

MARKETS
DOSS

12.11.80

SECRET

NOTE FOR WEDNESDAY MEETING

MARKETS: 5 NOVEMBER 1980 TO 11 NOVEMBER 1980

MONEY

Conditions in the money market were relatively easy in the early part of the week, reflecting Wednesday's favourable net Exchequer position (though this was counterbalanced by the unwinding of a previous purchase of commercial bills by the Bank) and the carrying over from Tuesday of bankers' balances substantially above target. On Thursday however the Exchequer position swung against the market, and for the rest of the week tax payments contributed to a moderate degree of stringency. This was heightened by the unwinding of further commercial bill purchases on Thursday, Friday and Monday and by the settlement on Tuesday for small gilt sales.

On Wednesday a small amount of Treasury Bills was sold to absorb surplus funds. Thereafter, the Bank assisted the market chiefly by the renewal to 24 November, at the same level of 1% of eligible liabilities, of the gilt purchase and resale agreement which matured on Friday. Regular assistance was also provided on Friday, Monday and Tuesday, help on the last two days taking the form of purchases of eligible bills for resale after the November and to the December makeup dates.

Continuing easier conditions and the adequacy of the Bank's assistance were reflected in short interbank rates which moved downwards both before the weekend and following a brief firmness on Monday. Longer rates also tended to easiness on Wednesday and Thursday; as usual they hardened on Friday, but fell back again after the weekend. The three month rate finished 1/8% down at 16 7/16%.

Short eurosterling rates were likewise easy throughout the week. Rates at three months and over continued up to Friday to show the firm tendency evident last week, but eased sharply after the weekend. The three month rate ended the week 5/8% lower at 16 1/2%.

At the Treasury Bill tender on Friday the average rate of discount rose by 0.0135 to 14.3776.

LOCAL AUTHORITY BONDS

The rate for one-year bonds fell by 1/8% to 14 7/8%. Issues totalled £12 mn (£6.3 mn last week) against maturities of £10.85 mn.

GILTS

The market held up well after the publication of the October banking figures but was later unsettled by the continuing rise in US interest rates. Conditions improved again after the weekend helped by further evidence of declining inflation.

The market opened easier on Wednesday following the previous afternoon's announcement of the disappointing October banking figures. But little selling materialised and prices improved in quiet trading to close little changed. Activity remained slack on Thursday with prices tending to drift lower. Sharper falls occurred in after-hours trading following news of the rise in US prime rates to 15 1/2% and prices eased further throughout Friday. The absence of a new long tap was, however, a steadying influence after the official close and the market opened slightly better on Monday. The publication of the October wholesale price figures helped to sustain modest gains, and together with the moderate October CGBR prompted further buying yesterday when longs closed up to 5/8 higher although shorts were little changed.

Over the week as a whole prices of shorts rose by about 1/8-1/4 and longs by about 1/4-1/2.

EQUITIES

The American election result was well received on Wednesday and the FT index closed 7.0 higher. Concern at the UK industrial situation re-emerged on Thursday, however, and the previous day's gains were more than wiped out. Further decline was seen on Friday as the market reached nervously to the prospect of confrontation on pay. After the weekend, the market opened steady on the first day of the new account and the tone subsequently improved, particularly in late trading. This firmer tendency continued yesterday reflecting the better prospects for inflation and encouraging results from Unilever. At the close the FT index was 4.9 higher at 487.4, an increase of 7.4 over the week as a whole.

NEW ISSUES

Queue

The Republic of Iceland is planning an issue of up to £20 mn of sterling loan stock in the domestic market. This would be the first bulldog issue since Kingdom of Denmark's in July. As with Denmark, the broker is Greenwell and the lead bank is Hambros, and the issue seems likely to be made by a placing.

