

## NOTE FOR WEDNESDAY MEETING

MARKETS: 7 JANUARY 1981 TO 13 JANUARY 1981

## MONEY

The recent pattern of very wide variations in the net Exchequer position from the early morning estimates continued this week, with substantial swings both for and against the market. Overall, however, the net position was almost consistently unfavourable, and there was resultant pressure on funds on every day but Tuesday when a favourable revenue swing and the generosity of the Bank's assistance the previous day combined to produce a surplus.

The market was also adversely affected on Friday by the call on 11 1/4% Treasury 2003/4, and on every day by the maturity of commercial bills in official hands. Sizeable falls in the note circulation continued to provide a counterbalancing favourable factor.

Assistance by the Bank was necessary on every day but Tuesday.

Short interbank rates tended to firmness almost throughout the week, particularly on Wednesday after the initial slackening which followed the reduction in the Reserve Asset Ratio. These rates fell back again sharply in Tuesday's easier conditions.

Longer rates tended to stagnate in the earlier part of the week but were markedly easier on Tuesday. The three month rate finished 1/16% lower at 14 3/8%.

Eurosterling rates up to three months showed no decisive movement until Tuesday, when some easing became evident; longer rates were mildly easy throughout the week. The three month rate finished at 14 5/16%, down by 1/8%.

At the Treasury Bills tender on Friday the average rate of discount fell by 0.0722 to 12.9149. The amount of bills on offer was reduced from £200 to £100mn.

## LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by 1/8% to 13 5/8%. Although places in the queue for this week's issue had been fully booked, a large number of dropouts meant that the total issued amounted to only £15.25mn (£16.75mn last week) against maturities of £14.2mn.

## GILTS

Prices eased for most of the week, but the market proved quite resilient yesterday following the announcement on Monday of the December CGBR.

The market continued dull on Wednesday reflecting the confused reaction to the December banking figures, concern about public sector pay and a forthcoming large call; tenders for 12 1/4% Exchequer 1999 "B" were small. Sentiment was further depressed on Thursday by the overnight events on Wall Street and longs closed with losses of up to 3/4. Some improvement was seen on Friday in very quiet trading; main demand was focussed on some of the low coupon stocks.

After the weekend, the market opened easier, partly reflecting some selling which had taken place after-hours on Friday as well as renewed uncertainties about US interest rates and continued concern at the industrial situation. Some recovery was seen before the publication of the December CGBR, but the market eased again on news of the outturn which was much larger than expected; mediums and longs closed with losses of up to 5/8. This trend continued initially yesterday, but the appearance of some buyers at the lower levels saw the market recover in thin trading to close little changed.

Over the week as a whole prices of shorts fell by up to 5/8 and longs by 1 or more.

## EQUITIES

The market eased throughout the week on lack of investment interest amid concern at the deteriorating industrial relations situation

and the prospects for public sector pay. On Thursday prices were marked lower after the sharp overnight fall on Wall Street but rallied later in the day on bear closing. Doubts about the prospects for the oil sector and worsening expectations of dividend levels emerged as additional bearish factors after the weekend. Yesterday the FT index lost a further 7.7 points to close at 447.4, a fall of 20.2 over the week as a whole and the lowest level for seven months.

## NEW ISSUES

## Queue

Three new issues were added to the queue. These include an issue of £10mn by an investment trust, the New Darien Oil Trust Ltd and an equity rights issue of up to £20mn by Westland Aircraft Ltd. The queue now stands at £429mn against £433mn last week.

The proposed issue of convertible stock in the domestic market by the Japanese company Tokyu Land Corp has been cancelled. But after some uncertainties the placing of £15mn by the Republic of Iceland is due to go ahead today. This would be the first issue in the domestic market by an overseas sovereign borrower since Denmark in July 1980.

(Init EAJG)

14 January 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases - )

1. Transactions (cash value)

	7. 1.80 <u>-13. 1.81</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	- 61	- 128	- 1,602	- 1,682
Other short-dated	<u>+ 2</u>	<u>+ 66</u>	<u>+ 1,826</u>	<u>+ 1,905</u>
	- 59	- 62	+ 224	+ 223
Mediums	-	+ 78	+ 5,193	+ 5,245
Longs and undated	<u>+ 501*</u>	<u>+ 511</u>	<u>+ 4,433</u>	<u>+ 4,696</u>
Total Issue				
Department trans- actions	+ 442	+ 527	+ 9,850	+10,164
CRND	-	+ 1	+ 423	+ 425
Redemptions	-	-	- 772	- 1,062
	<u>+ 442</u>	<u>+ 528</u>	<u>+ 9,501</u>	<u>+ 9,527</u>

