

Markets
Doss

DOMESTIC MARKETS: 10 NOVEMBER - 4 DECEMBER

Case 7/12

MONEY MARKETS

Conditions in the money markets were fairly tight in the first week of the period, with the Bank providing assistance each day. Thereafter conditions varied considerably during each week with surpluses on some days (absorbed by sales of Treasury bills) and large shortages on others, when Bank assistance was necessary. In providing assistance the Bank placed much greater reliance on outright purchases of eligible bills (rather than purchases for later resale) than in the last few years.

At the beginning of the period there were two gilt-edged sale and repurchase facilities outstanding with the banking sector (for a total of £1160 million) due to be repaid on 17 and 24 November respectively. The facility unwinding on 24 November was not renewed; that unwinding on 17 November was extended to 3 December, when it too was allowed to expire.

INTEREST RATES

A 2% cut in MLR, to 14%, was announced after close of business on 24 November. Following this the Clearing Banks' base rates were also reduced to 14% (National Westminster's on 25 November and the other banks' on 26 November).

	10.11.80	4.12.80
Interbank		
7 days	15 3/4-16 1/16	14 3/16-14 1/2
1 month	16 1/4-16 7/16	14 3/8 -14 1/2
3 months	16 7/16-16 5/8	14 9/16-14 3/4
6 months	16-16 1/4	14 1/8 -14 5/16
Local Authority		
7 days	16-16 1/4	14 3/8
1 month	16 1/4-16 3/8	14 1/2-14 5/8
3 months	16 1/4-16 9/16	14 5/8-14 3/4
6 months	15 7/8-16 1/4	14 3/8-14 1/2
Sterling CDs		
1 month	16 5/8-16 7/8	14 3/8-14 1/2
3 months	16 7/8-16 1/2	14 7/16-14 9/16
6 months	15 7/8-16	13 15/16-14 1/16

GILT-EDGED

The main factor affecting the market in the period was the economic package and the cut in MLR announced on 24 November. Before that the market was generally firm in anticipation that the rate would be cut, and was encouraged by the better outlook for inflation and the winter pay round. The issue of £1000 million long dated stock on 20 November was almost fully subscribed and heavy sales were made of the then medium tap. Initial reaction to the Chancellor's statement was adverse with longs falling sharply although shorts were generally firm. Thereafter the market moved erratically in the face of the continuing uncertainties about the economic package and the further rise in US prime rates.

YIELDS BASED ON OFFICIAL CLOSING PRICES

	12 3/4% Exchequer 1981	12% Treasury 1983	12% Treasury 1984	13% Treasury 1990	12 1/4% Exchequer 1999
10 November	13.50	13.51	13.16	13.46	13.40
12 November	13.57	13.35	13.10	13.33	13.28
17 November	13.51	13.22	12.93	13.17	13.15
19 November	13.10	12.90	12.73	12.99	12.97
24 November	12.96	13.10	12.67	13.15	13.13
26 November	12.82	12.97	12.78	13.23	13.23
1 December	12.74	13.01	12.80	13.27	13.28
4 December	12.74	13.11	12.89	13.40	13.36

10-14 NOVEMBER

The market, which had closed the previous week easier in the face of higher US prime rates, opened slightly better. Encouraged by October's wholesale price and CGBR figures, and the proposed pay settlements for the miners and BL workers, the market strengthened steadily for most of the week. On Friday afternoon a further tranche of £1000 mn 11 3/4% Treasury 2003/07 (the longest maturity since April) was announced, partly paid, at a minimum price of £92.50.

17-21 NOVEMBER

After initial weakness on further evidence of rising US rates the market quickly rallied and improved further on the news of the October trade surplus. The improvement continued through the week, prompted by revived expectations of a cut in MLR and heavy sales were made of the medium tap, 11 3/4% Exchequer 1986. The issue on 20 November of 11 3/4% Treasury 2003/07 'A' was almost fully subscribed and it was announced that it would not operate as a tap. Although prices eased on this news, the market soon recovered. On Friday a further tranche of £1,000 million 11 1/2% Treasury 1989 (11 3/4% Exchequer 1986 having been withdrawn as a tap) was announced, at a minimum price of £92.00.

24-28 NOVEMBER

Business was on a small scale ahead of the Chancellor's statement. Reaction to this was adverse with longs falling quite sharply on Tuesday although shorts were generally firm. Wednesday saw a return to steadier conditions although there was minimal interest in the issue of 11 1/2% Treasury 1989 'A'. For the rest of the week the market fluctuated uneasily in the face of continuing uncertainties about the economic package, higher US prime rates and concern about the miners' pay settlement.

1-4 DECEMBER

The market was firmer on Monday helped by the news that the miners had accepted their pay offer. An easier tendency developed on Tuesday (prompted by the rise in US banks' prime rates from 17 3/4 to 18 1/2% and the situation in Poland), which continued on Wednesday and Thursday.

