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G.H. Edgell
MARKETS
DSS

SECRET

NOTE FOR WEDNESDAY MEETING

MARKETS: 12 NOVEMBER 1980 TO 18 NOVEMBER 1980

JHS
2/11

MONEY

Conditions in the money markets remained moderately stringent throughout the week until Tuesday, the chief factors involved being the unwinding on Wednesday of a previous purchase of commercial bills by the Bank, Friday's call on 11 3/4% Exchequer 1986 and the settlement of gilt sales on every day before the weekend. Against this, the net Exchequer position was consistently, and on Friday very substantially, in the market's favour; in the absence of large opposing factors, this contributed to a small market surplus on Tuesday.

The Bank assisted the market chiefly by the renewal to 3 December, at the reduced level of 1% of eligible liabilities, of the gilt purchase and resale agreement which matured on Monday. In addition, regular assistance by the Bank was necessary on every day but Tuesday. The help included further purchases of eligible bills both outright and for resale after the November makeup date. On Tuesday a small amount of Treasury Bills was sold to absorb surplus funds.

Short interbank rates were generally firm throughout the week, though the overnight rate fell back in Tuesday's easier conditions. Rates at three months and over were easier in the first part of the week after more optimistic views about the likely date for an MLR cut became current, but showed some firmness after the weekend, perhaps influenced by the new increases in US discount and prime rates. The three month rate finished 3/8% down at 16%.

Eurosterling rates were easy throughout until Monday when a firm tendency became evident, again presumably reflecting movements in US rates. The three month rate ended the week 5/16% lower at 16 1/4%.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.0107 to 14.3669.

LOCAL AUTHORITY BONDS

The rate for one year bonds fell by 1/4% to 14 5/8%. Issues totalled £8.35 mn. (£12 mn last week) against maturities of £7.35 mn.

GILTS

The tone was generally firm but trading mostly subdued during the week with further evidence of rising US rates causing only temporary weakness on Monday.

The undertone remained firm on Wednesday and prices made modest gains. Sentiment improved further on Thursday following an overnight decline in US interest rates and the miners' and BL workers' proposed pay settlements. By mid-day longs were up to 1 3/4 points higher, though prices slipped back slightly in the absence of a cut in MLR and on confirmation of the October rise in money. Friday was quiet with prices tending to drift lower. At the official close the issue of a further tranche of £1 bn of 11 3/4% Treasury Stock 2003/07 was announced (the longest maturity since April). The announcement had little impact on prices.

After the weekend the market weakened on news of the rise in the Federal Reserve discount rate and doubts about the prospects of further cuts in public spending. After initial selling, however, prices tended to rally despite news of an increase in Chase Manhattan's prime rate to 16 1/4% and by the close longs were only about 1/8-1/4 down on balance. Further improvement was seen in after-hours trading following news of the October trade surplus. Yesterday the market opened steady and edged further ahead in quiet trading to close with gains of about 3/8-1/2.

Over the week as a whole prices of shorts rose by about 3/4-1 and longs by about 1 3/4.

EQUITIES

The market initially improved on Wednesday before enthusiasm was dampened by news of Consolidated Gold Field's £181 million rights issue. Demand revived on Thursday, however, following the better news on pay though the rise in prices was trimmed by late profit-taking. Further advances were seen on Friday after the overnight rise on Wall Street and amid renewed optimism about a cut in MLR. Early trading was dull on Monday but sentiment improved later in the day after the publication of the trade figures. The size of the October surplus coupled with acceptance of the BL pay offer and the overnight Wall Street rally provoked fresh gains yesterday which were extended as the conviction grew of a forthcoming cut in MLR. The FT index rose back above the 500 mark to 507.7, an increase of 12.6 on the day (the largest since 3 July) and 20.3 over the week as a whole.

Queue

Three new rights issues were added to the queue: £50 mn by Johnson, Matthey, £4 mn by Warren Plantation Holdings and £10 mn of convertible loan stock by Portals Holdings. Following the announcement of the Consolidated Gold Fields issue, the queue now totals £399 against £580 mn last week.

During the week Gaz de France applied for a place in the queue for an issue of £30 mn of sterling loan stock in the domestic market, but subsequently withdrew. EIB are planning a sterling issue in the domestic market in January, but have not yet formally applied for timing consent.

