

62.81

G-E IAR

MINUTES
DSS

SECRET

DOMESTIC MARKETS: 12 JANUARY TO 6 FEBRUARY 1981

MONEY

Seasonally heavy inflows to the Exchequer were the predominant influence, resulting in market conditions of some stringency especially towards the middle of the period. These flows were at their peak in the week ending 23 January; in the following two weeks, with the net Exchequer position favouring the market on most days, pressure on funds tended to ease.

The market was also affected by the maturity on almost every day of eligible bank bills in official hands, and by the settlement of fairly substantial gilt sales especially in the second and final weeks of the period. A call on 11 1/2% Treasury 1989 'A' on 16 January and the tender for 12% Convertible Exchequer Stock 1985 on 28 January contributed to market shortage. Counterbalancing factors favourable to the market were few; they included some large falls in the note circulation at the beginning of the period and the redemption of 11 1/2% Treasury 1981 on 15 January.

Market assistance by the Bank, predominantly in the form of eligible bill purchases, was necessary on most days. The Bank took action to absorb surplus funds only on 14 and 27 January.

Short interbank rates were generally easy at the very beginning of the period, but with Exchequer surpluses becoming more substantial these rates firmed and the seven day rate rose from 13 9/16% on 14 January to 14 3/4% on 23 January. In the ensuing fortnight a rather softer tendency was evident and the seven day rate finished the period at 14 1/4%.

The trend in longer rates was easy throughout the period, reflecting anticipation of an MLR reduction in the Budget or earlier. The three month rate, which stood at 14 1/2% on 12 January had fallen by 6 February to 13 5/16%.

The average Treasury Bill tender rate also fell consistently, from 12.8547 on 16 January to 12.6095 on 30 January.

GILTS

After a period of depression following the publication of the December CGBR and the Financial Secretary's remarks on the PSBR outlook, market sentiment has progressively improved on lower inflation figures and hopes of a further cut in MLR. The good response to the issue of 12% Exchequer Convertible Stock 1985 consolidated the firm tone and substantial official sales of stock have been made during the past 8 days.

The market started the period quietly and although the publication of the December CGBR, which was much larger than expected, turned prices sharply easier some recovery occurred before Thursday, 15 January, when heavy selling developed in reaction to the Financial Secretary's remarks in Zurich on the outlook for the PSBR. The next day the decline in the market was halted by the publication of favourable December RPI figures.

On Monday, 19 January the market opened firm and active amid optimism about the prospects for inflation and for an early cut in MLR. This firm tone was maintained for most of the week and modest further sales of the low coupon tap (3% Treasury Stock 1985 'A') were made at 72 3/4. Quite substantial buying of long maturities was seen. On Friday, 23 January the issue of £1 billion of 12% Exchequer Convertible Stock 1985 was announced. This carried options to convert into 13 1/2% Exchequer Stock 1992 on five dates from September 1981 - September 1983.

After the weekend, although the underlying firm tone remained, some uneasiness was evident ahead of the new issue, particularly at the short end. Trading was, however, on a modest scale. The issue of convertible stock attracted a good response and on Thursday, 29 January, the first day of trading, the price was moved up rapidly to 1/2% premium. The following day further sales of the convertible stock were made at up to 3/4 premium and there was also sizeable demand for the low coupon tap.

General optimism on the future course of interest rates following the Prime Minister's weekend interview brought about a burst of buying on Monday of this week 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 on Monday and on Tuesday morning. Later on Tuesday a firmer tone developed and this was maintained on Wednesday morning. Later there was a slight easing on the increased possibility of industrial action in the water industry.

Yesterday, after a quiet opening prices were marked down when it became known that MLR would be unchanged. The market remained quiet and fairly steady at the lower levels.

Over the period as a whole yields on shorts and mediums fell by about 1/8, and yields on longs were little changed.

EQUITIES

The market commenced the period concerned at the deteriorating industrial relations situation and prices fell sharply with the FT index on 14 January closing at 446.0, its lowest level for seven months. Later in that week a firmer tendency, with the main interest being concentrated in electricals and oils, was maintained for several days until, approaching the end of the account, prices drifted lower on 22 and 23 January.

After the weekend there was a revival of demand amid renewed hopes of lower interest rates but on Wednesday 28 January the market was again depressed by the CBI's gloomy industrial survey. Over the following few days a firmer tendency developed, largely in sympathy with the gilts market and on Tuesday 3 February a rise of 9.0 on the FT index was achieved. On Wednesday interest was focussed on the announcement of the British Aerospace issue but the firm undertone was maintained, although the market eased slightly towards the close on the industrial relations news.

