

MARKETS
DOSSIER

SECRET

NOTE FOR WEDNESDAY MEETING

MARKETS: 29 OCTOBER 1980 TO 4 NOVEMBER 1980

MONEY

Conditions in the money markets were generally easy this week, the net Exchequer position remaining consistently, and on Friday very substantially, in the market's favour. This was, however, to some extent counterbalanced by the unwinding, on every day before the weekend, of previous purchases of commercial bills by the Bank, and in addition by the monthly oil revenue payment to a Bank customer on Friday and substantial net takeups of Treasury Bills on Friday and Monday.

Assistance by the Bank was necessary only on Friday and Monday; on all other days surplus funds were absorbed by small sales of Treasury Bills.

Short interbank rates were generally easy except on Friday. In contrast, rates at three months and over showed a firm tendency throughout the week after hopes of an early MLR cut were dashed by Government statements reaffirming commitment to current economic policies. The three month rate finished the week 5/16% higher at 16 15/16%.

Eurosterling rates showed some softness, especially at the shorter end, before the weekend, but have since firmed throughout, possibly under the influence of recent rises in dollar rates. The three month rate ended the week 1/8% up at 17 1/8%.

At the Treasury Bill tender on Friday the average rate of discount rose by 0.0307 to 14.3641.

LOCAL AUTHORITY BONDS

The rate for one-year bonds rose by 5/8% to 15%, its highest level since early September and in consequence a large number of authorities decided not to proceed with their issues. Issues totalled only £6.3 mn (£11.75 mn last week) against redemptions of £7.55 mn.

GILTS

The market weakened as the prospects for a cut in MLR receded further, but it held up reasonably well initially after the announcement of the October banking figures.

The market opened easier on Wednesday following the Prime Minister's dampening remarks about MLR. Prices improved by lunchtime, but slipped back slightly in the afternoon following news of the increase in Morgan Guaranty's prime rate to 14½%. Tenders for 3% Treasury 1985 'A' were negligible. Prices fluctuated narrowly on Thursday in quiet trading and resumed their downward drift on Friday amid continued concern about interest rates at home and in the US.

After the weekend, the market displayed nervousness on Monday ahead of Tuesday's announcement of the October banking figures and prices were around 1/2 lower by the close. Yesterday saw some limited buying in the morning after initial easiness, but activity was generally low as the market waited for the banking figures. In the event, although the estimated money out-turn was at the extreme upper end of the expected range, prices fell by only about 1/4 after the announcement and longs recovered slightly before the official close.

Over the week as a whole prices of shorts fell by about 1 1/8 and those of longs by about 1 1/2.

EQUITIES

The market opened easier on Wednesday following the gloomy CBI survey and the Prime Minister's statement on interest rates. Nethertheless, the FT index was only slightly lower on the day and was little changed on Thursday. Sentiment worsened on Friday, however, with the British Leyland dispute emerging as an additional adverse factor. The market remained depressed on Monday in line with gilts and prices continued to drift lower yesterday although the banking figures had little impact. By the close the FT index was 2.1 lower at 480.0, a fall of 15.5 over the week as a whole.

NEW ISSUES

Queue

Added to the queue this week were a rights issue of convertible stock of £15 mn by the whisky firm Arthur Bell & Sons Ltd and a rights issue of £15 mn by the oil company KCA International Ltd (which replaces a proposed private placement by the same borrower).

Against this, both Citicorp and Dow Chemical have cancelled plans for sterling issues in the domestic market and have thus dropped out of the queue. The main stumbling-block in both cases has been the likely cost; but Dow has apparently also found the Stock Exchange's listing requirements unduly onerous. As a result the queue now totals £465 mn against £623 mn last week.

Other

Lloyds Eurofinance NV (a subsidiary of Lloyds Bank International) is planning an issue of \$100 mn of euro-dollar floating rate notes due 1992.

Credit National of France is raising a five-year credit of £75 mn through a syndicate of banks led by Hambros; it is planned to refinance the credit during the next year through a bond issue.

(Init. EAAG)

5 November 1980

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

	29.10.80 <u>- 4.11.80</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	- 5	- 342	- 1,146	- 1,242
Other short-dated	<u>- 46</u>	<u>+ 175</u>	<u>+ 1,664</u>	<u>+ 1,748</u>
	- 51	- 167	+ 518	+ 506
Mediums	-	+ 102	+ 4,268	+ 4,319
Longs and undated	<u>+ 2</u>	<u>+ 958</u>	<u>+ 3,577</u>	<u>+ 3,843</u>
Total Issue				
Department trans- actions	- 49	+ 893	+ 8,363	+ 8,668
CRND	+ 1	+ 1	+ 46	+ 49
Redemptions	-	-	- 511	- 800
	<u>- 48</u>	<u>+ 894</u>	<u>+ 7,898</u>	<u>+ 7,917</u>

2. Redemption Yields (tax ignored)

	<u>28 October</u>	<u>4 November</u>
11 1/2% Treasury 1981	14.83	14.80
8 1/4% Exchequer 1981	13.89	14.53*
12% Treasury 1984	12.81	13.20
13 1/4% Exchequer 1987	13.04	13.31
13% Treasury 1990	13.01	13.32
12 1/4% Exchequer 1999	13.05	13.31
11 1/2% Treasury 2001/04	12.79	13.03
12% Exchequer 2013/17	12.41	12.52*
3 1/2% War (Flat Yield)	10.83	10.98

* Went ex-dividend during week

Per cent Time Yield Curves of British Government Stocks

5th November 1950

