

NOTE FOR WEDNESDAY MEETING

MARKETS: 10 DECEMBER TO 16 DECEMBER 1980

MONEY

Money market conditions remained easy until the weekend under the influence of a net Exchequer position which was consistently favourable - particularly so on Wednesday and Friday, though on the latter day its effect was partially counterbalanced by a large increase in the note circulation. On Monday, however, the Exchequer moved strongly into surplus, and conditions tightened sharply as the market was also affected, on both Monday and Tuesday, by further note increases and by the maturity of Local Authority and Commercial bills in official hands. The maturity of a large amount of Treasury Bills on Monday was the only noteworthy factor favourable to the market after the weekend.

On every day before the weekend the Bank sold small to moderate amounts of Treasury Bills due to mature on the following day (Friday's on Monday) thus helping to smooth conditions by spreading the effect of market surpluses. In the following week, assistance by the Bank was necessary on both Monday and Tuesday.

Short interbank rates generally tended to softness before the weekend, though some firming was evident on Thursday in reaction after the extremely easy conditions of makeup day. These rates hardened sharply as pressure on funds was renewed on Monday and Tuesday.

Longer rates were generally firm throughout the week, the three month rate finishing 1/8% higher at 14 3/4%.

Eurosterling rates up to three months showed some easiness up to the weekend, but were a little firmer thereafter: the three month rate finished 1/16% down at 14 5/8%. Longer rates moved contrarily, hardening in the early part of the week but tending to softness from Monday onwards.

At the Treasury Bill tender on Friday the average rate of discount rose by 0.1387 to 13.1364.

LOCAL AUTHORITY BONDS

The rate for one year negotiable bonds rose by 1/4% to 14 1/8%. Issues were lower than expected, amounting to £10.45 mn (£17.7 mn last week) against maturities of £13 mn.

GILTS

The market continued its sharp downward adjustment in reaction to the November banking figures and continued rises in US prime rates. Yesterday conditions were initially firmer and the medium tap was reactivated; but the early gains were lost on further prime rate rises.

Further consideration of the November banking figures together with another rise in US prime rates (to 20%) led to continuing weakness on Wednesday and falls of 1-1 1/2 were widespread throughout the list. Shorts were reasonably steady the following day, but prices of longs continued to fall sharply. Some quite aggressive buying occurred at the lower levels in after-hours trading, however, and the market opened firmer on Friday morning. Early gains of 1/4 - 3/8 at the long end were maintained over the day's trading which saw the development of interest in the medium tap, 11 1/2 Treasury 1989 A.

This better tone was lost after the weekend following unfavourable press comment on the outlook for the gilt-edged market and amid fears of still higher US interest rates. The announcement on Monday afternoon of a further large trade surplus in November had little impact. But the market opened steadier yesterday and a firmer tendency developed during the morning. Large sales were made of the medium tap which was reactivated at a price of 25 1/8. Mediums and longs then moved further ahead, but prices eased towards the close on news of a further rise in US prime rates to a record 21% and this trend continued in after-hours trading.

Over the week as a whole prices of shorts fell by $1/2 - 1$ and longs by up to $2 \ 3/8$.

EQUITIES

The market showed no further reaction to the November banking figures on Wednesday and although conditions were extremely quiet, selective buying interest caused prices to advance modestly. After a large overnight fall on Wall Street, however, and amid fears of higher US interest rates, prices showed heavy losses on Thursday; ICL shares were marked sharply lower after disappointing final results. Some cheap buyers appeared on Friday morning but the rally proved short-lived and prices were little changed for the rest of the day. Sentiment was initially affected on Monday by news of Royal Insurances's £116 mn rights issue. But some encouragement was taken from a CBI survey which indicated that the recession might be bottoming out and prices edged higher during the day. Yesterday saw revived institutional demand encouraged by the trade figures and with shares in short supply the FT index rose by 5.5 on the day to 469.9, a rise of 4.0 over the week as a whole.

QUEUE

No new issues were added to the queue. Following the announcement of the rights issue by Royal Insurance the queue now totals £436 mn against £563 mn last week.

