

## NOTE FOR WEDNESDAY MEETING

MARKETS: 25 FEBRUARY 1981 TO 3 MARCH 1981

## MONEY

The market experienced an increasing degree of stringency before the weekend, leading up to Monday's massive shortage which dominated the week. Tightness on Wednesday and Thursday was slight, owed to gilt sales and to maturities of commercial bills in the Bank's hands which offset a net Exchequer position favourable to the market. On Friday, however, though the Exchequer remained heavily in deficit, conditions were extremely difficult due to the final call on 12% Exchequer Convertible Stock 1985, and the situation was exacerbated by a particularly sizeable commercial bill maturity, a substantial increase in the note circulation and the monthly oil revenue payment to a Bank customer.

The eventual shortage on Monday, due almost entirely to payment of PRT, amounted to £1.3bn. On Tuesday, with bankers' balances above target after the Bank's large-scale assistance, a slight surplus was forecast, but this failed to show up in the system and some difficulty in obtaining funds persisted.

The Bank gave assistance on a small scale on Wednesday, Thursday and Tuesday. On Friday extremely large help was given, leaving bankers' balances almost on target in advance of Monday. Assistance on Monday was exceptionally large (over £1.4bn).

The Bank's intervention on both Friday and Monday was partly in the form of a new type of sale and repurchase. This involves the discount houses bidding a money rate for funds generated by the sale of bills to the Bank on a repurchase basis. The arrangements on this occasion are to be unwound in a month's time.

Substantial use was also made by the houses on Friday of their private (2.45) borrowing facilities, the loans being at market rates. On Monday over one third of the assistance was given in the form of 'public' loans at MLR for seven and eight days. The remaining help both on Friday and Monday, was carried out by means of outright bill (predominantly eligible bill) purchases.

Interbank rates at seven days and under were very firm almost throughout the week, particularly on Monday, though the temporary reduction in the Reserve Asset Ratio provided some relief from pressure. These rates dropped back sharply on Tuesday. One month and longer rates also showed a tendency to firmness up to Tuesday, reacting to the sharp falls which followed last week's Press speculation about a possible 3-4% MLR cut in the Budget. The three month rate finished 3/8% higher at 12 11/16%.

Eurosterling rates up to one month were firm throughout the week, while longer rates moved less decisively and finished little changed: the three month rate 1/16% higher at 13 7/8%.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.4718 to 11.5857.

#### LOCAL AUTHORITY BORROWING

Although the rate for one year bonds was unchanged at 12 3/8% there were fewer drop-outs this week and issues amounted to £16.6 mn (£13 mn last week) against maturities of £20.35 mn.

#### GILTS

Conditions in the gilt-edged market became increasingly subdued over the week, ahead of the Budget.

After the brisk trading conditions of the previous two days which had seen the 1986 tap exhausted, Wednesday was a quieter day but the undertone remained reasonably firm with some switching out of shorts into mediums and longs. On Thursday and Friday the quiet conditions continued and with some sellers in the market, prices in all sectors drifted lower. At 3.30 pm on Friday the issue of £500 mn 3% Treasury Stock 1986 was announced and in after hours trading prices in all maturities were marked up slightly.

On Monday, despite a firm opening, prices drifted lower on a lack of buyers and yesterday the easier tone continued on press comment

concerning Government expenditure in 1981/82. In the afternoon the news that Citicorp had reduced its prime rate by  $\frac{1}{8}\%$  to  $18\frac{1}{8}\%$  brought a small improvement in shorts but mediums and longs closed about  $\frac{3}{8}$  lower.

Over the week as a whole prices of shorts and mediums fell by around  $\frac{1}{2}$  and those of longs fell by around 1.

#### EQUITIES

On Wednesday, selective institutional investment on hopes of a slightly reflationary Budget containing a sharp cut in MLR, combined with a shortage of stock, brought a good performance from the leading equities and the FT index rose above 500 for the first time since November. On Thursday the firm tone was maintained at the opening but the midday announcement by ICI that their final dividend was to be cut following a second successive quarterly loss, turned prices sharply lower. Some recovery was seen later in the day and on Friday the market shrugged off the ICI results and the index rose 8.8 on the day to close at 506.6.