OTHER

The Taisho Marine and Fire Insurance Company, which is incorporated in Japan, is proposing to issue 30,000,000 common shares, evidenced by European Depositary Receipts, by means of a placing primarily in the UK. The Receipts will be placed at a price denominated in US dollars and the issue is expected to raise about \$38 mn.

(Init EAJG)
19 November 1980

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

	12.11.80 <u>-18.11.80</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	- 7	- 358	- 1,162	- 1,261
Other short-dated	<u>+ 16</u>	<u>+ 212</u>	<u>+ 1,701</u>	<u>+ 1,791</u>
	+ 9	- 146	+ 539	+ 530
Mediums	+ 296*	+ 389	+ 4,554	+ 4,615
Longs and undated	<u>-</u>	<u>+ 958</u>	<u>+ 3,577</u>	<u>+ 3,843</u>
Total Issue				
Department trans- actions	+ 305	+ 1,201	+ 8,670	+ 8,988
CRND	+ 196	+ 355	+ 401	+ 404
Redemptions	<u>-</u>	<u>-</u>	<u>- 511</u>	<u>- 800</u>
	<u>+ 501</u>	<u>+ 1,556</u>	<u>+ 8,560</u>	<u>+ 8,592</u>

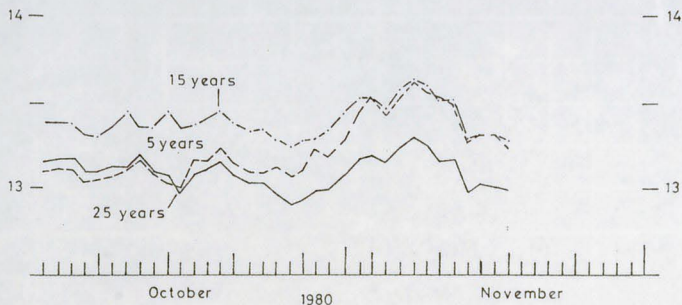
* Includes + 279 from call on 11 3/4% Exchequer 1986

2. Redemption Yields (tax ignored)

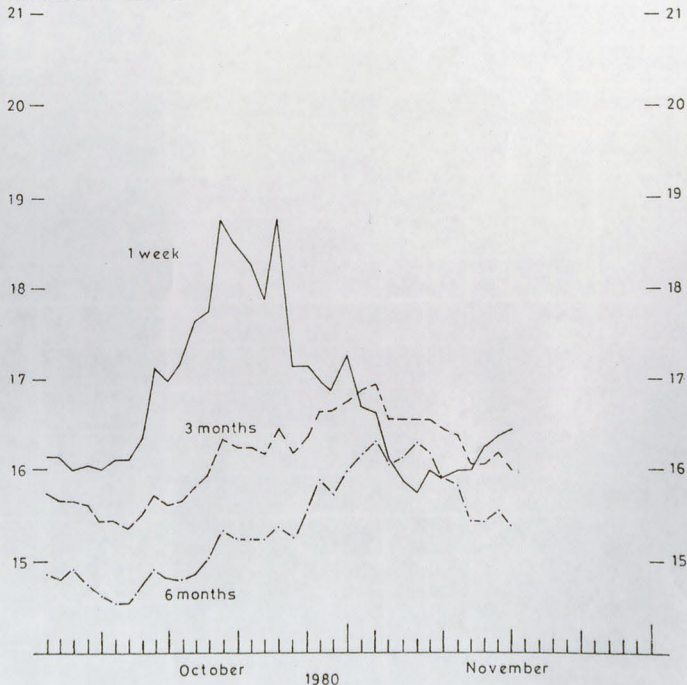
	<u>11 November</u>	<u>18 November</u>
11 1/2% Treasury 1981	14.76	14.67
8 1/4% Exchequer 1981	14.76	14.51
12% Treasury 1984	13.16	12.82
13 1/4% Exchequer 1987	13.37	13.16
13% Treasury 1990	13.37	13.10
12 1/4% Exchequer 1999	13.31	13.08
11 1/2% Treasury 2001/04	13.02	12.79
12% Exchequer 2013/17	12.53	12.33
3 1/2% War (Flat Yield)	10.96	10.82