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

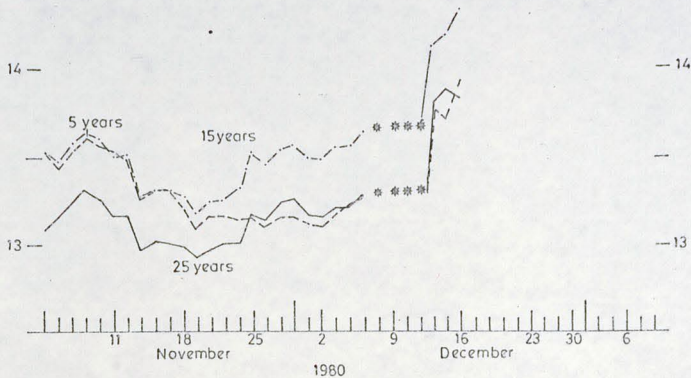
	9.12.80 <u>-16.12.80</u>	Cal.Qtr. <u>to date</u>	Fin.Year <u>to date</u>	21.2.80 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 48	- 641	- 1,445	- 1,540
Other short-dated	<u>- 3</u>	<u>+ 196</u>	<u>+ 1,685</u>	<u>+ 1,770</u>
	- 51	- 445	+ 240	+ 230
Mediums	+ 104	+ 804	+ 4,969	+ 5,021
Longs and undated	<u>- 24</u>	<u>+ 1,281</u>	<u>+ 3,900</u>	<u>+ 4,165</u>
Total Issue				
Department trans- actions	+ 29	+ 1,640	+ 9,109	+ 9,416
CRND	+ 1	+ 370	+ 417	+ 419
Redemptions	-	- 261	- 772	- 1,062
	<u>+ 30</u>	<u>+ 1,749</u>	<u>+ 8,754</u>	<u>+ 8,773</u>

2. Redemption Yields (tax ignored)

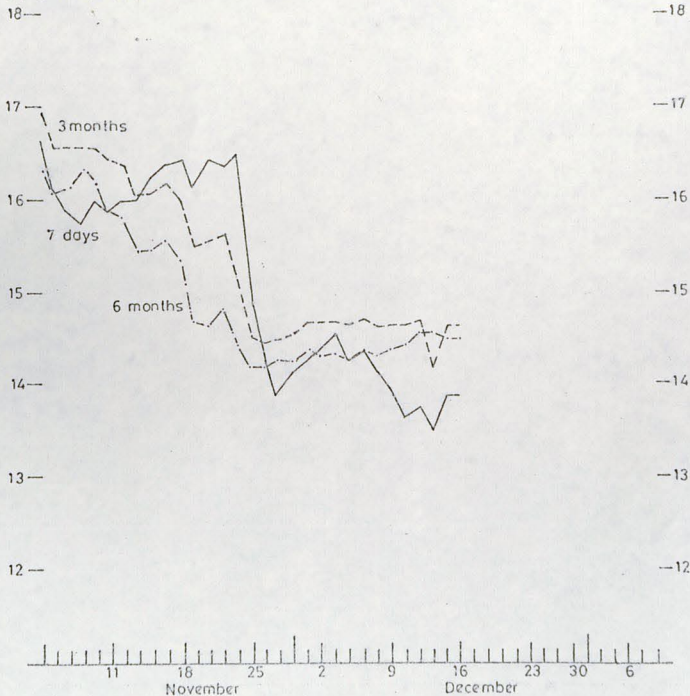
	<u>9 December</u>	<u>16 December</u>
8 1/4% Exchequer 1981	13.67	13.57
13 1/2% Exchequer 1983	13.28	13.46
12% Treasury 1984	13.13	13.47
13 1/4% Exchequer 1987	13.38	13.65
13% Treasury 1990	13.46	13.94
12 1/4% Exchequer 1999	13.58	13.93
11 1/2% Treasury 2001/04	13.28	13.61
12% Exchequer 2013/17	12.73	13.09
3 1/2% War (Flat Yield)	11.42	11.68

GILT EDGED YIELDS (F.T. HIGH COUPON)

Yields



INTERBANK RATES



* N/A due to FT strike

1980

SECRET

£ millions

Date	NEW ISSUES OF 3 OR OVER			
	Government, etc.	Other Fixed Interest (excl. Convertibles)	Convertible Stocks	Others
1980/81				
Current Week (17/12-19/12)				Greycoat Estates Ltd (rights) (17/12) 4
Week 2 (22/12-24/12)				Johnson, Matthey & Co Ltd (rights) (22/12) 50
Week 3 (29/12-2/1)				
Week 4 (5/1-9/1)			Portals Holdings Ltd (rights) (6/1) 10	Energy Funding Ltd (8/1) 5 Norcross Ltd (rights) (9/1) 12
Week 5 (12/1-16/1)	Republic of Iceland (placing?) (13/1) 20			Hadson Petroleum (UK) Ltd (offer for sale) (15/1) 10
Week 6 (19/1-23/1)		Hiram Walker - Consumers Home Inc (21/1) 75		Second Save & Prosper Investment Trust Ltd (22/1) 30
Week 7 (26/1-30/1)	Credit Foncier (27/1) 50			Associated Dairies Group Ltd (rights) (28/1) 50 Davy Corporation Ltd (rights) (29/1) 20
Forthcoming	European Investment Bank (2/3) 50		Tokyu Land Corp (placing?) (4/2) 25	Jebsens Drilling Ltd (private placement) (13/2) 25
	TOTAL 120	TOTAL 75	TOTAL 35	206

