

7.11.80

*Carry 9/11*

DOMESTIC MARKETS: 8 SEPTEMBER - 6 NOVEMBER

MONEY MARKETS

After initial tightness conditions became significantly easier from mid-September and regular Bank assistance was necessary only on isolated days. From the second week of October, however, conditions became progressively tighter and considerable Bank assistance, in various forms including purchases of eligible bills for later resale, was given every day. This situation continued up to 24 October when, in addition to other assistance, the Bank made an outright purchase of some £283 million of eligible bills, the first time this had happened for more than two years. Thereafter conditions eased sharply, with a surplus of funds available to the market almost every day from then until the end of the period.

The gilt-edged sale and repurchase facilities outstanding with the banking sector, due to be repaid on 8 and 15 September respectively, were both continued through the period: the first to 6 October and then 7 November, the second to 13 October and then 17 November. An extension to 27 November has been offered for the facility ending on 7 November. The amount available to each institution under the facilities combined is a maximum of 2 1/2% of eligible liabilities. The total of advances outstanding at 6 November was £1,123 million.

INTEREST RATES

MLR and the Clearing Banks' base rates remained unchanged throughout the period (at 16%).

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<b>Interbank</b>		
7 days	16 1/2 - 16 5/8	15 5/8 - 16
1 month	16 1/2 - 16 11/16	16 1/4 - 16 7/16
3 months	16 1/4 - 16 7/16	<del>16 7/16 - 16 9/16</del>
6 months	15 3/8 - 15 9/16	16 - 16 1/4
<b>Local Authority</b>		
7 days	16 5/8 - 16 3/4	16 3/8 - 16 1/2
1 month	16 1/2 - 16 5/8	16 3/8 - 16 1/2
3 months	16 3/8	16 1/2 - 16 5/8
6 months	15 1/2 - 15 5/8	16 - 16 1/8
<b>Sterling CD's</b>		
1 month	16 3/8 - 16 1/2	16 5/16 - 16 7/16
3 months	16 1/8 - 16 5/16	16 3/8 - 16 1/2
6 months	15 1/8 - 15 5/16	15 13/16 - 15 15/16

## GILT-EDGED

The gilt-edged market has been fairly resilient in the period. The unsettled conditions which had prevailed since the publication of the July banking figures gave way to firmness in early September: the previously stranded medium tap was exhausted soon after its price was cut and the market reacted favourably to the Treasury statement on monetary policy which accompanied the August banking figures. A period of weakness then ensued amid concern about the outlook for interest rates at home and in the US, but the market was firm for most of October. Towards the end of the month an easier tendency reemerged as the prospects for a cut in MLR receded further. But the market held up reasonably well after the announcement of the October banking figures.

## YIELDS BASED ON OFFICIAL CLOSING PRICES

	12 3/4% Exchequer 1981	12% Treasury 1983	12% Treasury 1984	13% Treasury 1990	12 1/2% Exchequer 1998
8 September	13.35	13.32	13.10	13.39	13.37
10 September	12.89	12.98	12.64	13.02	12.98
15 September	12.83	12.80	12.52	13.17	13.15
17 September	12.95	12.96	12.68	13.18	13.24
22 September	13.07	13.11	12.85	13.34	13.36
24 September	13.14	12.90	12.68	13.33	13.35
29 September	13.51	13.06	12.85	13.41	13.44
1 October	13.27	12.69	12.64	13.16	13.22
6 October	13.28	12.69	12.62	13.05	13.13
8 October	13.16	12.81	12.68	13.09	13.19
13 October	13.10	12.81	12.73	13.10	13.18
15 October	12.88	12.69	12.66	12.99	13.08
20 October	12.92	13.07	12.92	13.19	13.27
22 October	12.79	12.94	12.81	13.06	13.15
27 October	12.85	12.98	12.81	12.98	13.02
29 October	12.85	13.17	12.90	13.09	13.09
3 November	13.30	13.43	12.90	13.09	13.29
6 November	13.37	13.44	13.11	13.37	13.33

## 8-12 SEPTEMBER

The week opened firm. The medium-dated tap, 11 3/4% Treasury 1991, (which had been reactivated on the previous Friday) was exhausted by Tuesday morning. Following the Treasury statement on monetary policy (which accompanied the August banking figures) prices rose very sharply on Tuesday afternoon and initially on Wednesday; later that day sellers appeared and there was also heavy profit taking on Thursday. Early on Friday the market regained some losses and moved further ahead after the publication of the August RPI. A further tranche of £1,000 mn 12% Exchequer 1998 was announced on Friday afternoon.

