

15-10-80

SECRET

Annex 1  
DSS

NOTE FOR WEDNESDAY MEETING

MARKETS: 8 OCTOBER 1980 TO 14 OCTOBER 1980

MONEY

Conditions in the money markets were markedly tighter this week, reflecting a resurgence in gilt sales which were particularly substantial on Wednesday, Monday and Tuesday; a new short-dated stock, 11 3/4% Exchequer 1986, was announced on Friday. The unwinding of a previous purchase of commercial bills by the Bank on Wednesday also contributed to the shortage, though this was counterbalanced by a large net excess of Government disbursements. On Thursday and Friday, however, net Exchequer receipts increased the prevailing tightness.

Regular assistance by the Bank was necessary every day, Monday and Tuesday's help being predominantly in the form of purchases of eligible bills for resale after the October makeup date. In addition, the gilt purchase and resale agreement which matured on Monday was replaced by a further facility on similar terms to run to 17 November.

Longer interbank rates marked time until Friday, though there were few hopes that the September banking figures would be felt to justify an immediate MLR cut. Some hardening was thereafter evident. Rates at the short end showed a generally firm tendency throughout the week, particularly on Friday and after the weekend when conditions were at their most stringent. The three month rate finished the week 3/16% higher at 15 5/8%.

Eurosterling rates were firm at all maturities throughout the week, reflecting at the short end the renewed tightness in domestic sterling markets. The three month rate rose by 5/8% over the week, to 15 15/16%.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.0192 to 14.2425.

## LOCAL AUTHORITY BONDS

The rate on one year bonds rose by 1/4% to 14%. Issues amounted to £20.5 mn (£16.0 mn last week) against maturities of £20.25 mn.

## GILTS

Initial weakness as hopes of an early cut in MLR faded gave way after the weekend to firmer conditions fostered by the strength of sterling and better news on pay.

Prices eased on Wednesday morning as the market took the view that despite the September banking figures, a cut in MLR was still some way off. Longs were down by 1/2 at lunchtime but some recovery was seen in the afternoon. Thursday was quiet with mediums and longs marginally firmer. But on Friday the market opened easier following the Chancellor's speech at the Party Conference which gave no hint of an early cut in MLR. Although trading remained generally dull, demand developed for the low coupon tap stock, 3% Exchequer 1983A. At the close a new issue of £800 mn of 11 3/4% Exchequer 1986 was announced.

After the weekend the market displayed new confidence, helped by the strength of sterling and reported foreign buying. Longs gained up to 7/8 and the low coupon tap was exhausted just before the close on Monday. Sentiment was also encouraged after the close by the news of the proposed pay settlement in the engineering industry and the market was firm at yesterday's opening. Large demand was seen for the long tap which was sold at 50 3/8. After this the market became much quieter and slightly easier but closed with net gains of around 1/4-1/2.

Over the week as a whole prices of both shorts and longs rose by about 1/4.

## EQUITIES

Concern at the outlook for interest rates and for company profitability took the market lower prior to the weekend, particularly on Friday when the FT index reached 466.3, a 3-month low. On Monday, the first day of the new account, sentiment improved in line with gilts and yesterday the market benefited from the news of the engineering pay agreement. The FT index closed 5.0 higher on the day at 477.4, a fall of 5.9 over the week as a whole.

## NEW ISSUES

A placing of £65 mn of 25-year unsecured loan stock by the US Dow Chemical Company was added to the queue. The last issues of loan stock of comparable size by corporate borrowers were by Burmah (£50 mn) and Distillers (£40 mn) in 1969 and 1971/72 respectively. It is not yet clear whether the present issue will in fact go ahead. The borrower in trying to limit the margin over gilt-edged yields to about 1% while the institutions are looking for nearer 1 1/2%.\*

Also added to the queue was a £6 mn rights issue for Scapa Group Ltd (textiles). The queue now totals £491 mn against £453 mn last week.