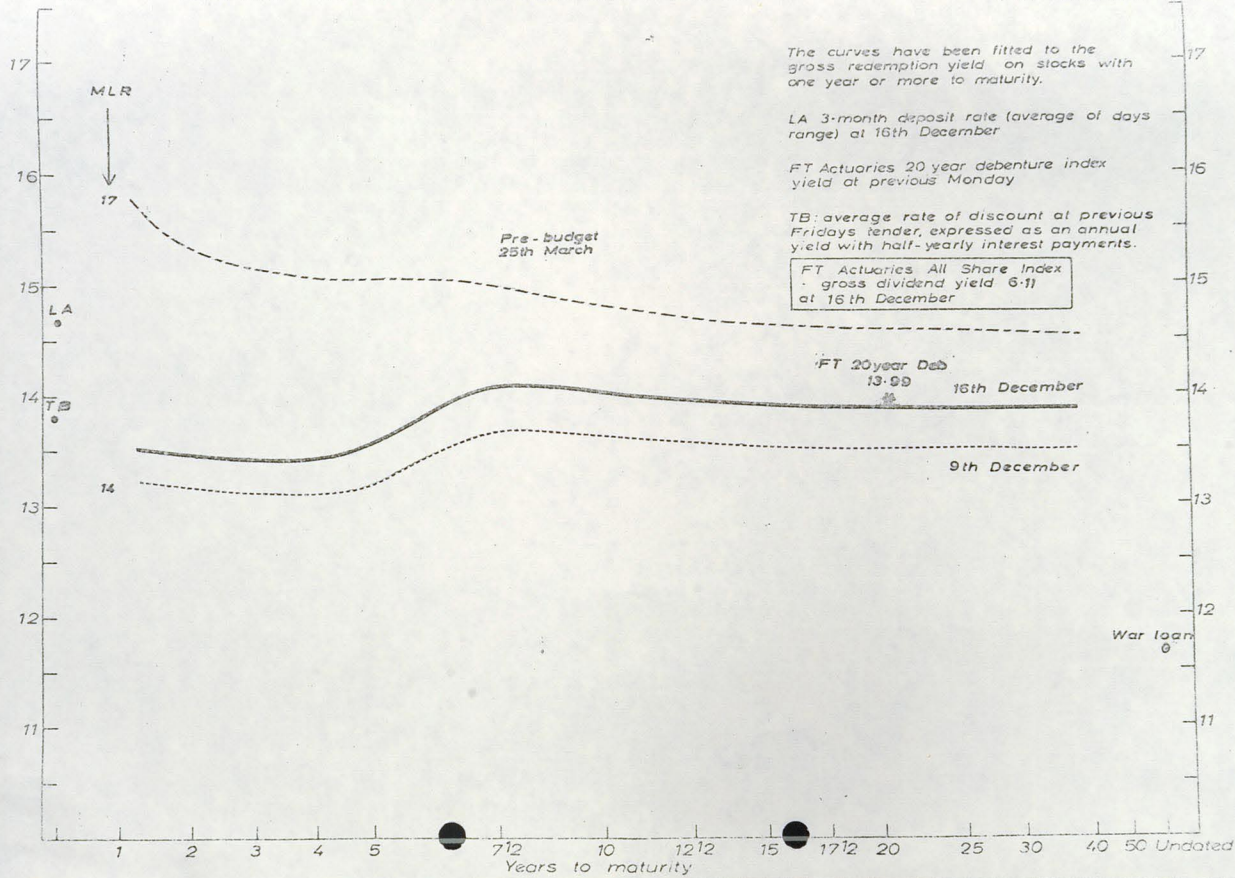
*Issues announced:	1977	118	815
	1978	60	959
	1979	162	946
	1980 to date	287	956
*Issues completed	1977	143	784
	1978	63	910
	1979	150	979
	1980 to date	258	923

*Includes issues of less than 3.

17 December 1980

Per cent Time Yield Curves of British Government Stocks

17th December 1980



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 16th December

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 6.11 at 16th December

FT 20 year Deb 13.99 16th December

9th December

War loan 6

Years to maturity