SECRET 29. 4.81

NOTE FOR WEDNESDAY MEETING

MARKETS: 22 APRIL 1981 TO 28 APRIL 1981

MONEY

Market conditions continued to reflect the uncertainties caused by the bank and Civil Service strikes, particularly in the earlier part of the week. A sizeable Exchequer swing against the market, coupled with the unwinding of a previous repurchase agreement with the Bank, led to some pressure on funds on Wednesday; the following two days, however, saw the situation reversed, with substantial forecast shortages sharply reduced by favourable Exchequer movements. Monday and Tuesday saw much smaller swings away from the forecast Exchequer position. That on Tuesday was unfavourable, and with the underlying position also against the market, conditions tightened sharply. Maturities of eligible bank bills in official hands were a major contributory factor.

Market assistance by the Bank, predominantly in the form of outright bank bill purchases, was necessary every day though only in small amounts on Thursday and Friday.

After easing on Wednesday in reaction after the exceptional shortage of the previous day, short interbank rates maintained a mildly firm tendency up to the end of the week. At three months and over rates generally showed little movement, reflecting increasing uncertainty as to the likely date of an MLR reduction and whether or not such a reduction will in fact precede the abandonment of MLR. The three-month rate finished 1/16% higher at 12 7/16%.

Eurosterling rates showed little significant movement for most of the week, but the market was livelier on Tuesday and a generally firm tendency developed with funds in demand at all maturities. The three-month rate remained very much in line with domestic rates throughout and also finished 1/16% up at 12 7/16%.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.0439 to 11.2444.

LOCAL AUTHORITY BONDS

The rate for one-year bonds was unchanged at 12 3/8%. Issues amounted to £18.5mn (£16.6mn last week) against maturities of £18mn.

GILTS

Trading was depressed all week with prices drifting notably lower after the weekend.

With attention focussed on the equity market, trading in gilts was at a low ebb prior to the weekend. Prices fluctuated within narrow limits with shorts slightly easier on balance while longs held gains of about 1/8-1/4 over the three days. After the weekend the market tone became distinctly uneasy. This followed press comment that a cut in MLR was unlikely in the near future; the appearance of a few sellers left prices at the long end about 3/8 lower by Monday lunchtime with little change in the afternoon, while shorts lost around 1/4 on the day. Sentiment was further dampened yesterday by the rise in US short-term interest rates and longs lost up to 3/4 and shorts up to 3/8. The indexed stock fell back to 1/16 discount (35-paid) ahead of Friday's call.

Over the week as a whole shorts fell by about 3/4 and longs by about 7/8.

EQUITIES

Encouraged by a more optimistic statement from the Chairman of ICI, the market surged further ahead on Wednesday with the FT Index reaching a new all-time peak. Some profit-taking developed on Thursday morning but the undertone remained firm and prices recovered in later trading. Heavy buying was again apparent on Friday morning with the Index approaching 600 but this was not sustained and prices eased back in subsequent two-way trade; nevertheless, the Index closed at a new record of 587.3. After the weekend, the market opened easier on Monday in anticipation of profit-taking. In the event, this failed to materialise and the Index was little changed. Yesterday, however, saw widespread selling ahead of the end of the Account and the Index finished the day 11.5 lower at 574.5, a rise of 8.4 over the week as a whole.

NEW ISSUES

Queue

Note: In the light of discussions within the Bank on the risks of "insider trading" the loan programme and the version of this note containing details of individual issues are being circulated only to The Governors, Executive Directors, Lord Benson, Mr Coleby and Mr Walker. Others attending Books will have a version of the note without details of individual issues, and no mention of individual issues will be made at Books.

Two equity issues of £10mn or more were added to the queue: European Ferries is to make a rights issue of £50mn and Emirex Petroleum is to make an offer for sale of £10mn. The queue now totals £1,550mn against £1,664mn last week. The fall reflects the announcement yesterday of IBRD's offer for sale of £100mn. The issue will be made on a yield basis at a margin of 1/2% above the yield on 12% Treasury 1986.

Waiting List

Possible candidates for fixed interest issues in June are the Royal Bank of Canada, Credit National, a Spanish company and Wellingborough (a local authority).

Init EAJG

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Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases –)

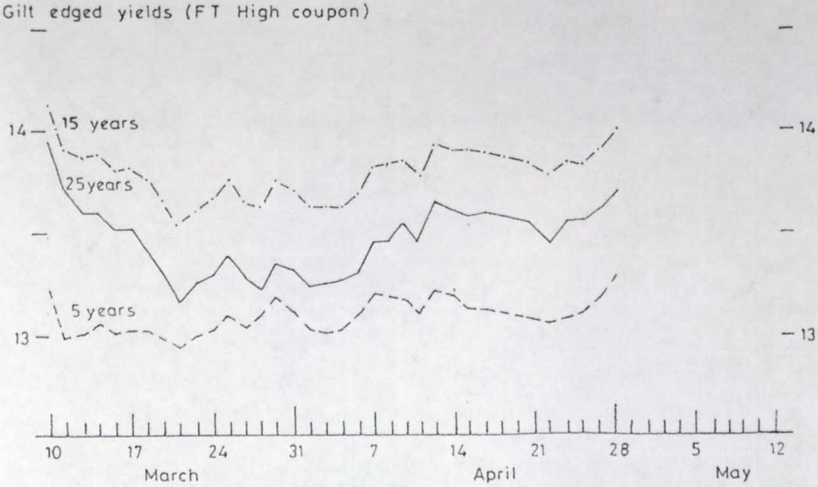
1. Transactions (cash value)

