

NOTE FOR WEDNESDAY MEETING

MARKETS: 14 JANUARY 1981 TO 20 JANUARY 1981

MONEY

The market was in surplus on Wednesday but conditions then tightened sharply, and liquidity pressures persisted throughout the remainder of the week. Despite substantial swings in the market's favour on almost every day, the net Exchequer position remained generally against the market (massively so on Tuesday) and its effect on the availability of funds was aggravated on Friday by the call on 11 1/2% Treasury 1989 'A', on Thursday and Tuesday by the settlement of further sizeable gilt sales and on every day by the maturity of commercial bills in official hands. The only major factor in the market's favour was the redemption of 11 1/2% Treasury 1981 on Thursday.

On Wednesday the Bank acted to absorb surplus funds and to relieve an expected shortage by the sale of Treasury Bills due to mature on Friday. Market assistance was necessary every other day.

After an easy opening to the week short interbank rates remained generally firm, though a temporary softening was evident on Monday when conditions were markedly less difficult than on the other days of shortage.

Longer rates were steady on Thursday and Friday but otherwise showed some tendency to ease, particularly at six months and over. The three month rate finished the week unchanged at 14 1/4%.

Eurosterling rates also tended to easiness, again most markedly at the longer end. The three month rate finished 3/16% down at 14 1/4%.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.0602 to 12.8547.

LOCAL AUTHORITY BORROWING

The rate for one-year bonds fell by $1/4\%$ to $13\ 5/8\%$. Issues amounted to £18.55 mn (£15.25 mn last week) against maturities of £19.4 mn.

GILTS

Fears about the outlook for the PSBR gave way after the weekend to modest optimism about lower inflation and a further cut in MLR.

The market opened quietly firm on Wednesday and prices tended to edge higher. Quite heavy selling developed the following day, however, in reaction to the Financial Secretary's remarks in Zurich on the outlook for the PSBR. Longs were down by up to 1 by lunchtime but recovered slightly just before the close. The decline continued on a smaller scale initially on Friday but the market recovered most of the day's losses after the publication of the December RPI.

After the weekend, the market opened firm and active amid optimism about the prospects for inflation and for an early cut in MLR; with the jobbers short of stock prices rose by up to $7/8$ at the long end. These gains were extended yesterday morning but some selling later in the day left prices little changed.

Over the week as a whole prices of shorts rose by about $1/4-1/2$ while longs were generally slightly lower.

EQUITIES

Concern at the economic and industrial scene (including the financial situation at ICL) led to continuing weakness on Wednesday although a technical recovery meant that the FT index fell only slightly. Prices edged higher on Thursday and the improved tone was maintained the following day with main interest being shown in oils and electricals. The somewhat firmer tendency continued after the weekend and yesterday the FT index rose by 5.0 to 458.6, a rise of 11.2 over the week as a whole.

NEW ISSUES

Queue

Seven new issues were added to the queue: these include equity rights issues of £23 mn by IMI Ltd and £35 mn by Rowntree Mackintosh Ltd. City of Leeds is planning an issue of £50 mn of stock in March. This would be the first such issue by a local authority since 1978. (Sunderland are also planning a stock issue for May but have not yet been formally placed on the queue).

Iceland's 35-year placement of £15 mn in the domestic sterling market was priced at 96 on a coupon of 14 1/2% to yield 15.11%, about 1.9% more than the yield on a comparable gilt. (This compares with the margin of 1/2% over gilts which Denmark was able to obtain on its placement in July 1980).

The EIB issue of £50 mn due at the beginning of March has been postponed to a later date. The IBRD are also interested in making a bulldog issue but no dates have yet been fixed.

(init EAJG)

21 January 1981.

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

	<u>14. 1.81</u> <u>-20. 1.81</u>	<u>Cal.Qtr.</u> <u>to date</u>	<u>Fin.Year</u> <u>to date</u>	<u>21.2.80</u> <u>to date</u>
Issue Department				
Purchases/sales	- 7	- 135	- 1,609	- 1,689
Next Maturities	+ 112	+ 178	+ 1,938	+ 2,017
Other short-dated	+ 105	+ 43	+ 329	+ 328
Mediums	+ 327*	+ 406	+ 5,520	+ 5,572
Longs and undated	+ 103	+ 613	+ 4,536	+ 4,799
Total Issue				
Department trans- actions	+ 535	+ 1,062	+10,385	+10,699
CRND	+ 31	+ 32	+ 454	+ 456
Redemptions	- 97	- 97	- 869	- 1,159
	<u>+</u> 469	<u>+</u> 997	<u>+</u> 9,970	<u>+</u> 9,996

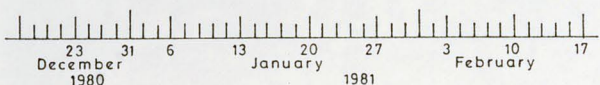
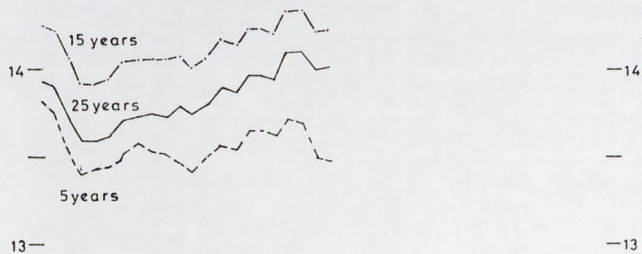
* Includes 299 in respect of call on 11 1/12% Treasury 1989 "A".

2. Redemption Yields (tax ignored)

	<u>13 January</u>	<u>20 January</u>	<u>Change</u>
12 3/4% Exchequer 1981	13.02	12.78	-0.24
13 1/2% Exchequer 1983	13.35	13.07	-0.28
12% Treasury 1984	13.20	13.09	-0.11
13 1/4% Exchequer 1987	13.49	13.40	-0.09
13% Treasury 1990	13.86	13.83	-0.03
12 1/4% Exchequer 1999	14.09	14.11	+0.02
11 1/2% Treasury 2001/04	13.74	13.78	+0.04
12% Exchequer 2013/17	13.23	13.30	+0.07
3 1/2% War (Flat Yield)	11.59	11.47	-0.12

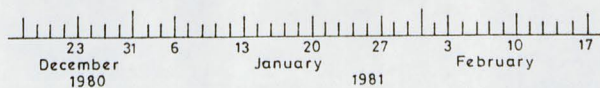
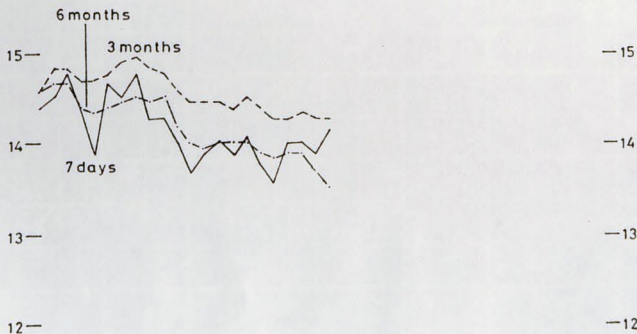
Gilt edged yields (F.T. high coupon)

Yields



Interbank rates

Yields



Per cent

Time Yield Curves of British Government Stocks

21st January 1981