On Monday the new account opened quietly and most prices drifted lower on profit-taking, bearish week-end press comment and the news that Fisons had returned a loss and would cut their dividend. Yesterday the quiet conditions were maintained initially, but the surprise announcement by Unilever that their final UK dividend would be cut turned prices lower, and the FT index was 5.2 points down at the close.

Over the week as a whole prices nevertheless rose by 1.7 points.

#### QUEUE

##### New Issues

Four new issues were added to the queue, the largest of which was an equity offer for sale of £20 mn by Hamilton Brothers Oil Company (Great Britain) Ltd. The queue now totals £565 mn against £566 mn last week.

Two additional companies have been placed on the waiting list for fixed interest issues. One of these is a proposed placing of £15 mn of unsecured loan stock by the UK company S Pearson & Son Ltd (the holding company for Lazards). This is the third fixed interest issue by UK companies to seek timing consent in recent weeks. In addition, a Swedish company Oskarshamnsverkets Kraftgrupp AB is planning to raise £20-25 mn through a bulldog issue. Swedish Export Credit is making a £20 mn five-year euro-sterling issue (managed by Country Bank). Coupon is 13 3/4% with issue price of par.

(init EAJG)  
4 March 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases - )

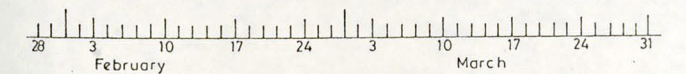
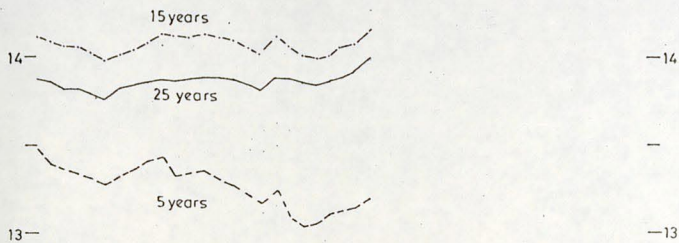
1. Transactions (cash value)

	25.2.81 <u>- 3.3.81</u>	Cal.Qtr. <u>to date</u>	Fin.Year <u>to date</u>	21.2.80 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 10	- 464	- 1,938	- 2,019
Other short-dated	+ 482	+ 1,130	+ 2,890	+ 2,969
	<u>- 472</u>	<u>+ 666</u>	<u>+ 952</u>	<u>+ 950</u>
Mediums	-	+ 911	+ 6,025	+ 6,077
Longs and undated	<u>-</u>	<u>+ 746</u>	<u>+ 4,669</u>	<u>+ 4,932</u>
Total Issue				
Department trans-				
actions	+ 472	+ 2,323	+11,646	+11,959
CRND	+ 19	+ 92	+ 513	+ 515
Redemptions	- 16	- 328	- 1,100	- 1,389
	<u>+ 475</u>	<u>+ 2,087</u>	<u>+11,059</u>	<u>+11,085</u>

2. Redemption Yields (tax ignored)

	<u>24 February</u>	<u>3 March</u>	Change
12 3/4% Exchequer 1981	12.14	12.31	+0.17
13 1/2% Exchequer 1983	12.65	12.83	+0.18
12% Treasury 1984	12.65	12.81	+0.16
13 1/4% Exchequer 1987	13.05	13.18	+0.13
13% Treasury 1990	13.48	13.55	+0.07
12 1/4% Exchequer 1999	13.88	14.04	+0.16
11 1/2% Treasury 2001/04	13.62	13.76	+0.14
12% Exchequer 2013/17	13.19	13.41	+0.22
3 1/2% War (Flat Yield)	11.51	11.73	+0.22

Gilt edged yields (FT High coupon)



Interbank rates

