

SECRET

MARKETS
Doss

NOTE FOR WEDNESDAY MEETING

MARKETS: 22 OCTOBER 1980 TO 28 OCTOBER 1980

MONEY

Conditions in the money markets were extremely stringent before the weekend as the result of a very substantial net excess of Government revenue on Wednesday and the call on 12% Exchequer 1998 'A' on Friday. The net Exchequer position was however generally in the market's favour, and contributed to a considerable easing of conditions on Monday and Tuesday.

Assistance was given by the Bank on every day before the weekend while on Monday and Tuesday small sales of Treasury Bills to absorb surplus funds were necessary. Wednesday's help was partly and Friday's predominantly in the form of outright purchases of eligible bills.

Short interbank rates, which were easier up to Thursday reflecting the Bank's substantial assistance, hardened sharply in Friday's exceptionally tight conditions but fell back after the weekend, the one month rate to under 17%. Some renewed firmness was evident on Tuesday in the wake of the Bank's letter reminding banks that their reserve asset ratio must be maintained at all times.

Movements in longer rates were also erratic, with the usual firmness on Friday following the non-appearance of an MLR cut succeeded by a general easing on Monday which proved to be temporary. The three month rate finished $1/8\%$ higher at $16\ 3/8\%$.

After some earlier easiness Eurosterling rates were generally firm from Friday onwards, the three month rate finishing $3/8\%$ higher at $16\ 5/8\%$.

At the Treasury Bill tender on Friday the average rate of discount rose by 0.0614 to 14.3334.

LOCAL AUTHORITY BONDS

The rate for one year negotiable bonds was unchanged at 14 3/8%. As last week a number of authorities in the queue decided not to proceed and issues amounted to only £11.75 mn (£14.625 mn last week) against maturities of £11.5 mn.

The local authority stock market showed further signs of life with Maidstone forming a queue behind Sunderland.

GILTS

A generally firm tone prevailed at the end of last week particularly in longs, with overseas buyers thought to be active; the new near-short tap was activated for the first time. After the weekend the market opened firm on the strength of sterling and remained resilient on Tuesday despite higher US interest rates until it was dampened in late trading by the PM's statement discouraging hopes of an early fall in MLR.

The market displayed a firm tendency for most of Wednesday and the first sales of the new near-short tap 11 3/4% Exchequer 1986 were made at 30 1/16. Longs gained up to 1/2. Thursday was a quiet day of consolidation with little business done and prices generally unchanged. On Friday morning a firm tendency was again evident and quite a large amount of the near-short tap was sold, again at 30 1/16. There was also a good demand for longs. By the middle of the day a rather more nervous market brought out some sellers of short-dated bonds, nevertheless longs gained up to 1/2 on the day. At 3.30 pm the issue of a further tranche of £400 mn of 3% Treasury 1985 was announced.

After the weekend the market opened steady on the continued strength of sterling and some demand for the near-short tap developed and the price of 30 1/16 was withdrawn. The market eased slightly before the close but longs held gains of up to 5/8. An easier tendency at the opening on Tuesday was brought about by a

sharp rise in short term US interest rates, and by pessimistic interpretation of remarks made by the Chancellor to the Select Committee. But the market proved quite resilient and by lunch time most of the losses were recovered. The market subsequently eased again in late trading following the PM's dampening remarks about MLR.

Over the week as a whole shorts were little changed but longs rose by about 1 1/4.

EQUITIES

The market was firm during Wednesday and Thursday and even poor results from ICI failed to depress prices. Friday saw the account closing on a quiet note with the market rather subdued by the decline on Wall Street. After the weekend the market opened steady on the strength of sterling but closed below its best. Tuesday saw an easier opening on the Chancellor's comments to the Select Committee regarding money supply and interest rates. Later in the day some demand developed in a few sectors. Over the week as a whole the FT index rose 11.5 to 495.5. The broader based FT Actuaries All-Share index continued to out perform the ordinary index and rose 3.4% on the week to 309.33.

NEW ISSUES

Queue

A rights issue of £120 mn by Royal Insurance was added to the queue together with an offer for sale of £25 mn by London Merchant Securities. The queue now totals £623 mn against £491 mn last week.

OTHER

The EIB is raising £20 mn Eurosterling bonds due March 1991 at 99 1/2 and with a coupon of 13%.

(Init EAJG)

29 October 1980

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

	22.10.80 <u>-28.10.80</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	- 87	- 337	- 1,141	- 1,237
Other short-dated	<u>- 10</u>	<u>+ 220</u>	<u>+ 1,710</u>	<u>+ 1,794</u>
	- 97	- 117	+ 569	+ 557
Mediums	+ 51*	+ 102	+ 4,267	+ 4,319
Longs and undated	<u>+ 470</u>	<u>+ 956</u>	<u>+ 3,575</u>	<u>+ 3,841</u>
Total Issue				
Department trans-				
actions	+ 424	+ 941	+ 8,411	+ 8,717
CRND	- 2	-	+ 45	+ 48
Redemptions	-	-	- 511	- 800
	<u>+ 422</u>	<u>+ 941</u>	<u>+ 7,945</u>	<u>+ 7,965</u>

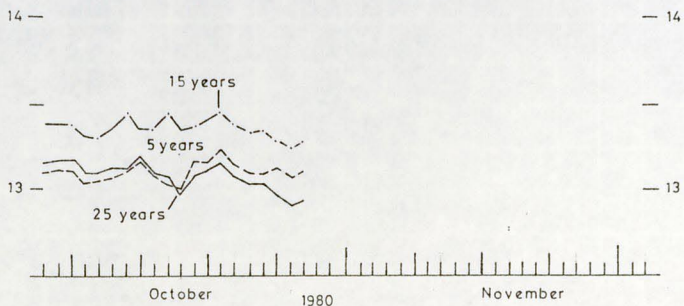
* includes 421 in respect of final payment on 12% Exchequer 1998 'A'

2. Redemption Yields (tax ignored)

	<u>21 October</u>	<u>28 October</u>
11 1/2% Treasury 1981	14.87	14.83
8 1/4% Exchequer 1981	13.55	13.89
12% Treasury 1984	12.85	12.81
13 1/4% Exchequer 1987	13.16	13.04
13% Treasury 1990	13.13	13.01
12 1/4% Exchequer 1999	13.20	13.05
11 1/2% Treasury 2001/04	12.91	12.79
12% Exchequer 2013/17	12.53	12.41
3 1/2% War (Flat Yield)	10.96	10.83

GILT EDGED YIELDS (F.T. HIGH COUPON)

Yields



INTERBANK RATES

