

NOTE FOR WEDNESDAY MEETING

MARKETS: 18 MARCH 1981 TO 24 MARCH 1981

MONEY

An easy make-up day was followed by a series of shortages which were at their most severe on Friday and Monday.

The main cause of Thursday's stringency was a large maturity of commercial bills in official hands, together with the unwinding of a previous bill sale and repurchase agreement and the repayment of earlier 7-day market advances by the Bank. On Friday the net Exchequer position was very strongly against the market, and despite exceptionally large assistance by the Bank bankers' balances finished well below target thus increasing Monday's shortage. The other chief factors against the market on Monday were further maturities of commercial and local authority bills in the Bank's hands and the repayment of 7-day market advances from the previous week; these counterbalanced a very substantial Exchequer swing in the market's favour. There was a similar swing on Tuesday which helped to end the week on an easy note.

Assistance by the Bank was necessary on every day but Wednesday. Bills were bought outright on each day of assistance and for later resale on Thursday, Friday and Monday. Substantial lending at a rate above MLR took place on the latter two days.

After an easy opening to the week short interbank rates firmed sharply on Thursday. There was some further hardening on Friday but with the Bank's continuing large-scale assistance a slightly easier tendency became evident after the weekend.

Longer rates showed little movement during the week apart from a general softness on Friday and finished virtually unchanged; the three month rate was unaltered at 12 5/8%.

Eurosterling rates up to three months showed virtually no change at all over the week, and the three month rate opened and closed the

period at 12 9/16%. Six and twelve month rates were generally slack around the weekend but firmed slightly on Tuesday.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.053 to 11.5821.

LOCAL AUTHORITY BORROWING

The rate for one year negotiable bonds fell by 1/8% to 12 1/4%. Issues amounted to £15 mn (£17.35 mn last week) against maturities of £15.1 mn.

The City of Leeds has announced a £50 mn issue of 13 1/2% Stock 2006, the first long-dated corporation stock since 1967 and the first corporation stock of any kind since September 1978. The issue is priced to offer a margin of 0.6% over a comparable gilt.

GILTS

The market remained firm during the week as a whole, particularly at the longer end, though signs of indigestion became apparent after the weekend.

The market resumed its advance on Wednesday with demand concentrated mainly in longs which closed with gains of up to 1/2. Renewed hopes of a further reduction in interest rates, coupled with a shortage of stock at the long end, caused prices to rise sharply on Thursday with the FT government securities index breaching the 70-level for the first time in over three months; more of the 1990 tap was supplied at 15 3/8. Further gains were seen on Friday morning before activity tailed off.

After the weekend, the market opened firm reflecting the after-hours trend on Friday on the absence of a new tap. The 1990 tap was quickly exhausted at 15 1/2, but, with no follow through, profit-takers, after the market's substantial rise, then appeared and longs closed the day up to 1/2 below Friday's close. Signs of market indigestion were still apparent yesterday morning, but a modest rally developed during the course of the day and the market closed on a steady note with prices generally only slightly lower.

Over the week as a whole, prices of shorts were little changed while longs rose by up to 1 3/4.

EQUITIES

Conditions remained firm on Wednesday with initial apprehension ahead of GKN's results giving way to surprised relief that the company would be paying a final dividend. Indications that the recession might have bottomed out and several encouraging company statements prompted further advances on Thursday and Friday with food, electrical and building shares in particular demand; by Friday's close the FT index had recorded a gain on the week of 23.7, the best week since June 1980. Conditions were more subdued on Monday as the market consolidated its gains. Yesterday following the Financial Secretary's bullish speech to the Institute of Fiscal Studies, and later in the day, news that some US prime rates had been cut to 17%, prices moved sharply higher with the result that the index closed 10.5 up on the day at 511.9, a rise of 24.1 over the week as a whole.

NEW ISSUES

A number of fixed interest issues previously on the waiting list were assigned dates in the queue. Of these, three are bulldog issues: Pemex (£75mn), Hydro Quebec (£75mn) and Gaz de France (£30mn). In the local authority market Sunderland is planning an issue of £25mn. The only other issue of note is an issue of £16mn of convertible unsecured loan stock by Percy Bilton Ltd (a property company). The queue now totals £690mn against £469mn last week.

In the euro-sterling market, following the completion of the Swedish bulldog last week, an issue for Privatbanken was announced. This week the Canadian company Hiram-Walker is making a five-year euro-sterling issue of £25mn with a coupon of 14%.

(Init EAJG)

25 March 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

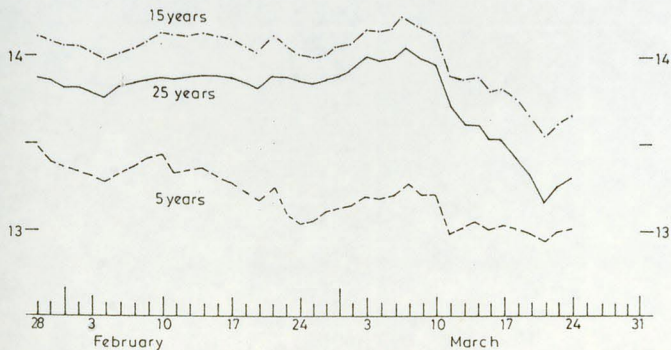
1. Transactions (cash value)

