.8 mn issue in June 1976.

The British Aerospace offer for sale of £150 mn has been added to the queue along with rights issue of £3mn by FJC Lilley Ltd (civil engineering and building) and £10 mn by Viking Resources Trust Ltd (investment trust specialising in North Sea oil companies). The latter will not be underwritten but will be issued at a deep discount. The queue now totals £453 mn compared with £222 mn last week.

OTHER

ECSC has raised £20 mn through an 8-year eurosterling issue which carries a coupon of 13 1/2% and issue price of par.

(init EAJG)

8 October 1980

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

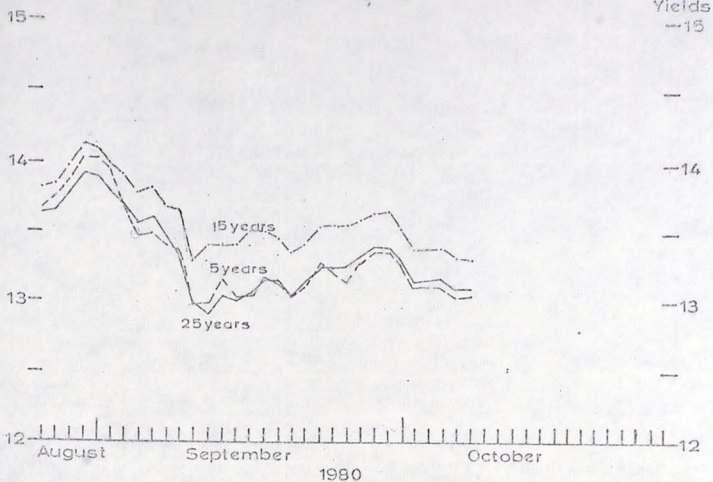
1. Transactions (cash value)

	1.10.80 <u>-7.10.80</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	- 18	- 18	- 823	- 918
Other short-dated	+ 3	+ 3	+ 1,493	+ 1,577
	<u>- 15</u>	<u>- 15</u>	<u>+ 670</u>	<u>+ 659</u>
Mediums	+ 1	+ 1	+ 4,166	+ 4,217
Longs and undated	+ 214	+ 214	+ 2,833	+ 3,099
Total Issue				
Department trans- actions	+ 200	+ 200	+ 7,669	+ 7,975
CRND	+ 1	+ 1	+ 47	+ 49
Redemptions	-	-	- 511	- 800
	<u>+ 201</u>	<u>+ 201</u>	<u>+ 7,205</u>	<u>+ 7,224</u>

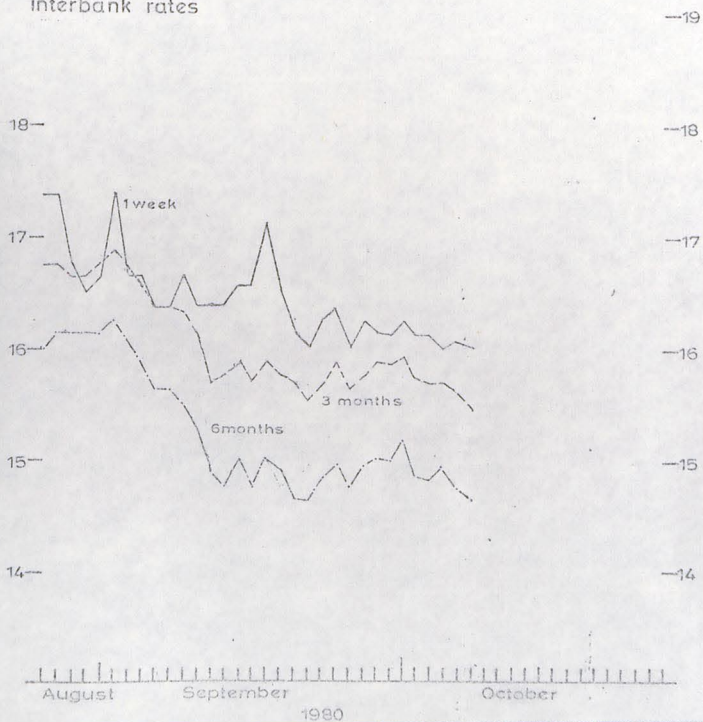
2. Redemption Yields (tax ignored)

