

NOTE FOR WEDNESDAY MEETING

4 FEBRUARY 1981 TO 10 FEBRUARY 1981

MONEY

After an easy opening to the week under the influence of Wednesday's substantial net Exchequer deficit conditions tightened sharply on Friday, when the effect of a shift in the Exchequer position against the market was exacerbated by the call on 12 1/4% Exchequer 1999 and by a sizeable increase in the note circulation. The market was also affected on Friday, as on every day of the week, by the maturity of commercial bills in the Bank's hands; these were particularly large after the weekend, and together with further Exchequer surpluses gave rise to continuing tight conditions on Monday and Tuesday.

Market assistance by the Bank was necessary every day from Friday onwards, chiefly in the form of eligible bill purchases.

Short interbank rates were easy on Wednesday and Thursday but firmed sharply on Friday before seeing a further temporary downward movement in the wake of the Bank's substantial assistance. These rates were firm again by Tuesday.

Longer rates eased further at the beginning of the week in anticipation of an MLR cut, but firmed from Thursday onwards when this failed to materialise. The three month rate ended the week 1/8% up at 13 7/16%.

After some easiness in the early part of the week Eurosterling rates showed a generally firm trend at all maturities after MLR was left unchanged. The three month rate finished 3/16% higher at 13 7/16%.

At the Treasury Bill tender on Friday the average rate of discount continued to fall, by 0.1927 to 12.4168.

LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by 1/8% to 12 3/4% and with one year local authority rates in the money market of 12 5/8%, there were not many takers. Issues amounted to £12 1/4 mn (£14.4 mn last week) as opposed to an expected £22 mn and against £16 1/4 mn maturities.

GILTS

A very quiet week with prices drifting lower in all sections. Little reaction to either the lack of change in MLR, or to the banking figures.

The market opened firm on Wednesday on hopes of a reduction in MLR but eased slightly towards the close on the increased possibility of industrial action by waterworkers.

Thursday opened steady and although some prices were marked down when no change was made in MLR, conditions continued quiet to the close. This tone was maintained on Friday but prices fell slightly in after hours trading following the announcement of the issue of £1 billion 12% Treasury Stock 1986. On Monday the market was extremely quiet and inactive throughout the day ahead of Tuesday's announcement of the preliminary banking figures for January, and closed just above the lowest levels. Although seen as slightly disappointing the out-turn of the banking figures was not unexpected and the market was little affected, showing only small losses on the day in somewhat easy conditions ahead of today's tender.

Over the week as a whole prices of shorts fell by about 1/2 and those of mediums and longs by about 3/8.

EQUITIES

After a firm day last Wednesday on MLR hopes, the market opened easier on Thursday with profit taking ahead of the MLR decision. On the news of the continuation at the present level prices continued to move lower.

Some recovery was, however, seen on Friday on selective investment activity. The new account opened on a firm tone and the index moved higher on Monday and Tuesday on continued investment interest - particularly in engineering and clearing bank shares. Over the week as a whole the FT index rose 8.9 points to 485.5.

NEW ISSUES

Queue

Five new issues were added to the queue. The most significant of these is the proposed issue of £50 mn of debenture stock by Allied Breweries Ltd. If this goes ahead it will be the first such issue of any since MEPC's and Land Securities' issues of £20 mn in 1972. Among the other issues, a second local authority (Swansea) is planning an issue of stock (£10 mn) and Laing Properties Ltd is to make an equity rights issue of up to £20 mn. Following the announcement of the British Aerospace offer for sale, the queue now totals £553 mn against £653 mn last week.

Waiting list

EIB has postponed its bulldog issue due for April but remains on the waiting list. Petroleos Mexicanos (Pemex) the Mexican public agency has also been added to the waiting list for an issue of £50-75 mn.

(init EAJG)

11 February 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

| | 4. 2.81 - 10 2.81 | Cal.Qtr. to date | Fin.Year to date | 21.2.80 to date |
|------------------------------|----------------------|---------------------|---------------------|--------------------|
| Issue Department | | | | |
| Purchases/sales | | | | |
| Next Maturities | - 1 | - 171 | - 1,645 | - 1,726 |
| Other short-dated | + 18 | + 626 | + 2,386 | + 2,465 |
| | + 17 | + 455 | + 741 | + 739 |
| Mediums | - | + 433 | + 5,547 | + 5,599 |
| Longs and undated | + 102* | + 767 | + 4,689 | + 4,953 |
| Total Issue | | | | |
| Department trans- actions | + 119 | + 1,655 | +10,977 | +11,291 |
| CRND | - 4 | + 63 | + 486 | + 487 |
| Redemptions | - | - 105 | - 878 | - 1,167 |
| | + 115 | + 1,613 | +10,585 | +10,611 |