## 15-19 SEPTEMBER

The market had a volatile week, although on balance prices showed little change. Initial easiness gave way to firmer conditions by Thursday as confidence was boosted by statements in the latest Quarterly Bulletin. However, tenders for 12% Exchequer 1998 'A' were small. On Friday conditions turned easier again amid

diminishing hopes of an early cut in MLR and concern over rising US interest rates.

#### 22-26 SEPTEMBER

These factors caused further weakness on Monday. The market then steadied, but prices eased early on Friday following the increase in the Federal Reserve discount rate. Enthusiasm was further dampened later in the day by an increase in US prime rates to 13%.

#### 29 SEPTEMBER-3 OCTOBER

Concern at the upward pressure on US interest rates and the continuing Gulf war prompted further selling on Monday but the fall in prices was fairly modest. On Tuesday and Wednesday the mood changed and prices increased on optimistic talk of the following week's banking figures and of the scope for a fall in MLR. The rise was not sustained on Thursday, although the market remained reasonably steady in the face of no cut in MLR and a rise in Citibank's prime rate of 14%. Conditions remained quiet, but with a firm undertone, on Friday.

#### 6-10 OCTOBER

The market began the week with renewed confidence ahead of the banking figures. The long tap, 12% Exchequer 1998 'A' was activated at 50 1/8 before that price was withdrawn. Further sales were made on Tuesday, at 50 1/4, after the announcement of the figures. For the rest of the week the market turned slightly easier on doubts about an early fall in MLR, despite the September figures, but demand did develop on Friday for the low coupon tap, 3% Exchequer 1983 'A'; at the close a new issue of £800 million 11 3/4 Exchequer 1986 was announced, partly paid with a minimum price of £95.75.

#### 13-17 OCTOBER

The market opened the week firm and the low coupon tap was exhausted just before the close on Monday. Sentiment was encouraged by the proposed wage settlement in the engineering industry and on Tuesday there were considerable sales of the long tap (at 50 3/8); further sales on Wednesday (at 50 1/2) exhausted the stock. 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 earlier extensive purchases of stock and longs lost about 3/4.

#### 20-24 OCTOBER

The market as a whole was quietly firm all week (although the continued tight conditions in the money markets meant the short end was relatively subdued). This reflected the strength of sterling and revived expectations of a cut in MLR. On Wednesday the first sales of the medium tap were made at 30 1/16; further quite large sales were made on Friday, also at 30 1/16. At the close on Friday the issue of a further tranche of £400 million 3% Treasury 1985 was announced.

27-31 OCTOBER

The market opened the week steady on the continued strength of sterling. It then eased because of a further rise in US rates and the Prime Minister's dampening remarks on MLR. The issue of 3% Treasury 1985 'A' attracted a very small response. Although the market steadied on Thursday, prices eased again on Friday on press comment on the prospective size of the borrowing requirement and concern about rising US interest rates.

3-6 NOVEMBER

The market opened slightly easier reflecting nervousness ahead of Tuesday's banking figures. When those were announced, prices fell by about 1/4 throughout, although longs recovered to end Tuesday more or less unchanged. There was little activity on Wednesday with prices not much changed. This trend continued yesterday but the market became easier towards the official close.

## OFFICIAL STOCK TRANSACTIONS

(Sales +/Purchases -)

£ millions

	8 September-6 November	1980/81 Financial Year to date
ISSUE DEPARTMENT		
Next Maturities	-398.7	-1,156.9
Other short dated	+234.1	+1,671.2
Medium dated	+996.1	+4,267.1
Longs and undated	<u>+920.1</u>	<u>+3,577.4</u>
TOTAL ISSUE DEPARTMENT TRANSACTIONS	+1,751.6	+8,358.8
CRND	+7.1	+41.4
Cash Redemptions	-	-510.9
GRAND TOTAL	<u>+1,758.7</u>	<u>+7,889.3</u>