	18.3.81 <u>- 24.3.81</u>	Cal.Qtr. <u>to date</u>	Fin.Year <u>to date</u>	18.2.81 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 17	- 614	- 2,088	- 387
Other short-dated	<u>+ 17</u>	<u>+ 1,139</u>	<u>+ 2,898</u>	<u>+ 499</u>
	-	+ 525	+ 810	+ 112
Mediums	+ 30	+ 1,452	+ 6,566	+ 693
Longs and undated	<u>- 39</u>	<u>+ 1,460</u>	<u>+ 5,383</u>	<u>+ 695</u>
Total Issue				
Department trans- actions	- 9	+ 3,437	+12,759	+ 1,500
CRND	+ 2	+ 102	+ 524	+ 36
Redemptions	-	- 328	- 1,100	- 95
	<u>- 7</u>	<u>+ 2,211</u>	<u>+12,183</u>	<u>+ 1,441</u>

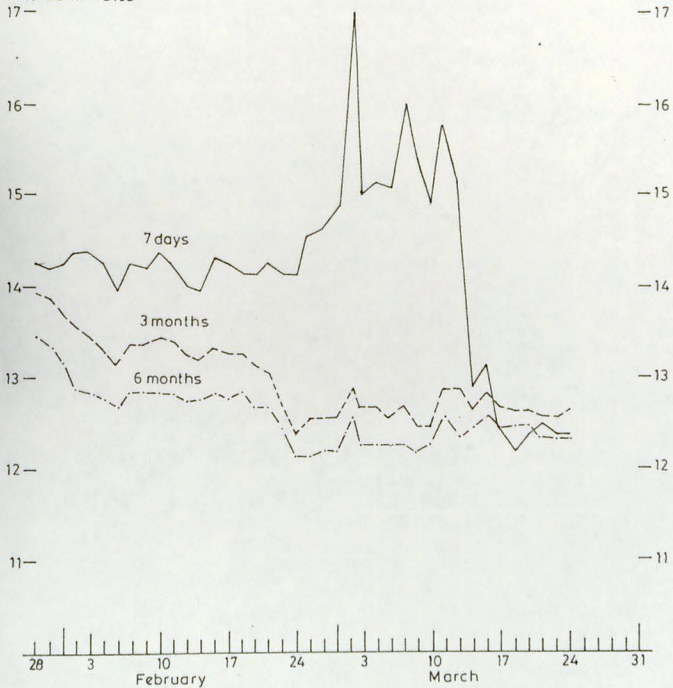
2. Redemption Yields (tax ignored)

	<u>17 March</u>	<u>24 March</u>	<u>Change</u>
12 3/4% Exchequer 1981	12.15	12.13	-0.02
13 1/2% Exchequer 1983	12.66	12.70	-0.04
12% Treasury 1984	12.65	12.63	-0.02
13 1/4% Exchequer 1987	12.93	13.02	+0.09
13% Treasury 1990	13.38	13.30	-0.08
12 1/4% Exchequer 1999	13.62	13.45	-0.17
11 1/2% Treasury 2001/04	13.32	13.12	-0.20
12% Exchequer 2013/17	12.98	12.77	-0.21
3 1/2% War (Flat Yield)	11.49	11.28	-0.21

Gilt edged yields (FT High coupon)



Interbank rates



NEW ISSUES

Fixed interest
(excl convertibles)

	<u>Domestic borrowers</u>	<u>Foreign borrowers</u>	<u>Convertibles</u>	<u>Equities</u>
TOTAL QUEUE*	<u>172</u>	<u>180</u>	<u>23</u>	<u>231</u>
Of which issues of 10 or more:				
Current week (25/3-27/3)				
Week 1 (30/3-3/4)				G T Global Recovery Investment Trust (offer for sale) (31/3) 10 Spirax-Carco Engineering Ltd (rights) (1/4) 10
Week 3 (6/4-10/4)		Pemex (8/4) 75		
Week 4 (13/4-16/4)	Swansea (offer for sale) (13/4) 10			Advent Technology plc (offer for sale) (13/4) 10 Laing Properties Ltd (rights) (14/4) 20
Week 5 (21/4-24/4)				Rowntree Mackintosh Ltd (rights) (23/4) 25 Split level Investment Trust (Offer for sale) (27/4) 30
Week 6 (27/4-1/5)	BOC International Ltd (placing) (28/4) 50			
Week 7 (5/5-8/5)				Habitat Design Holdings Ltd (Offer for sale) (7/5) 15

forthcoming	<u>Sunderland (11/5)</u> 25	<u>Hydro Quebec</u>	<u>Percy Bilton</u>	Cambridge Electronic Industries Ltd (Offer for sale) (13/5) 20 Hamilton Brothers Oil Company (Great Britain) Ltd (offer for sale) (28/5) 20
	Allied Breweries Ltd (Placing) (14/7) 50	(18/5) 75 <u>Gaz de France</u> (28/5) 30	Ltd (27/5) 16	

/Issues announced:	1978	60	959
	1979	162	846
	1980	290	1,066
	1981 to date	29	196
/Issues completed	1978	63	910
	1979	150	979
	1980	284	945
	1981 to date	27	350

*Includes issues of 3 or more
/Includes issues of less than 3

25 March 1981

Per cent Time Yield Curves of British Government Stocks

25th March 1981