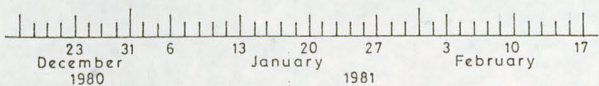
* of which 97 in respect of call on
12 1/4% Exchequer Stock 1999 "B"

2. Redemption Yields (tax ignored)

| | <u>3 February</u> | <u>10 February</u> | Change |
|--------------------------|-------------------|--------------------|--------|
| 12 3/4% Exchequer 1981 | 12.44 | 12.51 | +0.07 |
| 13 1/2% Exchequer 1983 | 12.96 | 13.20 | +0.24 |
| 12% Treasury 1984 | 13.06 | 13.22 | +0.16 |
| 13 1/4% Exchequer 1987 | 13.24 | 13.30 | +0.06 |
| 13% Treasury 1990 | 13.63 | 13.68 | +0.05 |
| 12 1/4% Exchequer 1999 | 13.89 | 14.00 | +0.11 |
| 11 1/2% Treasury 2001/04 | 13.58 | 13.61 | +0.03 |
| 12% Exchequer 2013/17 | 13.12 | 13.23 | +0.11 |
| 3 1/2% War (Flat Yield) | 11.39 | 11.50 | +0.11 |

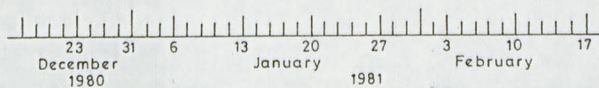
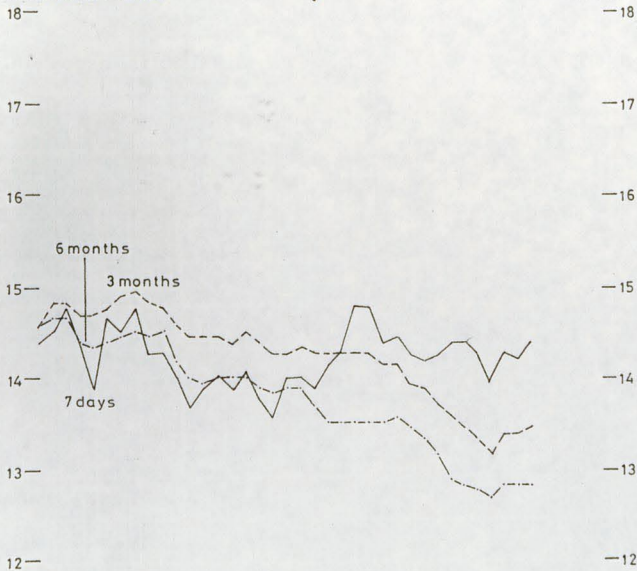
Gilt edged yields (F.T. high coupon)

Yields



Interbank rates

Yields



SECRET

£ millions

| Date 1961 | NEW ISSUES OF 3 OR OVER | | | |
|-----------------------------|--|---|--|---|
| | Government, etc. | Other Fixed Interest (excl. Convertibles) | Convertible Stocks | Others |
| Current Week (11/2-13/2) | | | | Jebsens Drilling Ltd (private placement) (13/2) 25 |
| Week 2 (16/2-21/2) | | Mid-Sussex Water Company (offer for sale by tender) (16/2) 3 | | Harrisons & Crosfield (under- pinning) (18/2) 30 Stone Platt Industries (offer for sale) (19/2) 5 Electra Risk Capital Fund (offer for sale) (21/2) 20 |
| Week 3 (23/2-27/2) | | | | T R Energy Ltd (placement) (23/2) 10 Murray Technology Ltd (24/2) 6 |
| Week 4 (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 5 (9/3-13/3) | | | | |
| Week 6 (16/3-20/3) | Kingdom of Sweden (offer for sale?) (16/3) 100 | | Purokawa Electric (15/3) 15 | IMI Ltd. (rights) (17/3) 23 |
| Week 7 (23/3-27/3) | City of Leeds (offer for sale) (23/3) 50 | | Freemans (London SW9) Ltd (rights) (27/3) 12 | County & New Pown Properties (rights) (25/3) 6 Hadson Petroleum (UK) Ltd (offer for sale) (26/3) 10 |
| Forthcoming | Swansea (offer for sale) (13/4) 10 | Continental Corp (8/4) 25 | | G T Global Recovery Investment Trust (offer for sale) (31/3) 10 Spirax-Sarco Engineering Ltd (rights) (1/4) 10 Hadson Group Ltd (offer for sale) (9/4) 5 Lain Properties Ltd (rights) (14/4) 20 |

Per cent

Time Yield Curves of British Government Stocks

11th February 1981

