

SECRET

NOTE FOR WEDNESDAY MEETING

MARKETS: 26 NOVEMBER 1980 TO 2 DECEMBER 1980

MONEY

After an easy opening to the week liquidity pressures in the money markets were sharply renewed on Friday and persisted thereafter for the rest of the week. The net Exchequer position remained consistently in the market's favour, most substantially before the weekend, but was counterbalanced on Friday by a number of factors including a sizeable Treasury Bill take-up and increase in the note circulation, the monthly oil revenue payment to a Bank customer and the settlement of foreign exchange transactions with the Bank. Conditions were also affected on Tuesday by the settlement of gilt sales.

On Thursday the Bank acted to absorb surplus funds by the sale of a large amount of Treasury Bills: these matured the following day, thus helping to relieve Friday's shortage. Assistance to the market was necessary every day from Friday onwards, once again partly in the form of outright purchases of eligible bills.

Short interbank rates continued until Thursday the easing which followed Monday's MLR cut. In the tighter conditions prevailing from Friday onwards some firming was evident, but seven day and one month rates remain some 2 - 1 1/2 lower than before the rate reduction.

Longer rates tended to firmness throughout the week, the three month rate finishing 1/4% higher at 14 11/16%.

On month Eurosterling rates were soft throughout the week. Rates at three months and over remained generally steady although the three month rate fell back sharply on Friday and finished the week 3/8% down at 14 5/8%.

At the Treasury Bill tender on Friday the average rate of discount fell by 1.1375 to 12.9502.

LOCAL AUTHORITY BONDS

The rate for one year bonds was unchanged at 13 3/4%. Issues amounted to £16.25 mn (£13 mn last week) against maturities of £15 mn.

The bond queue is now full from 31 December to 31 March 1981, the end of the authorities' financial year.

GILTS

The market continued to move erratically following the Chancellor's economic package and with continued rises in US prime rates; but over the week as a whole prices were little changed.

The market opened reasonably firm on Wednesday although tenders for 11 1/2% Treasury 1989 A were small. Initial gains in mediums and longs were trimmed back slightly following news of a further rise in US prime rates to 17 3/4%. Prices drifted lower on Thursday, particularly at the medium and long end, and the trend was mixed on Friday amid fears about the outcome of the miners' settlement.

After the weekend, the market was firmer, helped by the news that the miners had in fact accepted the pay offer. This tendency continued initially yesterday with rises of up to 1/2 in longs by lunchtime. Part of these gains was lost in the afternoon on the news that US prime rates had risen to 18 1/2%; but the market closed slightly higher on balance.

Over the week as a whole prices of shorts were little changed while those on longs were about 1/8 higher.

EQUITIES

Prices slipped back further on Wednesday amid continuing uncertainties about the economic package announced on Monday. A recovery in leading shares on Thursday was halted by gloomy trading announcements from Courtaulds (no interim dividend) and ICI, but conditions were steadier on Friday with most interest focussed on electrical shares. After the weekend, news of the miners' pay settlement encouraged initial interest on Monday but this was not sustained and prices drifted lower. A sharp overnight decline in Wall Street, coupled with the tension in Poland and the Middle East, led to continued weakness yesterday and the FT index ended the day 11.6 lower at 481.7, a fall of 15.6 over the week as a whole. The index has now fallen by over 34 points from its 1980 peak of 515.9 on 21 November (the day before the Chancellor's measures were announced).

NEW ISSUES

Queue

A number of possible issues by foreign borrowers in the domestic market, including two by French public sector institutions, were added to the queue this week. Gaz de France is raising £30 mn through a placing of 35-year loan stock (lead manager is County Bank with Credit Lyonnais as "co-manager"). Credit Foncier is planning a 25-year issue of about £50 mn (lead bank is Morgan Grenfell). Other issues are £50 mn by EIB (no other details known at present) and £75 mn by the Canadian drinks firm, Hiram Walker-Consumers Home Inc. (lead bank is Warburgs).

Several other borrowers (eg Sweden and City of Copenhagen) are known to be interested in making issues but have not yet been added to the queue.

So far as UK companies are concerned, Associated Dairies Group Ltd is planning a rights issue of £50 mn, while Energy Funding Ltd and Pennine Resources Ltd are making issues of £5 mn each. The queue now totals £559 mn compared with £326 mn last week.

NET CAPITAL ISSUES

The net amount of new money raised in banking November was £99 mn compared with £172 mn in October. The total for banking December could be around £186 mn which would be wholly accounted for by the Consolidated Gold Fields' rights issue.

