

NOTE FOR WEDNESDAY MEETING

MARKETS: 28 JANUARY 1981 TO 3 FEBRUARY 1981

MONEY

Conditions were fairly easy before the weekend under the influence of a series of sizeable net Exchequer deficits, which largely counteracted the effect of further eligible bills maturing in the Bank's hands, of Wednesday's new issue (12% Exchequer Convertible Stock 1985) and of the monthly oil revenue payment to a Bank customer on Friday. The market was also affected on the latter day by a substantial increase in the note circulation and by the settlement of gilt sales; these last increased following the weekend, and together with Tuesday's Exchequer surplus and further bill maturities gave rise to a more marked degree of stringency.

The Bank bought Treasury Bills in very small amounts on Thursday and Friday. Following the weekend, more substantial assistance was necessary, chiefly in the form of eligible bill purchases.

Interbank rates up to 7 days showed some firmness in the latter part of the week but longer rates, especially at three months and over, reflected in their steady decline the expectation that MLR might be reduced in the Budget or earlier. The three month rate finished the week 1/2% lower at 13 7/16%.

Eurosterling rates also showed a generally easy tendency at all maturities; the three month rate fell by 3/4% to 13 3/8%.

At the Treasury Bill tender on Friday the average rate of discount fell for the 7th week running by 0.1446 to 12.6095.

LOCAL AUTHORITY BORROWING

With many authorities expecting an early cut in MLR, there were a large number of dropouts from the queue this week despite a 1/2% fall in the rate for one year bonds. Issues amounted to £14.4 mn (£16.75 mn last week) against maturities of £14.65 mn.

GILTS

A good response to the issue of 12% Exchequer Convertible Stock 1985 and, particularly after the week-end, general optimism on the future course of interest rates, made for a generally firm market enabling substantial official sales to be made during the week.

The market opened quiet on Wednesday and prices drifted lower ahead of the result of the tender and changed little thereafter. The issue of convertible stock attracted a good response and on Thursday, the first day of trading, the price was moved up rapidly to 1/2% premium. Although the market closed below the best levels, rises of up to 3/8 were achieved throughout the list. On Friday the market opened firm: further sales of convertible stock were made at up to 3/4% premium and there was also sizeable demand for the low coupon stock (3% Treasury 1985 A); long dated stocks were also in demand and saw rises of up to 1/2 by lunchtime. Despite news that some US prime rates had been reduced from 20% to 19 1/12% prices later eased slightly ahead of the weekend.

General optimism on the future course of interest rates following the Prime Minister's week-end interview, together with favourable press comment, brought about a burst of buying on Monday and both the convertible and the low coupon tap were exhausted, at 40 3/4 and 72 7/8 respectively. In addition, the first sales were made of the long tap, 12 1/4% Exchequer Stock 1999 'B' at 1/8% premium. Some indigestion became apparent later in the day and the market closed below its best. Yesterday the market again showed some initial signs of indigestion but in light trading closed reasonably firm.

Over the week as a whole prices of shorts rose by about 3/8 and prices of longs rose by around 1/2.

EQUITIES

On Wednesday the market was depressed by the CBI's gloomy industrial survey and the FT index lost 8.0 on the day. The firmness of gilts on Thursday helped bring about a small technical rally and prices rose slightly in light trading. Quiet conditions were maintained on Friday and Monday and prices continued to edge higher on both days. Yesterday the firm trend developed further on interest rate hopes and the FT index closed 9.0 up on the day at 476.6 a rise over the week as a whole of 9.2.

NEW ISSUES

Queue

Eight new issues were added to the queue including the British Aerospace offer for sale of £150 mn which is due to be announced today. Only two other issues are of any size: an issue of shares of up to £30 mn by Harrisons & Crosfield in connection with an acquisition and an offer for sale of up to £20 mn by Electra Risk Capital Fund. The queue now totals £653 mn against £431 mn last week.

City of Copenhagen has cancelled a proposed issue of up to £20 mn in the domestic market (which had not yet been entered on the queue).

Net capital issues

The net amount of new money raised in banking January was £81 mn, compared with £179 mn the previous month.