Yesterday the market opened easier and when no change was made in MLR, prices continued to decline, closing at the lowest levels, with the FT index down 6.9 points on the day at 472.0, but showing a rise over the period as a whole of 12.7 points.

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

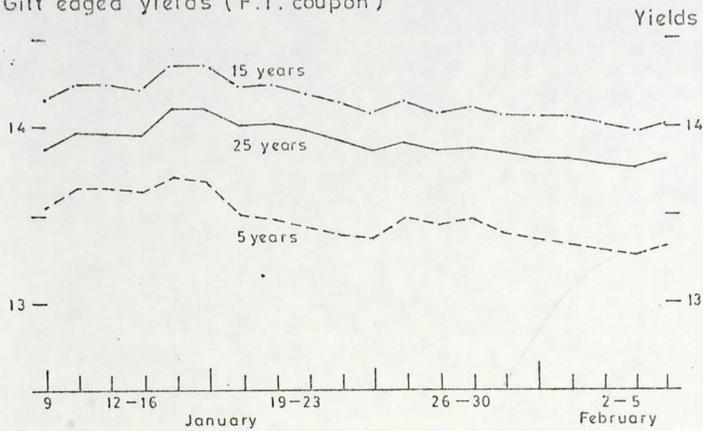
1. Transactions (cash value)

	9. 1.81	Cal.Qtr.	Fin.Year
	<u>- 5. 2.81</u>	<u>to date</u>	<u>to date</u>
Issue Department			
Purchases/sales			
Next Maturities	- 60	- 170	- 1,644
Other short-dated	+ 562	+ 626	+ 2,386
	+ 502	+ 456	+ 742
Mediums	+ 354	+ 433	+ 5,547
Longs and undated	+ 650	+ 669	+ 4,592
Total Issue			
Department trans-			
actions	+1,506	+ 1,558	+10,881
CRND	+ 61	+ 61	+ 483
Redemptions	- 105	- 105	- 878
	<u>+1,462</u>	<u>+ 1,514</u>	<u>+10,486</u>

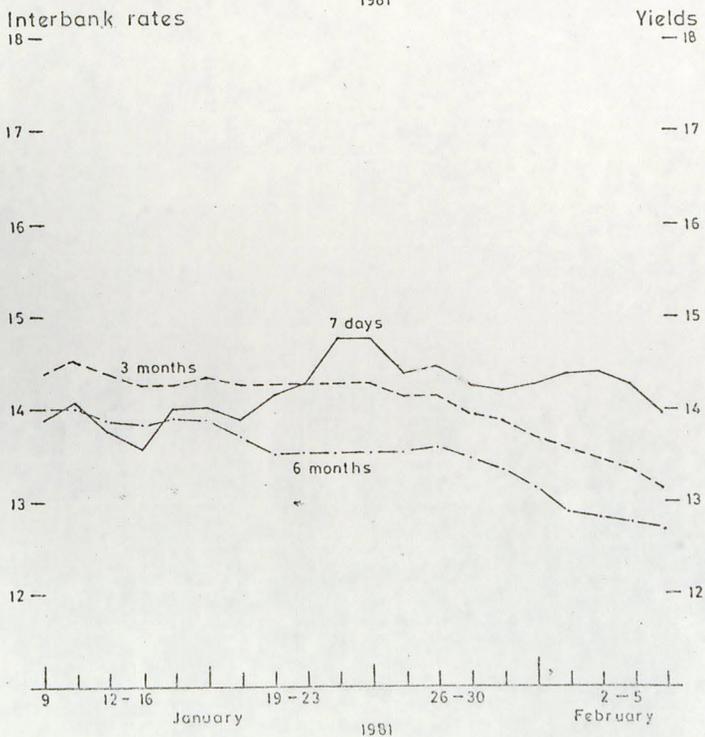
2. Redemption Yields (tax ignored)

	<u>8 January</u>	<u>5 February</u>	<u>Change</u>
12 3/4% Exchequer 1981	12.94	12.47	-0.47
13 1/2% Exchequer 1983	13.21	13.09	-0.12
12% Treasury 1984	13.06	13.08	+0.02
13 1/4% Exchequer 1987	13.46	13.27	-0.19
13% Treasury 1990	13.81	13.61	-0.20
12 1/4% Exchequer 1999	14.03	13.91	-0.12
11 1/2% Treasury 2001/04	13.70	13.63	-0.07
12% Exchequer 2013/17	13.17	13.16	-0.01
3 1/2% War (Flat Yield)	11.58	11.35	-0.23

Gilt edged yields (F.T. coupon)