OFFICIAL STOCK TRANSACTIONS
(Sales+/Purchases -)

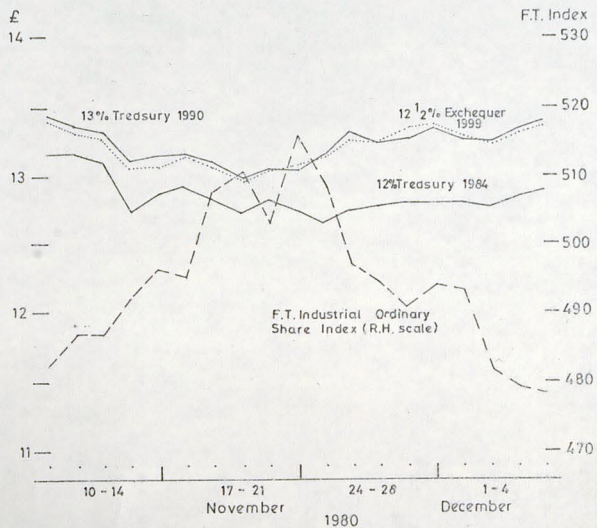
£ millions

	10 November-4 December	1980/81 Financial Year to date
ISSUE DEPARTMENT		
Next Maturities	-101.0	-1,257.9
Other short dated	+ 15.0	+1,686.2
Medium dated	+598.7	+4,865.8
Longs and undated	<u>+366.1</u>	<u>+3,943.5</u>
TOTAL ISSUE DEPARTMENT TRANSACTIONS		
CRND	+878.8	+9,237.6
Cash Redemptions	+371.7	+ 413.1
	<u>-257.5</u>	<u>- 768.4</u>
GRAND TOTAL		
	<u>+993.0</u>	<u>+8,882.3</u>
EQUITY MARKET		

The market opened the period on a steady note. The size of the October trade surplus, acceptance of the BL pay offer and renewed expectations of a cut in MLR all provided further impetus and by Friday 21 November the FT index reached a new 1980 peak of 515.9 (some 33 points higher than at the start of the period). After the Chancellor's statement, however, a decline set in, prompted by doubts about the effectiveness of the measures, the fall in longer dated gilts and further disappointing company results. News of the miners' pay settlement brought some encouragement but sentiment was not sustained and, with the tension in Poland and the Middle East, prices weakened further in the first few days of December. By 4 December the FT index had fallen back to 478.2 compared with 476.6 on 7 November.

5 December 1980

Gross Redemption Yields on Gilt-edged Stocks
F.T. Share Index



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SECRET

£ mns.

Gilt sales (+)/Purchases (-)

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Actual and Required 1980/81
(as at close of business 4 December 1980)

Banking Months	Total Net Sales	(of which non-bank private sector)	Net non-bank private sector sales required to meet £M3 target*
Feb:	+ 296	(+ 428)	
March:	+ 2	(+ 166)	+ 6,074
April:	+ 1,116	(+ 775)	
May:	+ 547	(+ 409)	
June:	+ 1,095	(+ 846)	
July:	+ 1,530	(+ 541)	
Aug:	+ 1,328	(+ 961)	
Sept:	+ 982	(+ 892)	
Oct.	+ 853	(+ 819)	
Nov:	+ 1,133	(+ 665)	
Dec: To date	+ 304		+ 500
Jan: redemption of stock held by market instalments on part paid stock	- 297 ⁽¹⁾ + 495 ⁽²⁾		+ 500
Feb: redemption of stock held by market instalments on part paid stock	- 353 ⁽³⁾ + 1 ⁽⁴⁾		+ 455
Mar:			+ 455
April: redemption of stock held by market	- 591 ⁽⁵⁾		+ 450
	<u>+ 8,145</u>		<u>+ 8,434</u>

- (1) 11 1/2% Treasury 1981
- (2) 11 3/4% Treasury 2003/07 'A' and 11 1/2% Treasury 1989 'A'
- (3) 3 1/2% Treasury 1979/81
- (4) 11 1/2% Treasury 1989 'A'
- (5) 9 3/4% Treasury 1981

* Figures for November - April are monthly averages based on the quarterly path of sales to non-bank private sector contained in the Autumn NIF Financial forecast.

Chief Cashier's Office,
Markets Post (4564)
5 December 1980.

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Markets
Data

FOR BASLE

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Financial Markets Supplement as at
4.00 pm on Friday, 5 December 1980

Treasury Bill Tender

Offered:	£200,000,000
Average Tender Rate:	<u>£12.9977</u>
Lowest Price Accepted:	£96.75
Minimum Lending Rate:	<u>14%</u>

Parallel Market Rates (Range over the day)

Inter-bank	- 7 days: 14 1/4-14 11/16	1 month: 14 5/16-14 9/16	3 months: 14 1/4-14 13/16
Local Authority	- 7 days: 14 3/8-14 1/2	1 month: 14 5/8	3 months: 14 3/4
Sterling C.D.s		1 month: 14 3/8-14 1/2	3 months: 14 1/2-14 5/8

The Gilt-Edged Market

The market opened quiet and slightly easier. In quiet trading longs were generally 1/8 down on the day.

Official Stock Transactions: £92.1 million net purchases (all next maturities).

The Equity Market

The market also opened quiet and slightly easier and lost further ground during the day.

F.T Index: (at 3.00 pm) 471.8 (down -6.4).

5 December 1980

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