## OTHER

Midland Bank is making an issue of DM 150 mn with a maturity of 10 years, coupon of 8 1/2% and expected price of 99. This appears to be connected with the recent acquisition by Midland of 60% of West Germany's largest private bank.

(Init EAJG)

15 October 1980

---

\*Dow has been in the news recently in connection with a plan to build a gas separation plant and ethylene plant at Nigg Bay. But it is not known whether the proposed issue is intended to finance these projects.

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases - )

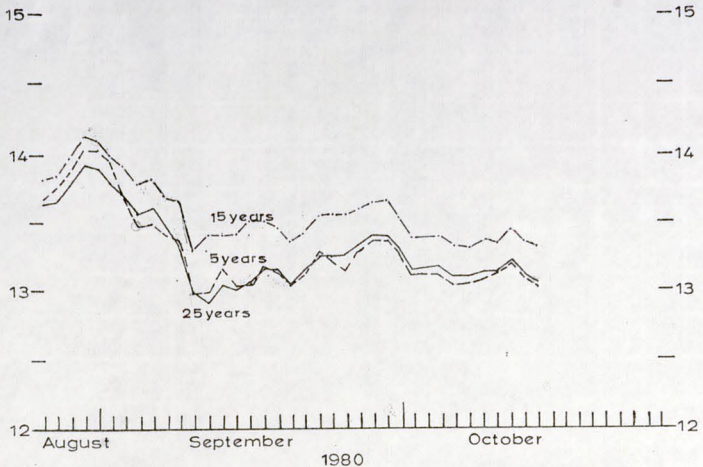
1. Transactions (cash value)

|                              | 8.10.80<br><u>-14.10.80</u> | Cal.Qtr.<br><u>to date</u> | Fin.Year<br><u>to date</u> | 21.2.80<br><u>to date</u> |
|------------------------------|-----------------------------|----------------------------|----------------------------|---------------------------|
| Issue Department             |                             |                            |                            |                           |
| Purchases/sales              |                             |                            |                            |                           |
| Next Maturities              | - 69                        | - 88                       | - 892                      | - 987                     |
| Other short-dated            | <u>+ 231</u>                | <u>+ 234</u>               | <u>+ 1,724</u>             | <u>+ 1,808</u>            |
|                              | + 162                       | + 146                      | + 832                      | + 821                     |
| Mediums                      | + 1                         | + 2                        | + 4,167                    | + 4,218                   |
| Longs and undated            | <u>+ 124</u>                | <u>+ 339</u>               | <u>+ 2,957</u>             | <u>+ 3,223</u>            |
| Total Issue                  |                             |                            |                            |                           |
| Department trans-<br>actions | + 287                       | + 487                      | + 7,956                    | + 8,262                   |
| CRND                         | + 1                         | + 2                        | + 47                       | + 50                      |
| Redemptions                  | -                           | -                          | - 511                      | - 800                     |
|                              | <u>+</u> 288                | <u>+</u> 489               | <u>+</u> 7,492             | <u>+</u> 7,512            |

2. Redemption Yields (tax ignored)

|                          | <u>7 October</u> | <u>14 October</u> |
|--------------------------|------------------|-------------------|
| 11 1/2% Treasury 1981    | 13.61            | 13.00             |
| 8 1/4% Exchequer 1981    | 13.51            | 13.34             |
| 12% Treasury 1984        | 12.68            | 12.64             |
| 13 1/4% Exchequer 1987   | 12.92            | 12.95             |
| 10% Treasury 1992        | 12.96            | 12.95             |
| 12 1/4% Exchequer 1999   | 13.13            | 13.13             |
| 11 1/2% Treasury 2001/04 | 12.88            | 12.84             |
| 12% Exchequer 2013/17    | 12.48            | 12.48             |
| 3 1/2% War (Flat Yield)  | 10.89            | 10.92             |

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



### Interbank rates

