

## NOTE FOR WEDNESDAY MEETING

MARKETS: 4 MARCH 1981 TO 10 MARCH 1981

## MONEY

The week opened with two days of relatively minor shortage, chiefly due to maturities of eligible bills in the Bank's hands, but on Friday conditions tightened sharply and a more marked degree of stringency persisted for the remainder of the week. One of the chief factors involved was the repayment, on Friday, Monday and Tuesday, of market advances from 27 February and 2 March, while Friday was particularly short owing to the additional effect of the call on 12 1/4% Exchequer 1999 and a substantial increase in the note circulation. Monday and Tuesday were marked by intense competition for funds in the interbank market as banks sought to restore their Reserve Asset Ratios to 10%.

Market assistance by the Bank was necessary every day, that on Friday being predominantly in the form of a new-style sale and repurchase. There was a small amount of overnight lending at MLR on Tuesday.

Overnight interbank rates were firm throughout the week, particularly from Friday onwards as conditions tightened and the need to return to a 10% RAR became more imminent; these rates reached as high as 40% on Monday. At seven days, rates were bid well up on Friday as banks sought funds to take them over the Monday-Tuesday 'hump', but after the weekend a decline set in as seven-day money became less attractive ahead of the expected Budget MLR cut. The immediate reaction to the 2% reduction when it materialised was actually a rise in short rates, probably due to some disappointment after the speculation that a cut of 3% or more was possible.

One and three month rates showed a generally easy tendency throughout the week, while rates at six months and over were little changed. The three month rate finished the week 1/4% down at 12 7/16%.

Eurosterling rates up to three months showed some erratic movements during the week, but the general tendency was downwards and the three month rate finished 1/4% lower at 12 3/8%. Six and twelve month rates were little changed.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.1945 to 11.3912.

#### LOCAL AUTHORITY BONDS

The yield on one-year bonds fell by 1/8% to 12 1/4% and with many authorities expecting a substantial cut in MLR there were a large number of dropouts from the queue. Issues amounted to £10.95mn (£16.85mn last week) against maturities of £21.95mn.

#### GILTS

The market continued in its pre-Budget lull. Prices were little changed on balance although longs particularly strengthened after the weekend.

The first two days of the week saw very quiet trading with little price movement. An easier tendency developed on Friday as hopes of a large cut in MLR faded. But expectations on Monday of a tougher Budget than previously anticipated, following weekend Press leaks, prompted a recovery which continued yesterday in quiet conditions ahead of the Budget speech. Some profit-taking was apparent after the announcement of the February banking figures and the indicated growth in EM3. Initial reaction to the Chancellor's statement appeared favourable and the announcement of the index-linked gilt (2% Index-Linked Treasury Stock 1996) seems to have been well received by the pension funds.

Over the week as a whole, prices of shorts were slightly lower while longs rose by around 1/2.

#### EQUITIES

The market took on a firmer tone on Wednesday, but renewed uncertainty was apparent later in the week with nervous selling ahead of the Budget and on concern at the industrial relations situation.

Clearing bank shares which had eased slightly after Barclays results remained dull on Friday on fears of a possible windfall tax. Sentiment remained weak after the weekend although a technical rally occurred yesterday ahead of the speech. The market reacted nervously to the proposals with clearing bank shares suffering a sharp reversal. The FT index ended the day almost unchanged on balance at 484.3, a fall of 11.9 over the week as a whole.

NEW ISSUES

Queue

Four new issues were added to the queue, all of modest size. The largest is an equity offer for sale of £10mn by Advent Technology. The queue now totals £583mn against £579mn last week.

Three new foreign borrowers were placed on the waiting list for bulldog issues: the Irish Government, the Swedish corporation Forsmakus Kraftgrupp Aktiebolag (£25mn) and City of Stockholm (£20mn). Together, there are now 22 foreign borrowers either in the queue or on the waiting list for such issues. Not all of these have yet indicated the proposed size of their issues; but the total amount involved seems likely to be well over £1bn.

(Init EAJG)

10 March 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases - )

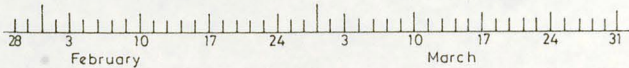
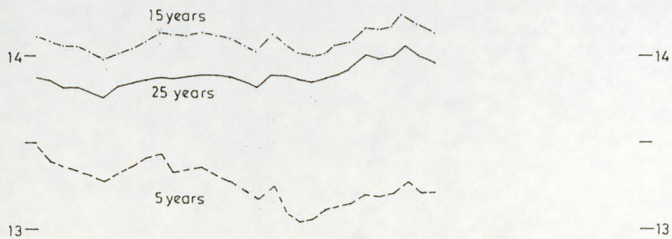
1. Transactions (cash value)

	4.3.81 - 10.3.81	Cal.Qtr. to date	Fin.Year to date	21.2.80 to date
Issue Department				
Purchases/sales				
Next Maturities	-	- 464	- 1,938	- 2,019
Other short-dated	+ 25	+ 1,155	+ 2,915	+ 2,994
	+ 25	+ 691	+ 977	+ 975
Mediums	+ 24	+ 935	+ 6,049	+ 6,101
Longs and undated	+ 39	+ 785	+ 4,708	+ 4,971
Total Issue				
Department trans-				
actions	+ 58	+ 2,411	+11,734	+12,047
CRND	+ 2	+ 94	+ 516	+ 517
Redemptions	-	- 328	- 1,100	- 1,389
	+ 90	+ 2,177	+11,149	+11,175