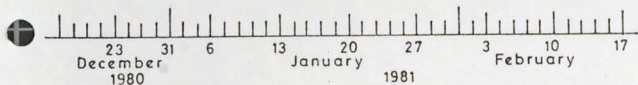
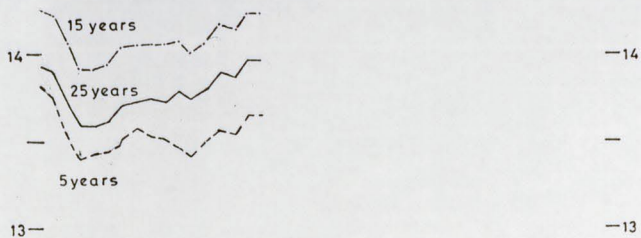
\* Includes 490 in respect of call on 11 3/4 Treasury 2003/07 "A".

2. Redemption Yields (tax ignored)

	<u>6 January 1981</u>	<u>13 January 1981</u>	<u>Change</u>
12 3/4% Exchequer 1981	12.71	13.02	+0.31
13 1/2% Exchequer 1983	13.08	13.35	+0.27
12% Treasury 1984	12.95	13.20	+0.25
13 1/4% Exchequer 1987	13.34	13.49	+0.15
13% Treasury 1990	13.71	13.86	+0.15
12 1/4% Exchequer 1999	13.84	14.09	+0.25
11 1/2% Treasury 2001/04	13.53	13.74	+0.21
12% Exchequer 2013/17	13.03	13.23	+0.20
3 1/2% War (Flat Yield)	11.47	11.59	+0.12

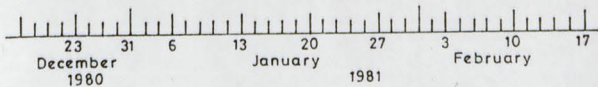
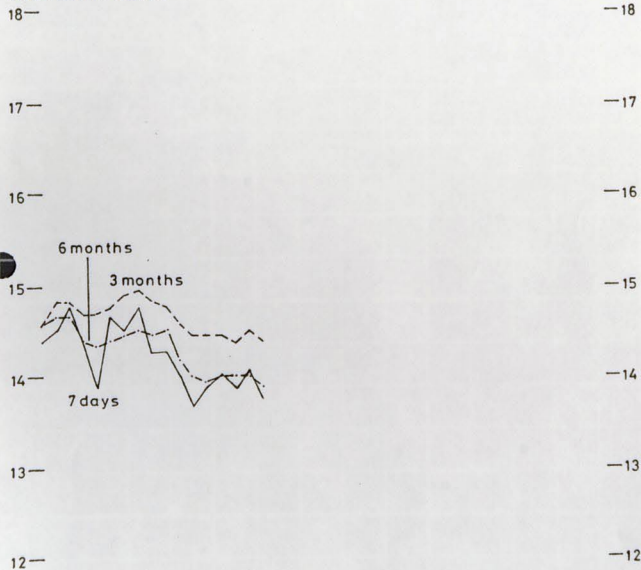
Gilt edged yields (F.T. high coupon)

Yields



Interbank rates

Yields



SECRET

£ millions

Date 1981	Government, etc.	NEW ISSUES OF £ OR OVER		Others
		Other Fixed Interest (excl. Convertibles)	Convertible Stocks	
Current week (14/1-16/1)	Republic of Iceland (placing) (14/1)	15		
Week 2 (19/1-23/1)				Second Save & Prosper Investment Trust Ltd (22/1) 30
Week 3 (26/1-30/1)	Credit Foncier (27/1)	50		New Darien Oil Trust Ltd (26/1) 10 Associated Dairies Group Ltd (rights) (28/1) 50 Davy Corporation Ltd (rights) (29/1) 20 Westland Aircraft Ltd (rights) (30/1) 20
Week 4 (2/2-6/2)				
Week 5 (9/2-13/2)		Bristol Waterworks (offer for sale by tender) (10/2)	5	Jepsens Drilling Ltd (private placement) (13/2) 25
Week 5 (16/2-20/2)		Mid-Sussex Water Company (offer for sale by tender) (16/2)	3	Murray Technology Ltd (17/2)
Week 7 (23/2-27/2)				
Forthcoming	European Investment Bank (2/3)	50	Continental Corp (8/4)	25
	Kingdom of Sweden (offer for sale?) (16/3)	100		Hadson Petroleum (UK) Ltd (offer for sale) (26/3) 10
	TOTAL	215	TOTAL	33
			TOTAL	171
*Issues announced:	1978	60		359
	1979	162		946
	1980	290		1,066
*Issues completed	1981 to date	9		
	1978	53		910
	1979	150		979
	1980	284		945
	1981 to date	-		2

\*Includes issues of less than 3.

14 January 1981

Per cent Time Yield Curves of British Government Stocks

14th January 1981