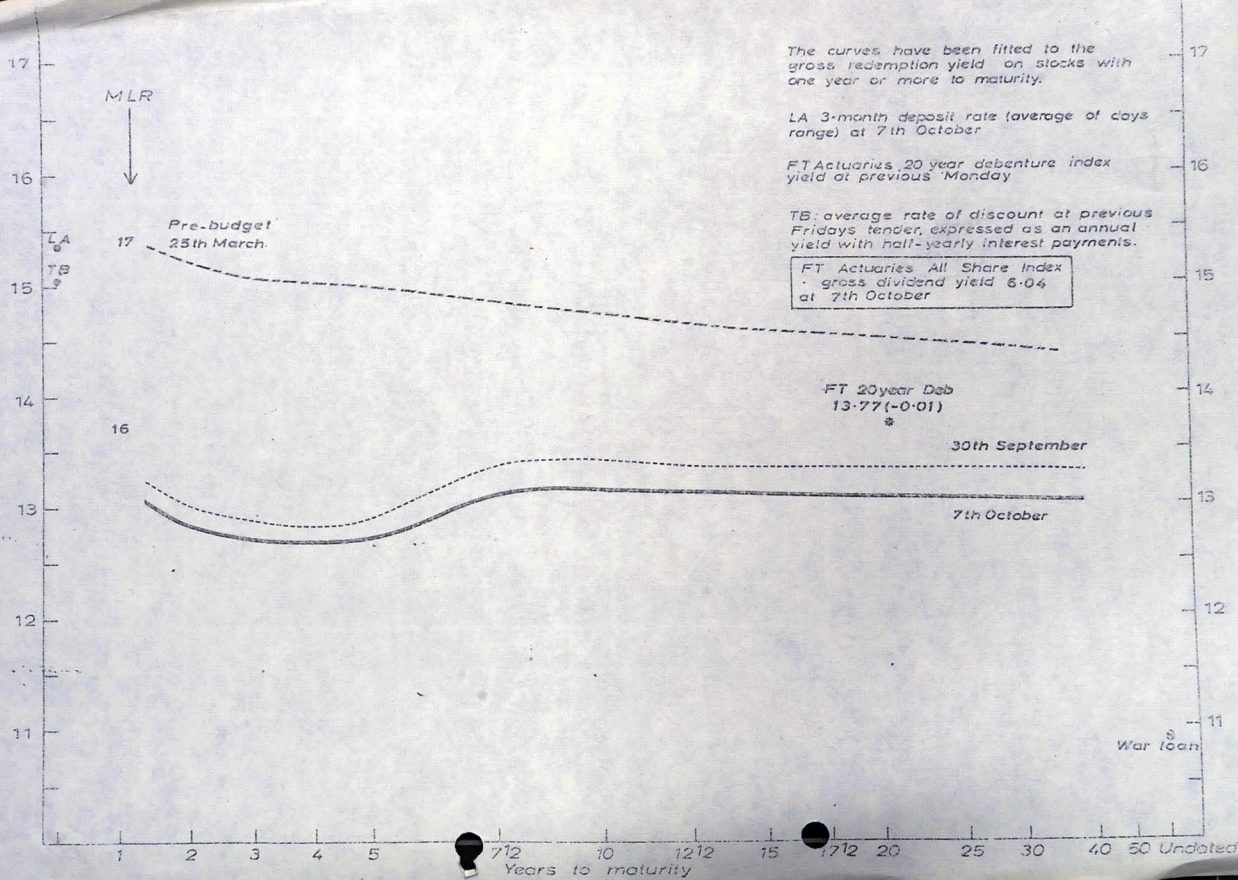
	<u>30 September</u>	<u>7 October</u>
11 1/2% Treasury 1981	13.93	13.61
8 1/4% Exchequer 1981	13.66	13.51
12% Treasury 1984	12.75	12.68
13 1/4% Exchequer 1987	13.15	12.92
10% Treasury 1992	13.22	12.96
12 1/4% Exchequer 1999	13.35	13.13
11 1/2% Treasury 2001/04	13.07	12.88
12% Exchequer 2013/17	12.70	12.48
3 1/2% War (Flat Yield)	11.09	10.89

Gilt edged yields (F.T. high coupon)



interbank rates





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 7th October

FT Actuarial 20 year debenture index yield of previous Monday

TB: average rate of discount at previous Fridays tender, expressed as an annual yield with half-yearly interest payments.

FT Actuarial All Share Index gross dividend yield 6.04 at 7th October

FT 20year Deb 13.77 (-0.01)

30th September

7th October

War loan