

## NOTE FOR WEDNESDAY MEETING

MARKETS: 21 JANUARY 1981 TO 27 JANUARY 1981

## MONEY

The market was in exceptionally large deficit at the start of the week, but conditions eased somewhat after the week-end and by Tuesday the market had responded to an emergent surplus. The early tightness reflected the peak of the seasonal revenue flows to the Exchequer, which on Monday was countered by heavy disbursements. The settlement of official gilt-edged and foreign exchange transactions was also a factor against the market for most of the week, as was the maturity in official hands of eligible bank bills.

The assistance provided by the Bank on Wednesday and Thursday amounted almost to £1 bn, of which three-quarters was by the purchase of eligible bank bills and the remainder largely through purchases of Treasury and local authority bills. Smaller assistance was given in a similar form on Friday. Support was very slight on Monday, while on Tuesday the Bank sold a small quantity of Treasury bills.

Short interbank rates firmed at the beginning of the week against the background of tight money market conditions, but eased in the last two days as the pressures passed. Longer rates were relatively steady and the three-month interbank rate which had opened at 14 1/4% ended the week only slightly lower at 14 1/8%.

Eurosterling rates also tended to firm at the short end early in the week before stabilising or easing back a little. The three-month rate ended the week unchanged at 14 3/16%, but at six months and over rates exhibited a slight downward trend after the first two days.

At the Treasury Bill tender on Friday the average rate of discount again fell (by 0.1006) to 12.7541.

## LOCAL AUTHORITY BONDS

The rate for one year bonds was unchanged at 13 3/8%. Issues totalled £16.75 mn (£18.55 mn last week) against maturities of £19 mn.

## GILTS

Hopes of lower inflation and interest rates produced a firm tone for much of the week.

The market remained basically firm on Wednesday though prices of shorts were slightly erratic; modest further sales of the low coupon tap were made at 72 3/4. Quite substantial buying was seen on Thursday, mainly at the long end, and the market advanced further on Friday. At 3.30 pm the issue of £1 bn of 12% Exchequer Convertible 1985 was announced. This carried options to convert into 13 1/2% Exchequer 1992 on five dates from September 1981 to September 1983. Prices eased slightly after the announcement.

After the weekend, the market continued to weaken on Monday, particularly at the short end, but the underlying tone remained firm. Yesterday longs recovered the previous day's losses although shorts were restrained by today's new issue.

Over the week as a whole, prices of shorts fell slightly while longs rose by around 1 1/4.

## EQUITIES

The market continued to improve on Wednesday but with the end of the account approaching prices drifted lower on lack of interest over the next two days. The start of the new account after the weekend saw a revival of demand amid renewed hopes of lower interest rates; the FT index rose by 8.2 on Monday, the biggest day's gain since 21 November. Further progress was made yesterday with the index rising by 3.8 to 467.4, an increase of 8.8 over the week as a whole.

## NEW ISSUES

## Queue

Seven new issues were added to the queue including EIB's bulldog issue of £50 mn which dropped out last week, having been originally scheduled for early March. Another non-resident borrower, Furokawa Electric, is planning an issue of £15 mn of convertible stock in the domestic market (lead manager Kleinwort Benson). We have let it be known that sterling convertible issues by Japanese borrowers can now be made at a rate of one per month (instead of every other month). Among domestic borrowers, Cambridge Electronic Industries Ltd and Habitat Design Holdings Ltd are making equity offers for sale of £20 mn and £15 mn respectively. The queue now totals £431 mn against £437 mn last week.

## Other

Royal Trust Company of Canada is making a euro-sterling issue of £15 mn with a coupon of 14 1/2%. Lead manager is Warburgs. This issue has raised the question of whether there is reciprocity in the Canadian market and thus whether Canadian institutions are eligible to co-lead sterling issues.