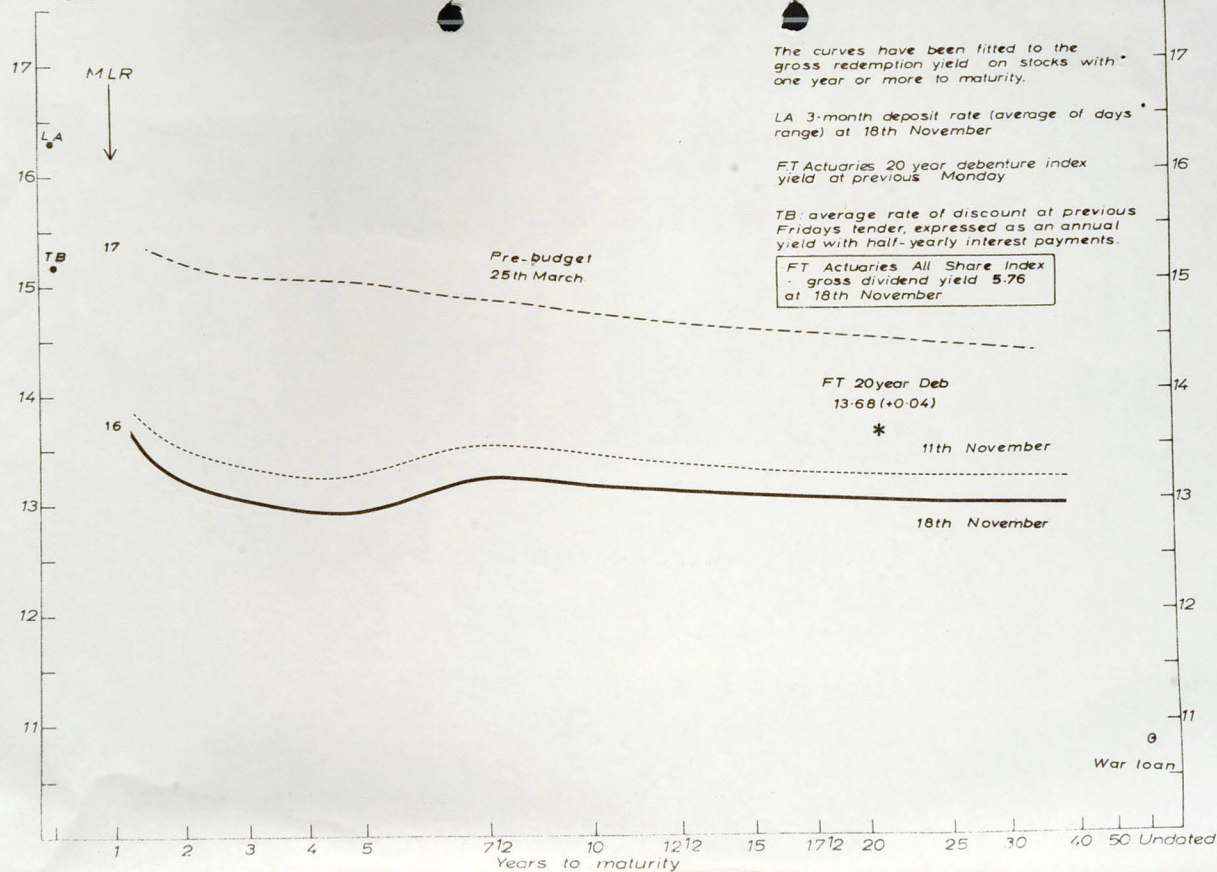
GILT-EDGED YIELDS (F.T. HIGH COUPON)

Yields



INTERBANK RATES





The curves have been fitted to the gross redemption yield on stocks with one year or more to maturity.

LA 3-month deposit rate (average of days range) at 18th November

FT Actuaries 20 year debenture index yield at previous Monday

TB: average rate of discount at previous Fridays tender, expressed as an annual yield with half-yearly interest payments.

FT Actuaries All Share Index gross dividend yield 5.76 at 18th November

FT 20year Deb
13.68 (+0.04)

*

11th November

18th November

War loan