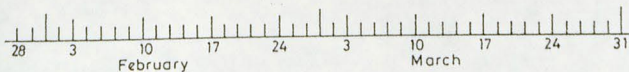
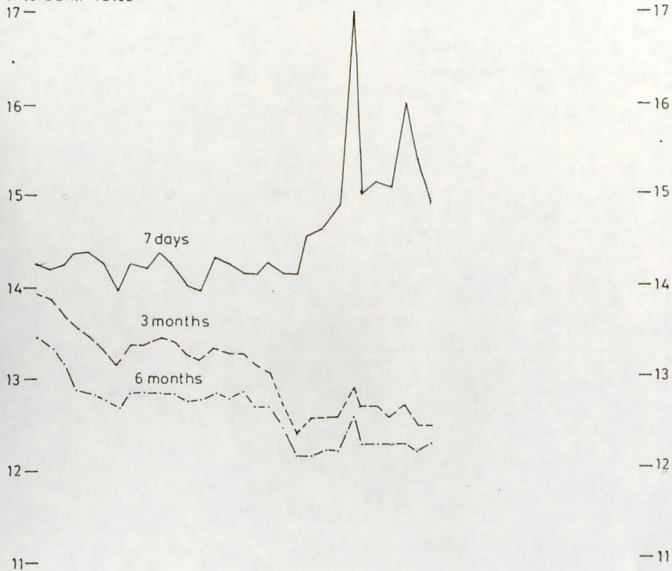
2. Redemption Yields (tax ignored)

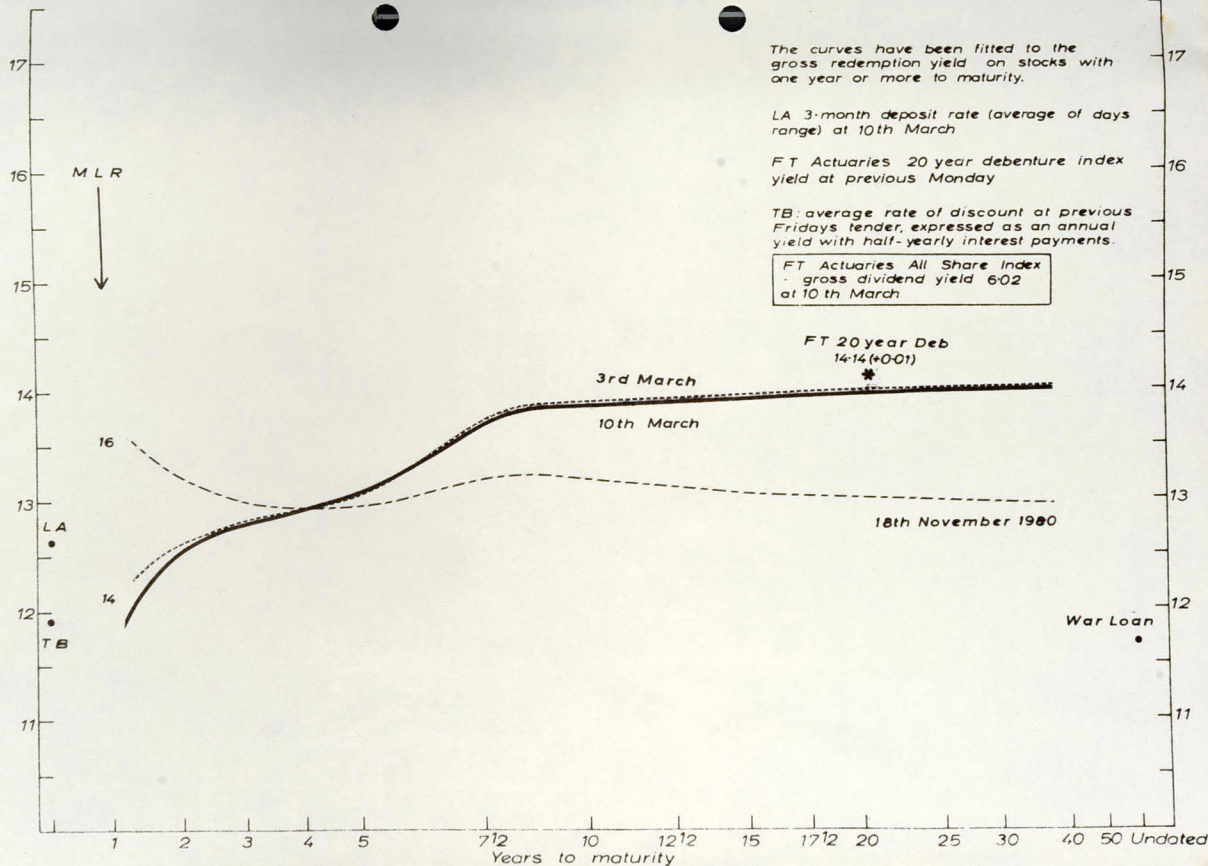
	<u>3 March</u>	<u>10 March</u>	<u>Change</u>
12 3/4% Exchequer 1981	12.31	12.11	-0.20
13 1/2% Exchequer 1983	12.83	12.87	+0.04
12% Treasury 1984	12.81	12.85	+0.04
13 1/4% Exchequer 1987	13.18	13.14	-0.04
13% Treasury 1990	13.55	13.50	-0.05
12 1/4% Exchequer 1999	14.04	14.00	-0.04
11 1/2% Treasury 2001/04	13.76	13.73	-0.03
12% Exchequer 2013/17	13.41	13.35	-0.06
3 1/2% War (Flat Yield)	11.73	11.70	-0.03

Gilt edged yields (FT High coupon)



Interbank rates





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 10th March

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 6.02  
at 10th March

FT 20 year Deb  
14.14 (+0.01)

3rd March

10th March

18th November 1980

War Loan

Years to maturity

Per cent

## Time Yield Curves of British Government Stocks

4th March 1981