(Init EAJG)

3 December 1980

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

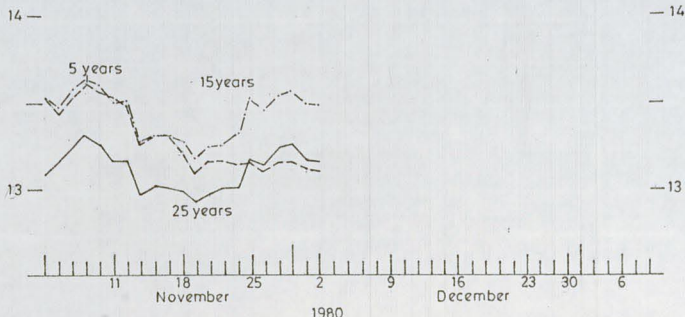
	26.11.80 <u>- 2.12.80</u>	Cal.Qtr. <u>to date</u>	Fin.Year <u>to date</u>	21.2.80 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 23	- 382	- 1,187	- 1,303
Other short-dated	<u>- 6</u>	<u>+ 184</u>	<u>+ 1,674</u>	<u>+ 1,780</u>
	- 29	- 198	+ 487	+ 465
Mediums	+ 74	+ 608	+ 4,773	+ 4,918
Longs and undated	<u>-</u>	<u>+ 1,325</u>	<u>+ 3,944</u>	<u>+ 4,209</u>
Total Issue				
Department trans- actions	+ 45	+ 1,735	+ 9,204	+ 9,592
CRND	+ 15	+ 355	+ 401	+ 416
Redemptions	<u>- 25</u>	<u>- 251</u>	<u>- 762</u>	<u>- 1,057</u>
	<u>+ 35</u>	<u>+ 1,839</u>	<u>+ 8,843</u>	<u>+ 8,951</u>

2. Redemption Yields (tax ignored)

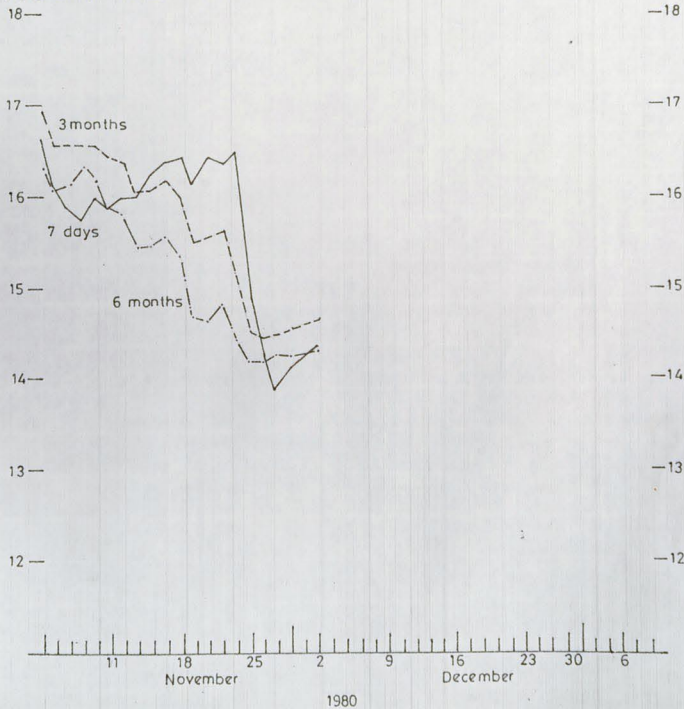
	<u>25 November</u>	<u>2 December</u>
8 1/4% Exchequer 1981	13.66	13.17
13 1/2% Exchequer 1983	12.95	12.95
12% Treasury 1984	12.76	12.78
13 1/4% Exchequer 1987	13.16	13.07
13% Treasury 1990	13.32	13.25
12 1/4% Exchequer 1999	13.27	13.24
11 1/2% Treasury 2001/04	13.00	12.97
12% Exchequer 2013/17	12.52	12.47
3 1/2% War (Flat Yield)	11.05	11.14

GILT EDGED YIELDS (F.T. HIGH COUPON)