(init EAJG)

4 February 1981

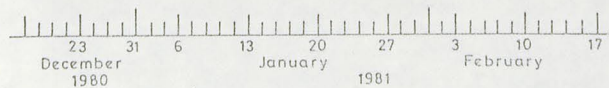
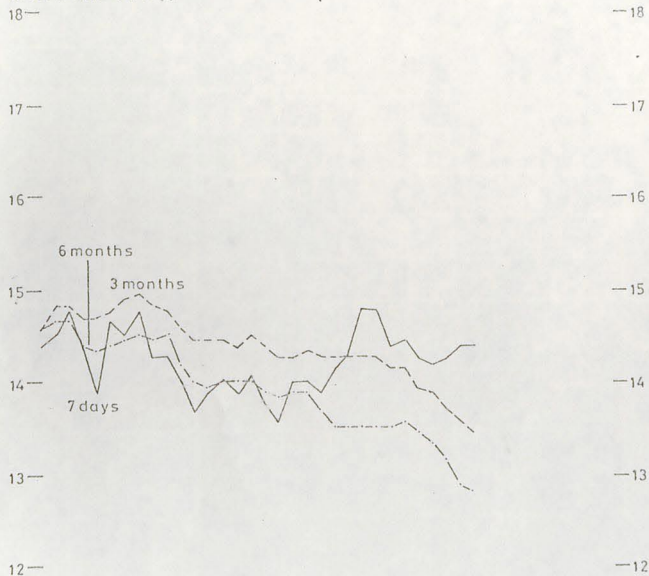
Gilt edged yields (F.T. high coupon)

Yields



Interbank rates

Yields



Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

	28. 1.81	Cal.Qtr.	Fin.Year	21.2.80
	<u>- 3. 2.81</u>	<u>to date</u>	<u>to date</u>	<u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 9	- 170	- 1,644	- 1,725
Other short-dated	<u>+ 398*</u>	<u>+ 608</u>	<u>+ 2,368</u>	<u>+ 2,447</u>
	+ 389	+ 438	+ 724	+ 722
Mediums	-	+ 433	+ 5,547	+ 5,599
Longs and undated	<u>+ 28</u>	<u>+ 665</u>	<u>+ 4,588</u>	<u>+ 4,851</u>
Total Issue				
Department trans-				
actions	+ 417	+ 1,536	+10,859	+11,172
CRND	+ 5	+ 67	+ 489	+ 491
Redemptions	- 4	- 105	- 878	- 1,167
	<u>+ 418</u>	<u>+ 1,498</u>	<u>+10,470</u>	<u>+10,496</u>

* of which 186 in respect of deposit on 12% Exchequer Convertible 1985.

2. Redemption Yields (tax ignored)

	<u>27 January</u>	<u>3 February</u>	Change
12 3/4% Exchequer 1981	12.86	12.44	-0.42
13 1/2% Exchequer 1983	13.12	12.96	-0.16
12% Treasury 1984	13.12	13.06	-0.06
13 1/4% Exchequer 1987	13.24	13.24	-
13% Treasury 1990	13.70	13.63	-0.07
12 1/4% Exchequer 1999	13.91	13.89	-0.02
11 1/2% Treasury 2001/04	13.61	13.58	-0.03
12% Exchequer 2013/17	13.16	13.12	-0.04
3 1/2% War (Flat Yield)	11.41	11.39	-0.02