## EQUITY MARKET

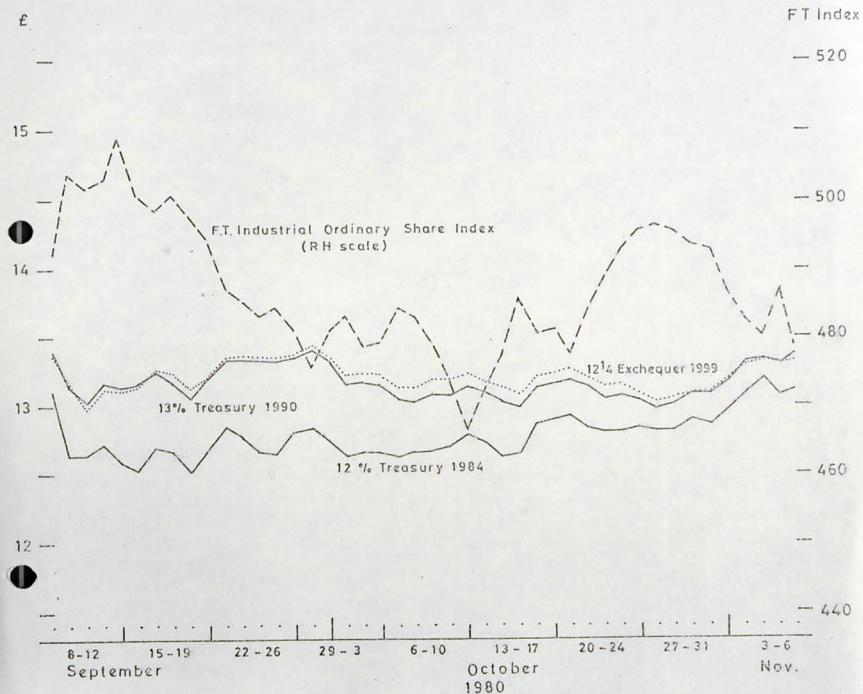
The improvement in the market which had developed in the first few days of September continued into the second week of the month, buoyed by satisfactory wholesale and retail price figures. The FT index closed that week at 508.9, its best level since late July. The market then entered a period of depression fed initially by fears of a dock strike and then by a number of disappointing company results. The trend was reinforced by the Middle East news and press comment on domestic economic prospects.

By early October the FT index had lost some 30 points from its peak on 12 September. Prices fell back further in the second week of October as hopes of an early cut in MLR faded and concern about company profitability increased. Thereafter the market showed a considerable improvement, reflecting the good September trade figures, the Engineering Union national pay agreement, the strength of sterling and hopes of an early cut in MLR. In the last week of October prices fell back somewhat as any cut in MLR appeared increasingly unlikely and in the first few days of November the market weakened further in the face of the gloomy CBI Survey and the Prime Minister's statement on interest rates. The American election result was well received but prices fell back yesterday on lack of support as sentiment was affected by the crisis at BL and the situation in the miners' pay talks. By 6 November the FT index stood at 478.8 compared with 494.4 on 5 September.

7 November 1980

# Gross Redemption Yields on Gilt-edged Stocks

## F.T. Share Index



FOR BASLE

*GR 9/11*

Financial Markets Supplement as at  
4.00 pm on Friday, 7 November 1980

Treasury Bill Tender

Offered: £200,000,000  
Average Tender Rate: £14.3776  
Lowest Price Accepted: £96.41  
Minimum Lending Rate: 16%

Parallel Market Rates (Range over the day)

Inter- bank - 7 days: 15 1/2-16 1/4 1 month: 16 3/16-16 1/2 3 months: 16 7/16-16 5/8  
Local Authority - 7 days: 16 - 16 1/2 1 month: 16 1/8-16 1/2 3 months: 16 1/4-16 1/2  
Sterling C.D.s - 1 month: 16 1/4-16 3/8 3 months: 16 7/16-16 9/16

The Gilt-Edged Market

The market opened steady but then drifted downwards in quiet trading. Longs were generally 5/8 down on the day.

Official Stock Transactions: Nil.

The Equity Market

The market opened slightly lower and eased further during the day.

F.T Index: (at 3.00 pm) 474.2 (down -4.6).

*Q* 7 November 1980