

21.10.80.

SECRET

*McCarroll -
pl. speak*

1/16A

NOTE FOR WEDNESDAY MEETING

MARKETS: 15 OCTOBER - 21 OCTOBER 1980

*a return to AF
idc pl.*

MONEY

Money market conditions were extremely tight throughout the week chiefly due to a net Exchequer position which was consistently and substantially against the market. Renewed heavy gilt sales on Wednesday and Thursday also contributed to the shortage.

- ⊕ Substantial assistance by the Bank was necessary every day, each time partly in the form of purchases of eligible bills for resale on dates in early November.

Interbank rates were firm at all maturities almost throughout the week, though some easing was evident on Tuesday. Overnight and seven day rates moved particularly sharply and erratically, reflecting makeup day pressures on Wednesday and thereafter both the persistent extreme shortages and the high level of assistance by the Bank. The three month rate finished 9/16% up at 16 1/4%.

- ⊕ Eurosterling rates showed a similar firm tendency throughout, especially at the short end as domestic market conditions grew more stringent and funds were sought abroad. The week ended with the three month rate 1/2% higher at 16 3/8%.

At the Treasury Bill tender on Friday the average rate of discount rose by 0.0295 to 14.2720.

LOCAL AUTHORITY BONDS

The rate on one year negotiable bonds rose by 3/8% to 14 3/8% and issues of £14,625 mn were well down on last week's £20.5 mn. Maturities also amounted to £14.625 mn.

The local authority stock market showed the first signs of life since March 1979: Sunderland has applied for timing consent for a £20-£25 mn issue next May.

GILTS

The market developed indigestion after recent heavy purchases of stock and displayed renewed concern about the outlook for US interest rates; but some recovery was apparent yesterday helped by the strength of sterling.

After an uncertain start last Wednesday a large demand for the long-dated tap stock developed and supplies were quickly exhausted at 50 1/2; other longs gained about 1/2. On Thursday the issue of 11 3/4% Exchequer 1986 attracted a good response, but heavy profit taking developed amid signs of market indigestion after the recent extensive purchases of stock and longs lost about 3/4. Enthusiasm was also dampened by high overnight rates in the sterling money markets and on Friday by a further increase to 14 % in Chase Manhattan's prime rate.

The easier conditions continued on Monday amid very quiet trading although by the close a firmer tendency mitigated some of the falls. This trend continued yesterday reflecting the strength of sterling and some buying thought to include buying from overseas; by the close longs were up to 5/8 higher.

Over the week as a whole shorts fell by up to 5/8 and longs by about 1/4.

EQUITIES

The good September trade figures encouraged the market on Wednesday but more detailed appraisal of the figures by Thursday allied with the disappointment over no change in MLR brought out some sellers and prices drifted lower. The Mansion House speeches were interpreted as mildly encouraging and although trading was quiet a firmer trend emerged on Friday. The market opened on Monday somewhat easier but quiet apart from hectic trading in Australian shares. On Tuesday prices improved in fairly active conditions and the FT index closed 6.5 higher at 484.0, a rise of 6.6 over the week as a whole.

NEW ISSUES

Queue

A placing of £100 mn of loan stock in the domestic market by Citicorp Overseas Finance Corporation was added to the queue. This follows Dow Chemical's proposed £65 mn placing which was mentioned in last week's note. A Japanese borrower, Tokyu Land Corporation, is planning to make an issue of about £20 mn of sterling convertible bonds in January 1981. This has been added to the queue although it is not yet clear whether the issue will be made in the domestic or euro-sterling market.

Also added to the queue were rights issues of £10 mn each by The Independent Investment Co Ltd and Norcros Ltd (manufacturing); an offer for sale of £10 mn by Hadson Petroleum (UK) Ltd; and a rights issue of convertible stock of £8 mn by Bowthorpe Holdings Ltd (electronics). The queue remains unchanged at £491 mn following the removal of the offer for sale of £150 mn by British Aerospace.

Net capital issues

The total of net capital raised recovered to £184 mn in banking October after net redemptions of £22 mn in banking September. This is the highest monthly figure so far this year.

OTHER

Kleinwort Benson is issuing \$50 mn of floating rate euro-dollar notes, convertible into fixed rate bonds, through an overseas financing subsidiary.

(Init EAJG)