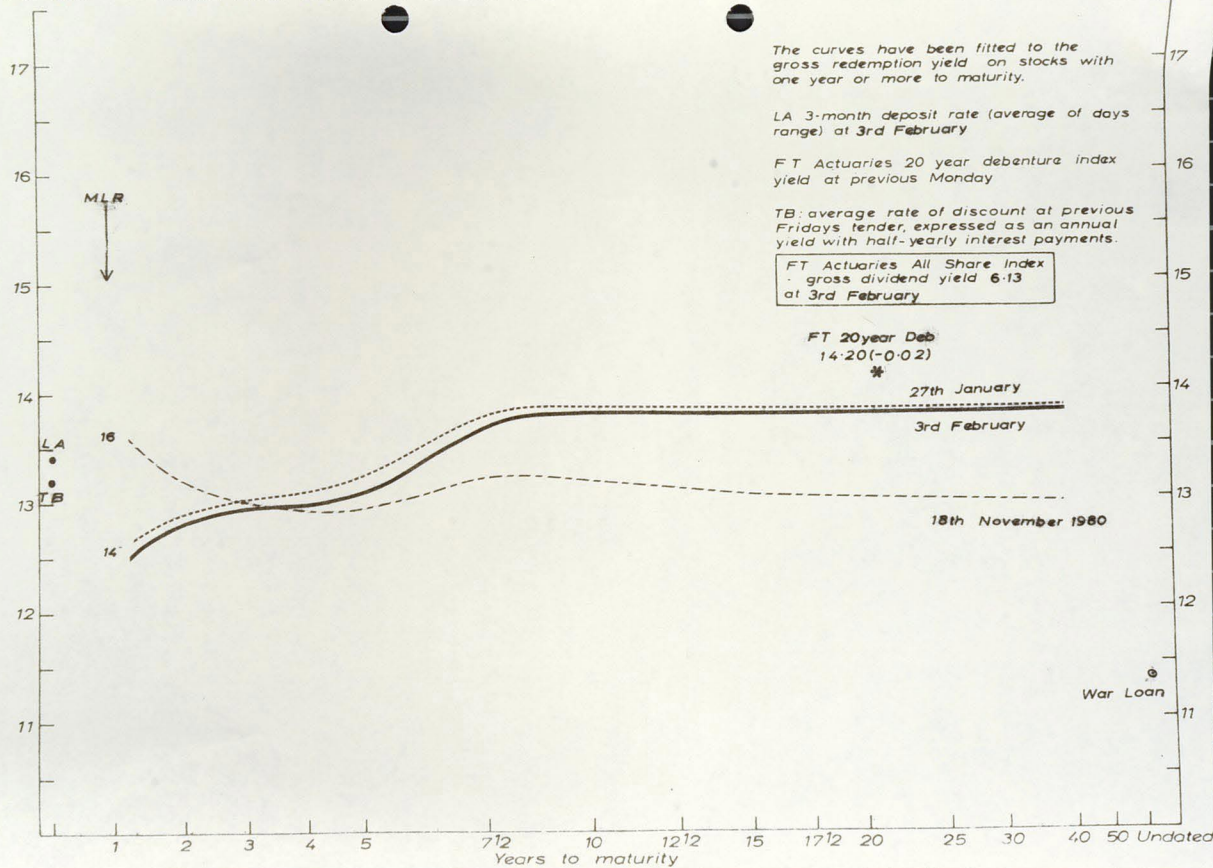
SECRET

£ millions

Date	NEW ISSUES OF 3 OR OVER			
	Government, etc.	Other Fixed Interest (excl. Convertibles)	Convertible Stocks	Others
1981				
Current week (2/2-6/2)				British Aerospace (offer for sale) (4/2) 150
Week 2 (9/2-13/2)		Bristol Waterworks (offer for sale by tender) (10/2) 5		Jebsons Drilling Ltd (private placement) (13/2) 25
Week 3 (16/2-21/2)		Mid-Sussex Water Company (offer for sale by tender) (16/2) 3		Murray Technology Ltd (17/2) 6 Harrisons & Crossfield Ltd (underpinning) (18/2) 30
Week 4 (23/2-27/2)				Stone Platt Industrie (offer for sale) (19/2) 5 Electra Risk Capital Fund (offer for sale) (21/2) 20
Week 5 (2/3-6/3)		The Sutton District Water Company (offer for sale by tender) (3/3) 4		T R Energy Ltd (placement) (23/2) 10 Suter Electrical Ltd (rights) (2/3) 6
Week 6 (9/3-13/3)				
Week 7 (16/3-20/3)	Kingdom of Sweden (offer for sale?) (16/3) 100		Purokawa Electric (15/3) 15	IMI Ltd. (rights) (17/3) 23
Forthcoming	City of Leeds (offer for sale) (23/3) 50	Continental Corp. (8/4) 25	J. Jemmens (London SW9) Ltd (rights) (27/3) 12	County & New Town Properties (rights) (25/3) 6
	MIB (offer for sale) (20/4) 50	Newcastle and Gateshead Water Company (offer for sale by tender) (7/5) 7		Hadson Petroleum (UK) Ltd (offer for sale) (26/3) 10
		The Mid Kent Water Company (offer for sale by tender) (23/6) 3		Intasun Group Ltd (offer for sale) (9/4) 5
		Portsmouth Water Company (offer for sale by tender) (27/9) 6		Rowntree Mackintosh Ltd (rights) (23/4) 35
				Cambridge Electronic Industries Ltd (offer for sale) (13/5) 20
				Habitat Design Holdings Ltd (offer for sale) (7/5) 15
				Memec Holdings Ltd (offer for sale) (25/6) 7
	TOTAL 200	TOTAL 53	TOTAL 27	373

*Issues announced:	1978	60	259
	1979	162	946
	1980	290	1,066
*Issues completed	1981 to date	11	61
	1978	63	910
	1979	150	979
	1980	284	945
	1981 to date	11	169

*includes issues of less than 3



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 3rd February

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 6.13
at 3rd February

FT 20year Deb
14.20(-0.02)

27th January

3rd February

18th November 1980

War Loan

Years to maturity