Yields

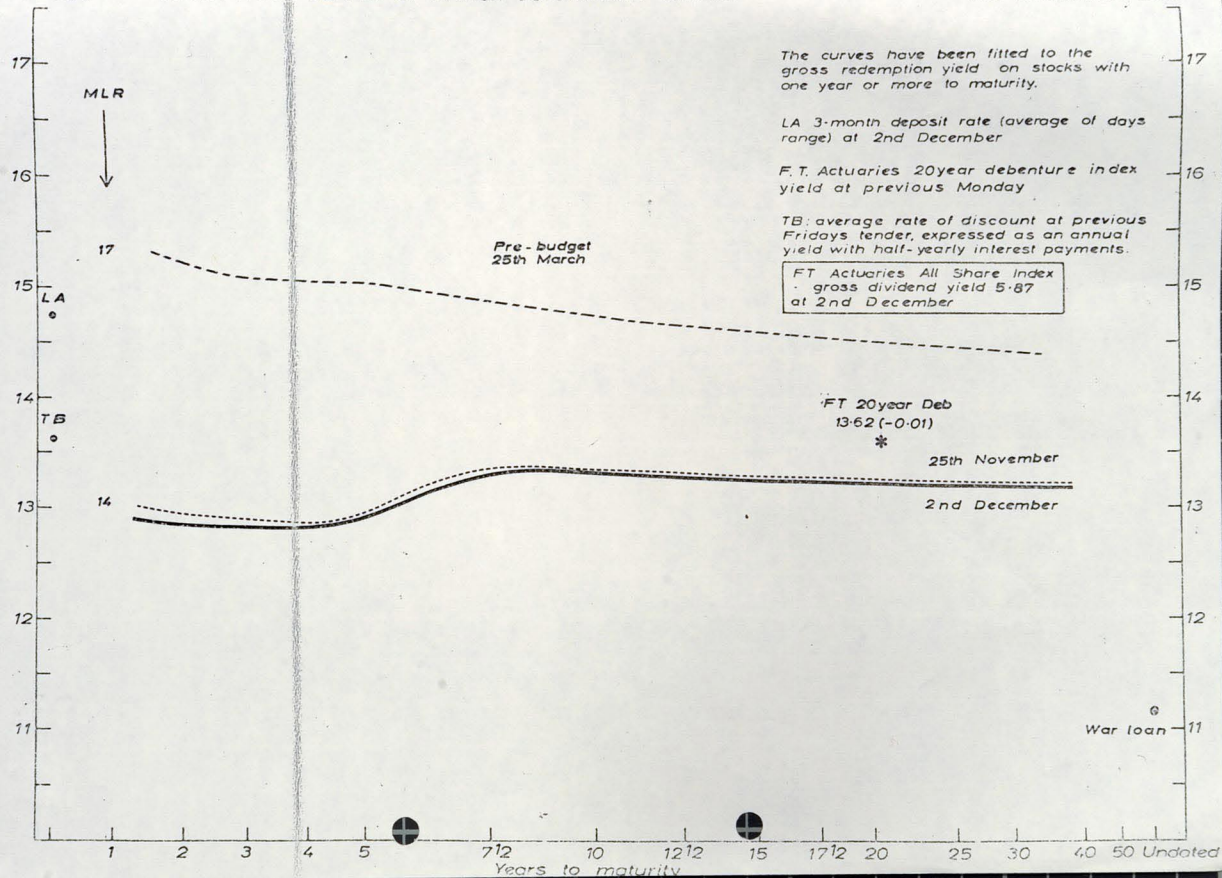


INTERBANK RATES



Per cent Time Yield Curves of British Government Stocks

3rd December 1980



Years to maturity

SECRET

£ millions

Date	Government, etc.	NEW ISSUES OF 3 OR OVER Other Fixed Interest (excl. Convertibles)	Convertible Stocks	Others	
1980/81					
Current week (3/12-5/12)			Arthur Bell & Sons Ltd (rights) (5/12) 15		
Week 2 (8/12-12/12)	Gaz de France (placing) (10/12) 30		Allied London Properties Ltd (rights) (8/12) 10	Pennine Resources Ltd (offer for sale) (10/12) 5	
Week 3 (15/12-19/12)				Warren Plantation Holdings Ltd (rights) (11/12) 4	
Week 4 (22/12-24/12)				Norcros Ltd (rights) (12/12) 10	
Week 5 (29/12-2/1)				Royal Insurance Company Ltd (rights) (15/12) 120	
Week 6 (5/1-9/1)			Portals Holdings Ltd (rights) (6/1) 10	Johnson, Matthey & Co Ltd (rights) (22/12) 50	
Week 7 (12/1-16/1)	Republic of Iceland (placing?) (13/1) 20			Energy Funding Ltd (8/1) 5	
Porthcoming	Credit Foncier (26/1) 50	Hiram Walker - Consumers Home Inc (21/1) 75	Tokyu Land Corp (placing?) (4/2) 25	Hadson Petroleum (UK) Ltd (offer for sale) (15/1) 10	
	European Investment Bank (2/3) 50			Associated Dairies Group Ltd (rights) (28/1) 50	
				Davy Corporation Ltd (rights) (29/1) 20	
	TOTAL	150 TOTAL	75 TOTAL	60 TOTAL	274
*Issues announced:	1977	110		815	
	1978	60		959	
	1979	162		946	
	1980 to date	255		930	
*Issues completed	1977	143		784	
	1978	63		910	
	1979	150		979	
	1980 to date	234		702	

*Includes issues of less than 3.

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