Also added to the queue was an issue of £10 mn by a UK investment trust, the Japanese Small Companies Investment Trust. The issue will be partly placed and partly offered for sale. Jebsons Drilling Ltd is making a placing of £25 mn of shares with a restricted number of institutions. Rights issues of £30 mn and £20 mn respectively are being made by Northern Foods Ltd and Davy Corporation Ltd (engineering and construction). Allied London Properties Ltd is making a rights issue of convertible loan stock of £10 mn.

The queue now totals £580 mn against £465 mn last week. The period in the first half of December is now becoming quite congested with almost daily small issues (including two offers for sale) preceding Royal Insurance's large rights offering. Provided the issues are sensibly priced it is our judgement that the market should be able to absorb them.

Other

The Bank's guidance notice on capital market issues in London was released on Monday and has so far produced little reaction.

Oil and Gas Production Ltd is to raise \$30 mn in London through an offer for sale of dollar denominated shares for which, for convenience, subscriptions will be payable in sterling. The company has been set up as a vehicle for investment in oil and gas properties in the United States and will seek funds for this purpose from UK institutions.

EXTERNAL DEBT MANAGEMENT

British Airways are arranging two small dollar bank loans as further financing for their aircraft re-equipment programme. The loans, which will carry the usual HMG guarantee are for \$50 mn from National Westminster and \$25 mn from Orion Bank, both for 10 years at a margin of 3/8% over LIBOR with no front-end fees. These terms are significantly better than those currently being achieved by any comparable borrower and will help to correct the misleading impression about the UK's credit standing given in the recent Euromoney article.

(Init EAJG)

12 November 1980

✓ Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

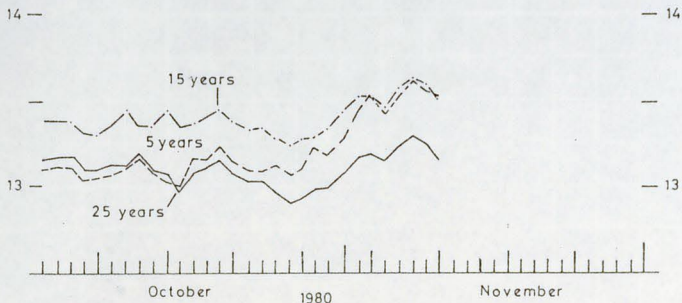
	5.11.80 <u>-11.11.80</u>	Cal.Qtr. <u>to date</u>	Fin.Year <u>to date</u>	21.2.80 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 12	- 354	- 1,158	- 1,254
Other short-dated	<u>+ 27</u>	<u>+ 202</u>	<u>+ 1,691</u>	<u>+ 1,775</u>
	+ 15	- 152	+ 533	+ 521
Mediums	-	+ 102	+ 4,267	+ 4,319
Longs and undated	<u>-</u>	<u>+ 958</u>	<u>+ 3,577</u>	<u>+ 3,843</u>
Total Issue				
Department trans- actions	+ 15	+ 908	+ 8,377	+ 8,683
CRND	+ 159	+ 159	+ 205	+ 208
Redemptions	<u>-</u>	<u>-</u>	<u>- 511</u>	<u>- 800</u>
	<u>+ 174</u>	<u>+ 1,067</u>	<u>+ 8,071</u>	<u>+ 8,091</u>