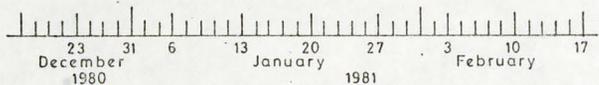
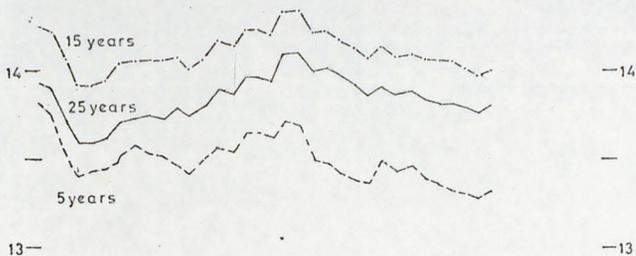


Interbank rates



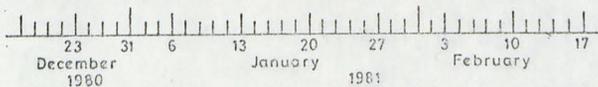
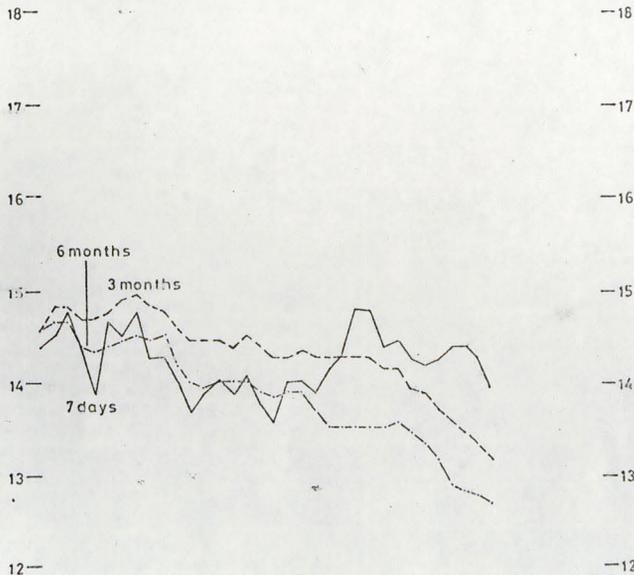
Gilt edged yields (F.T. high coupon)