22 October 1980.

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

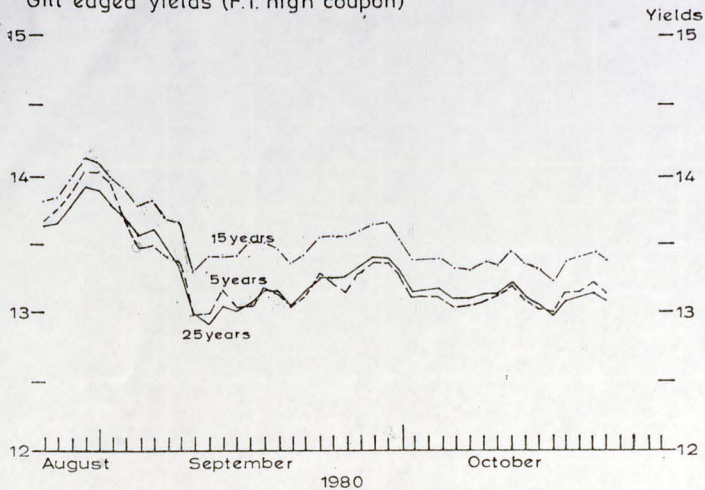
	15.10.80 <u>-21.10.80</u>	Cal.Qtr. <u>to date</u>	Fin.Year <u>to date</u>	21.2.80 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 162	- 250	- 1,054	- 1,150
Other short-dated	<u>+ 4</u>	<u>+ 231</u>	<u>+ 1,720</u>	<u>+ 1,804</u>
	- 166	- 19	+ 666	+ 654
Mediums	+ 49*	+ 51	+ 4,216	+ 4,266
Longs and undated	<u>+ 148</u>	<u>+ 486</u>	<u>+ 3,105</u>	<u>+ 3,371</u>
Total Issue				
Department trans- actions	+ 31	+ 518	+ 7,987	+ 8,293
CRND	-	+ 1	+ 47	+ 50
Redemptions	-	-	- 511	- 800
	<u>+ 31</u>	<u>+ 519</u>	<u>+ 7,523</u>	<u>+ 7,543</u>

* includes 88 in respect of first payment on 11 3/4% Exchequer 1986

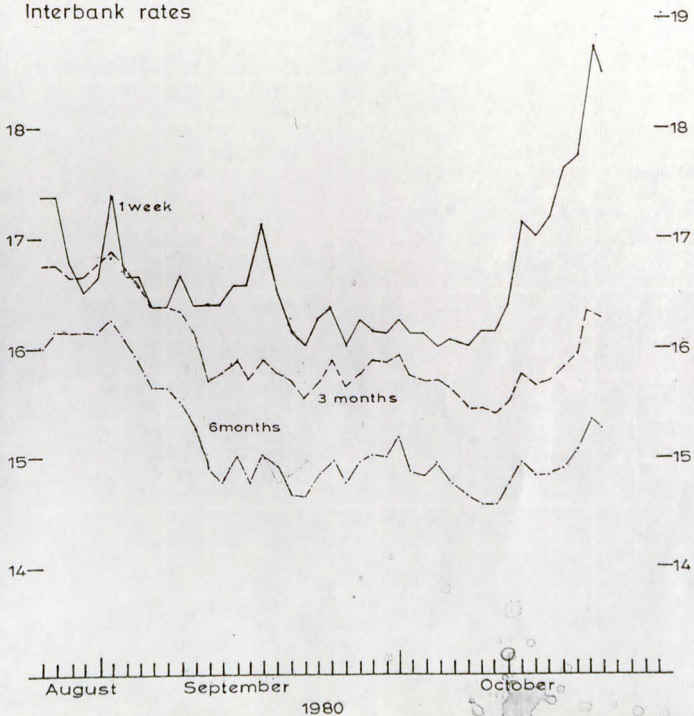
2. Redemption Yields (tax ignored)

	<u>14 October</u>	<u>21 October</u>
11 1/2% Treasury 1981	13.00	14.87
8 1/4% Exchequer 1981	13.34	13.55
12% Treasury 1984	12.64	12.85
13 1/4% Exchequer 1987	12.95	13.16
10% Treasury 1992	13.03	13.13
12 1/4% Exchequer 1999	13.13	13.20
11 1/2% Treasury 2001/04	12.84	12.91
12% Exchequer 2013/17	12.48	12.53
3 1/2% War (Flat Yield)	10.92	10.96

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 (22/10-24/10)				F J C Lilley Ltd (rights) (23/10) 3
				Viking Resources Trust Ltd (rights) (24/10) 10
Week 2 (27/10-31/10)				Pritchard Services (rights) (28/10) 4
Week 3 (3/11-7/11)		Citicorp Overseas Finance Corp NV (placing) (5/11) 100	Orient Leasing Co Ltd (placing) (4/11) 12	
Week 4 (10/11-14/11)				Consolidated Gold Fields (rights) (12/11) 200
				East Midland Allied Press Ltd (rights) (13/11) 3
Week 5 (17/11-21/11)				Hampton Gold Mining Areas Ltd (rights) (18/11) 5
				The Independent Investment Co Ltd (rights) (20/11) 10
				Scapa Group Ltd (rights) (21/11) 5
Week 6 (24/11-28/11)				
Week 7 (1/12-5/12)		Essex Water Company (tender) (2/12) 7		KCA Offshore Drilling (private placement) (2/12) 12
		Dow Chemical Company (placing) (2/12) 65		Intasun Ltd (offer for sale) (3/12) 7
Forthcoming			Bowthorpe Holdings Ltd (rights) (16/12) 8	Hudson Petroleum (UK) Ltd (offer for sale) (11/12) 10
			Tokyu Land Corp (placing?) (Jan 1981) 20	Norcros Ltd (rights) (12/12) 10
		TOTAL 172	TOTAL 40	TOTAL 279
*Issues announced:	1977	118		815
	1978	60		959
	1979	162		946
	1980 to date	226		679
*Issues completed	1977	143		784
	1978	63		910
	1979	150		979
	1980 to date	225		641

*Includes issues of less than 3.

Per cent

Time Yield Curves of British Government Stocks

22nd, October 1980