(init EAJG)

-28 January 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases - )

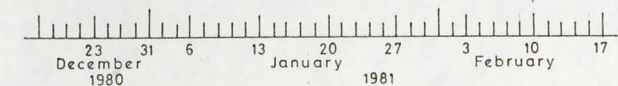
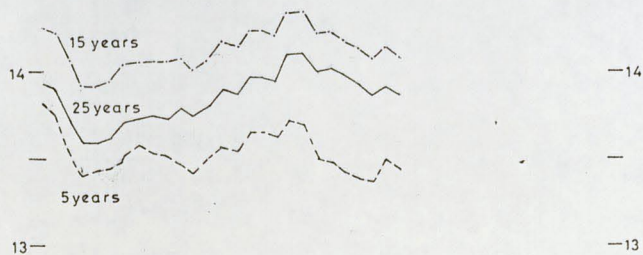
1. Transactions (cash value)

	21. 1.81 <u>-27. 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	- 27	- 161	- 1,635	- 1,716
Next Maturities	+ 32	+ 210	+ 1,969	+ 2,049
Other short-dated				
	+ 5	+ 49	+ 334	+ 333
Mediums	+ 27	+ 433	+ 5,547	+ 5,599
Longs and undated	+ 24	+ 637	+ 4,560	+ 4,823
Total Issue				
Department trans- actions	+ 56	+ 1,119	+10,441	+10,755
CRND	+ 30	+ 62	+ 484	+ 485
Redemptions	- 4	- 101	- 873	- 1,163
	<u>+</u> 82	<u>+</u> 1,080	<u>+</u> 10,052	<u>+</u> 10,076

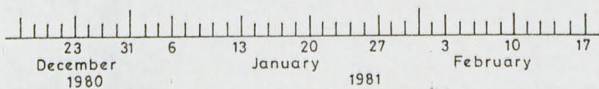
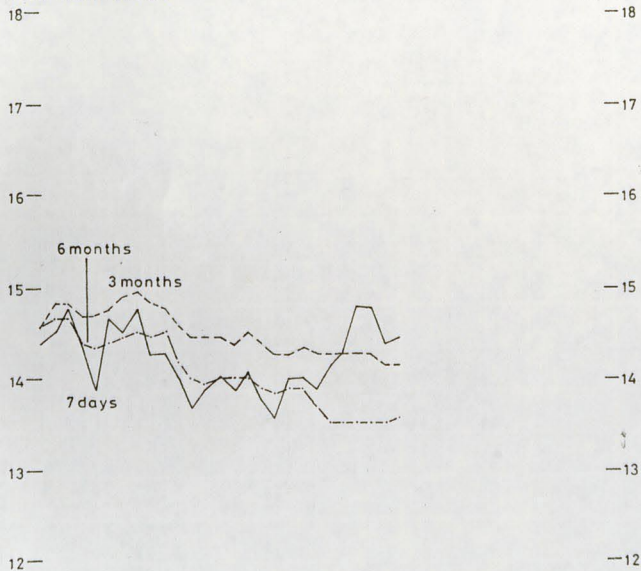
2. Redemption Yields (tax ignored)

	<u>20 January</u>	<u>27 January</u>	<u>Change</u>
12 3/4% Exchequer 1981	12.78	12.86	+0.08
13 1/2% Exchequer 1983	13.07	13.12	+0.05
12% Treasury 1984	13.09	13.12	+0.03
13 1/4% Exchequer 1987	13.40	13.24	-0.16
13% Treasury 1990	13.83	13.70	-0.13
12 1/4% Exchequer 1999	14.11	13.91	-0.20
11 1/2% Treasury 2001/04	13.78	13.61	-0.17
12% Exchequer 2013/17	13.30	13.16	-0.14
3 1/2% War (Flat Yield)	11.47	11.41	-0.06