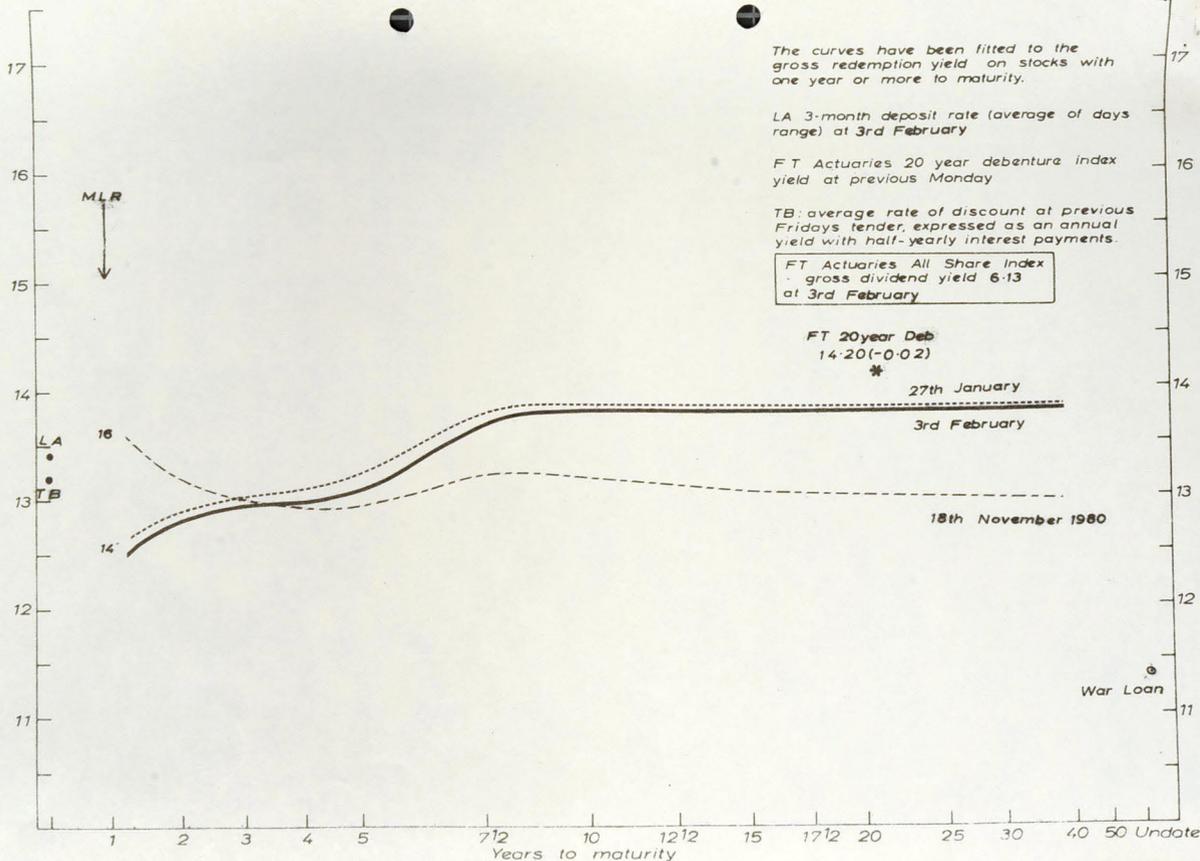
Yields



Interbank rates

Yields





SECRET

£ mns.

Gilt sales (+)/Purchases (-)

Actual and Required 1980/81
 (as at close of business 5 February 1981)

Banking Months	Total Net Sales	(of which non-bank private sector)	Net non-bank private sector sales required to meet EM3 target*
Feb:	+ 296	(+ 428)	
March:	+ 2	(+ 166)	
April:	+ 1,116	(+ 775)	
May:	+ 547	(+ 407)	
June:	+ 1,095	(+ 846)	
July:	+ 1,530	(+ 541)	+ 6,474
Aug:	+ 1,328	(+ 961)	
Sept:	+ 982	(+ 892)	
Oct:	+ 853	(+ 802)	
Nov:	+ 1,133	(+ 705)	
Dec:	+ 150	(+ 379)	
Jan:	+ 1,244		+ 400
Feb: To date	+ 517		
redemption of stock held by market	- 223 (1)		+ 400
instalments on part paid stock	+ 418 (2)		
Mar: instalments on part paid stock	+ 515 (3)		+ 415
April: redemption of stock held by market	- 478 (4)		+ 735
	+10,729		+ 8,424

(1) 3 1/2% Treasury 1979/81

(2) 11 1/2% Treasury 1989 'A' and 12 1/4% Exchequer 1999 'B'

(3) 12 1/4% Exchequer 1999 'B' and 12% Exchequer Convertible 1985

(4) 9 3/4% Treasury 1981

* Figures for January - April are monthly averages based on the quarterly path of sales to non-bank private sector contained in the Winter NIF Financial forecast.

Chief Cashier's Office,
 Markets Post (4564)
 6 February 1981

Ms.

Inter-Bank Rates	Monday 1 December	Monday 8 December	Monday 15 December	Monday 22 December	Monday 29 December	Monday 5 January	Monday 12 January	Monday 19 January	Monday 26 January	Monday 2 February	Friday 6 February am	Friday 6 February noon
Overnight	13 7/8	13 3/4	13 7/8	13 3/4	14 1/4	13 1/2	13 3/4	13 1/2	14 1/8	14 3/8	14 5/16	14 1/8
One Week	14 5/16	14 1/8	13 7/8	14 3/8	14 1/2	14	14 1/16	13 7/8	14 3/8	14 3/8	14 1/4	14 1/8
One Month	14 3/8	14 5/16	14 7/16	14 5/8	14 13/16	14 9/16	14 1/2	14 1/4	14 7/16	14 5/16	14 1/8	14 1/8
Three Months	14 11/16	14 5/8	14 5/8	14 11/16	14 13/16	14 9/16	14 1/2	14 1/4	14 1/8	13 9/16	13 3/8	13 3/8
Six Months	14 3/8	14 5/16	14 1/2	14 3/8	14 7/16	14 3/16	14	13 11/16	13 1/2	12 7/8	12 13/16	12 3/4
Twelve Months	13 7/8	13 7/8	14 1/16	14 1/16	14 1/16	13 15/16	13 3/4	13 1/2	13 5/16	12 11/16	12 5/8	12 5/8
<u>Gilt-Edged Yields</u>												
Short	12.9	13.0	13.6	13.2	13.3	13.2	13.4	13.3	13.3	13.2	13.1	13.1
Medium	13.3	13.4	14.1	13.8	13.9	13.9	14.1	14.0	13.9	13.8	13.6	13.6
Long	13.3	13.3	13.9	13.7	13.8	13.9	14.0	14.1	13.9	13.8	13.9	13.9

MLR reduced by 2% to 14% with effect from 25 November (announced 24 November)

6 February 1981