2. Redemption Yields (tax ignored)

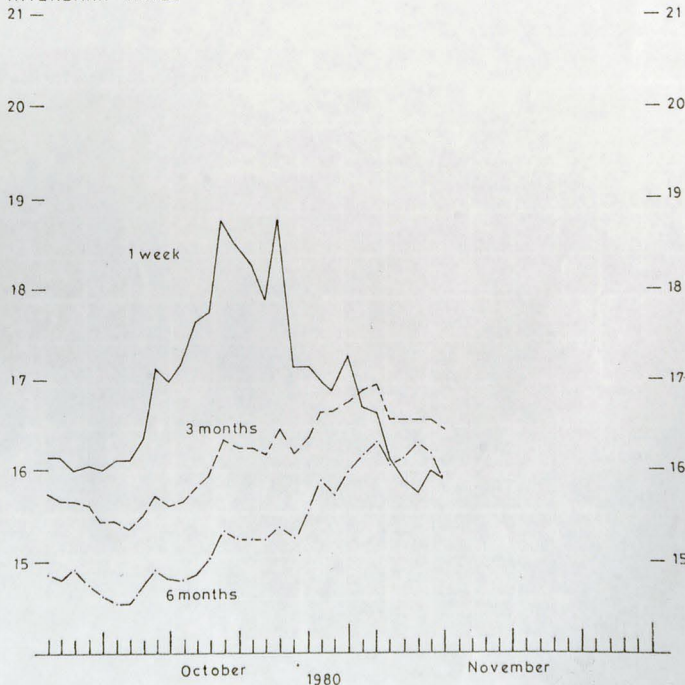
	<u>4 November</u>	<u>11 November</u>
11 1/2% Treasury 1981	14.80	14.76
8 1/4% Exchequer 1981	14.53	14.76
12% Treasury 1984	13.20	13.16
13 1/4% Exchequer 1987	13.31	13.37
13% Treasury 1990	13.32	13.37
12 1/4% Exchequer 1999	13.31	13.31
11 1/2% Treasury 2001/04	13.03	13.02
12% Exchequer 2013/17	12.52	12.53
3 1/2% War (Flat Yield)	10.98	10.96

GILT EDGED YIELDS (F.T. HIGH COUPON)

Yields



INTERBANK RATES



SECRET

£ millions

NEW ISSUES OF 3 OR OVER

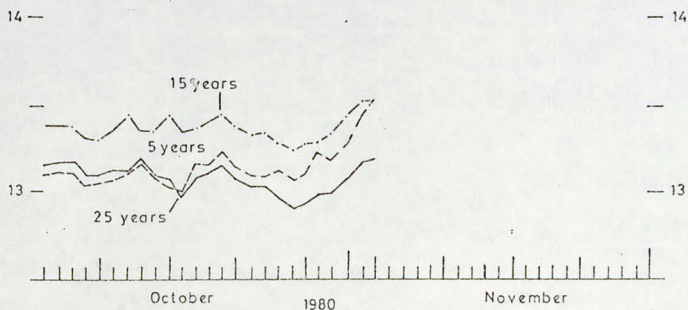
Date	Government, etc.	Other Fixed Interest (excl. Convertibles)	Convertible Stocks	Others
1980				
Current week (5/11-7/11)				
Week 2 (10/11-14/11)				Consolidated Gold Fields (rights) (12/11) 200
				East Midland Allied Press Ltd (rights) (13/11) 3
Week 3 (17/11-21/11)			London Merchant Securities Ltd (19/11) 25	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 4 (24/11-28/11)				KCA International Ltd (rights) (27/11) 15
Week 5 (1/12-5/12)		Essex Water Company (tender) (2/12) 7	Arthur Bell & Sons Ltd (rights) (5/12) 15	Intasun Ltd (offer for sale) (3/12) 7
Week 6 (8/12-12/12)				Hudson Petroleum (UK) Ltd (offer for sale) (11/12) 10
				Norcros Ltd (rights) (12/12) 10
Week 7 (15/12-19/12)			Bowthorpe Holdings Ltd (rights) (16/12) 8	Royal Insurance Company Ltd (rights) (15/12) 120
For coming			Tokyu Land Corp (placing?) (4/2/81) 25	
		TOTAL 7	TOTAL 73	385

*Issues announced:	1977	118	815
	1978	60	259
	1979	162	946
	1980 to date	226	700
*Issues completed	1977	143	784
	1978	63	910
	1979	150	979
	1980 to date	234	668

*Includes issues of less than 3.

GILT EDGED YIELDS (F.T. HIGH COUPON)

Yields



INTERBANK RATES

21 — — 21

20 — — 20

19 — — 19

18 — — 18

17 — — 17

16 — — 16

15 — — 15