### Gilt edged yields (F.T. high coupon)



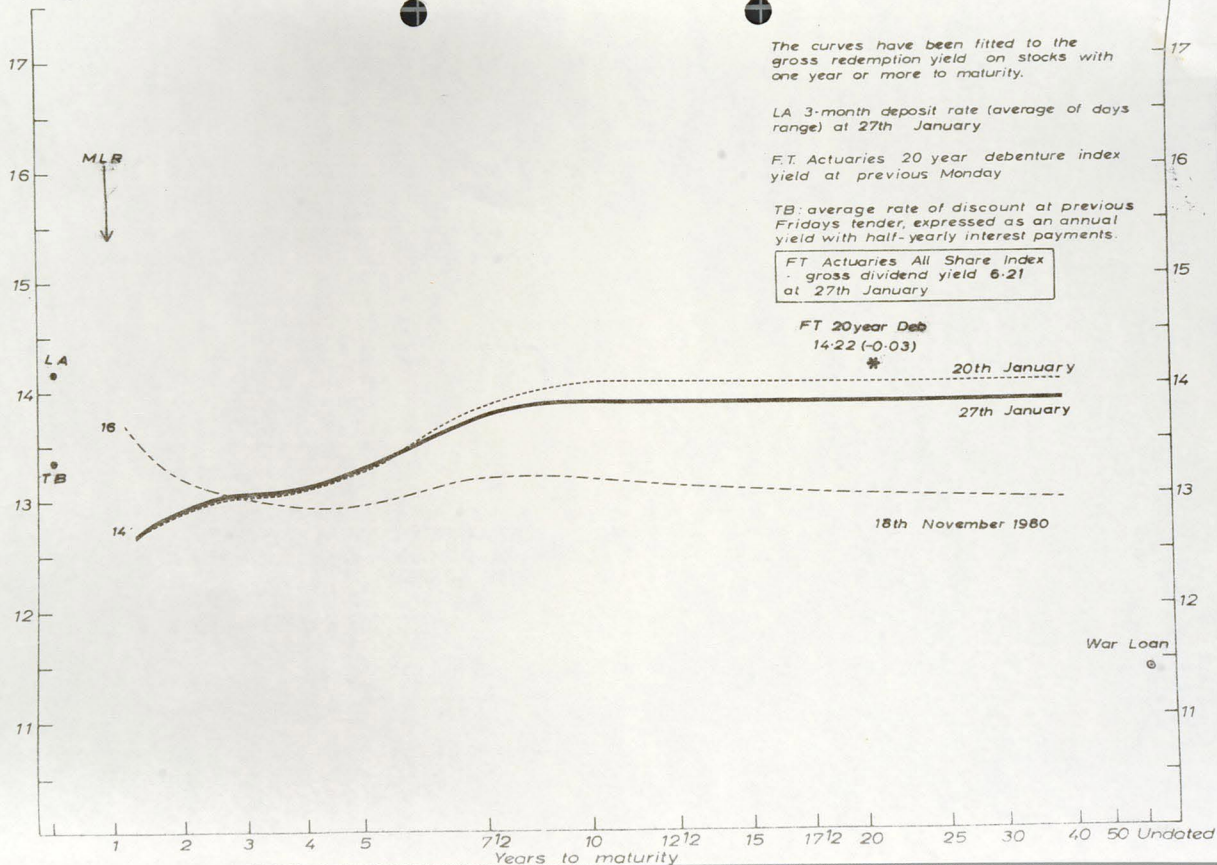
### Interbank rates



Per cent

Time Yield Curves of British Government Stocks

28th January 1981



Date 1981	NEW ISSUES OF 3 OR OVER			
	Government, etc.	Other Fixed Interest (excl. Convertibles)	Convertible Stocks	Others
Current Week (28/1-30/1) :				Energy Funding Ltd (private placing) (30/1) 5
Week 2 (2/2-6/2)				
Week 3 (9/2-13/2)		Bristol Waterworks (offer for sale by tender) (10/2) 5		Jebsens Drilling Ltd (private placement) (13/2) 25
Week 4 (16/2-20/2)		Mid-Sussex Water Company (offer for sale by tender) (16/2) 3		Murray Technology Ltd (17/2) 6
Week 5 (23/2-27/2)				T R Energy Ltd (placement) (23/2) 10
Week 6 (2/3-6/3)		The Sutton District Water Company (offer for sale by tender) (3/3) 4		Suter Electrical Ltd (rights) (2/3) 6
Week 7 (9/3-13/3)				
Forthcoming	Kingdom of Sweden (offer for sale?) (16/3) 100	Continental Corp (8/4) 25	Furoława Electric (15/3) 15	IMI Ltd (rights) (17/3) 23
	City of Leeds (offer for sale) (23/3) 50		Freemans (London SW9) Ltd (rights) (27/3) 12	Hadson Petroleum (UK) Ltd (offer for sale) (26/3) 10
	EIB (offer for sale) (20/4) 50			Intasun Group Ltd (offer for sale) (9/4) 5
				Cambridge Electronic Industries Ltd (offer for sale) (10/4) 20
				Rowntree Mackintosh (Ltd) (rights) (23/4) 35
				Habitat Design Holdings Ltd (offer for sale) (7/5) 15
				Memec Holdings Ltd (offer for sale) (25/6) 7
	TOTAL 200	TOTAL 37	TOTAL 27	167
*Issues announced:	1978 60			959
	1979 162			946
	1980 290			1,066
*Issues completed	1981 to date 11			13
	1978 63			910
	1979 150			979
	1980 284			945
	1981 to date 9			122

\*Includes issues of less than 3.