	22.4.81 -28.4.81	Cal.Qtr. and Fin.Year to date	18.2.81 to date
Issue Department			
Purchases/sales			
Next Maturities	– 106	– 164	– 602
Other short-dated	– 12	+ 27	+ 515
	– 118	– 137	– 87
Mediums	+ 55	+ 727	+ 1,442
Longs and undated	+ 19	+ 36	+ 1,072
Total Issue Department transactions	– 44	+ 626	+ 2,427
CRND	+ 6	+ 12	+ 61
Redemptions	–	– 206	– 301
	– 38	+ 432	+ 2,187

2. Redemption Yields (tax ignored)

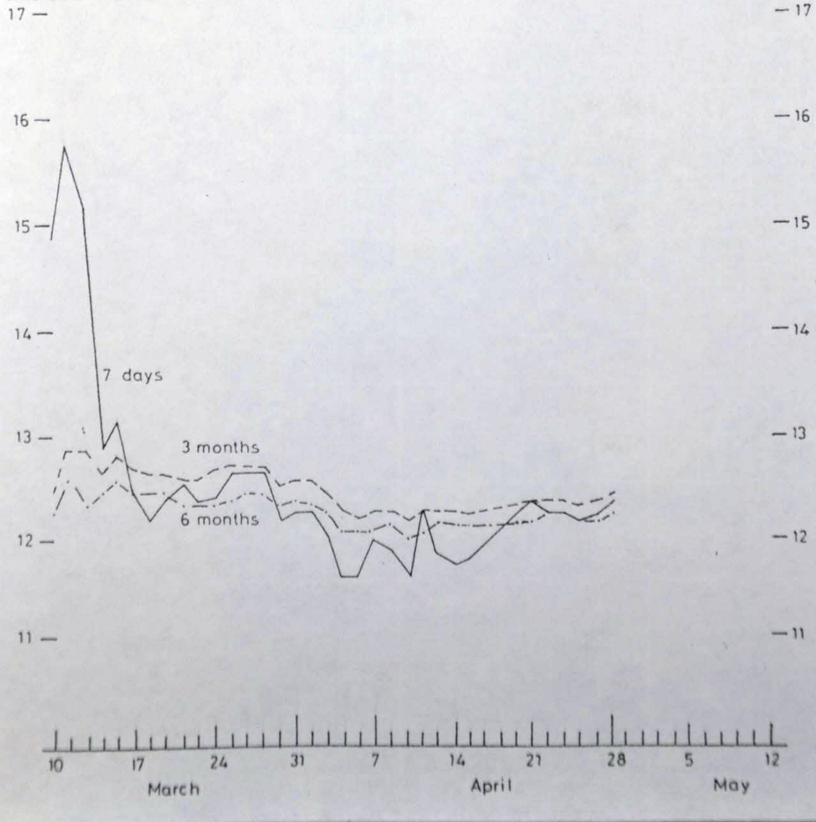
	21 April	28 April	Change
12 3/4% Exchequer 1981	11.42	11.40	-0.02
13 1/2% Exchequer 1983	12.65	12.99	+0.34
12% Treasury 1984	12.58	12.89	+0.31
13 1/4% Exchequer 1987	13.15	13.37	+0.22
13% Treasury 1990	13.55	13.73	+0.18
2% Index-Linked Treasury 1996	2.03	2.09	+0.06
12 1/4% Exchequer 1999	13.66	13.85	+0.19
11 1/2% Treasury 2001/04	13.35	13.51	+0.16
12% Exchequer 2013/17	12.97	13.13	+0.16
3 1/2% War (Flat Yield)	11.52	11.60	+0.08

Gilt edged yields (FT High coupon)



Interbank rates

Yields



SECRET

£ millions

NEW ISSUES

	Fixed interest (excl convertibles)			
	Domestic borrowers	Foreign borrowers	Convertibles	Equities
TOTAL QUEUE* Of which issues of 10 or more:	105	155	179	1111
Current week (29/4-1/5)			—	Northern Engineering Industries Ltd (rights) (1/5) 25
Week 2 (5/5-8/5)		Republic of Finland (Offer for sale) (5/5) 50		Barratt Developments Ltd (rights) (8/5) 22
Week 3 (11/5-15/5)				European Ferries Ltd (rights) (11/5) 50 Cadbury Schweppes Ltd (rights) (12/5) 50 Jefferson Smurfit Group Ltd (rights) (15/5) 14
Week 4 (1[illegible]-22/5)		Hydro Quebec (20/5) 75	Nissan Motor Co Ltd ø (20/5) 50	Guardian Royal Exchange Assurance Ltd (rights) (22/5) 100
Week 5 (26/5-29/5)		Gaz de France (28/5) 30	BOC International Ltd (rights) (26/5) 75 Percy Bilton Ltd (27/5) 16	KCA Drilling Ltd (offer for sale) (28/5) 20
Week 6 (1/6-5/6)				Hadson Petroleum (UK) Ltd (offer for sale) (4/6) 10 Cambridge Electronic Industries Ltd (offer for sale) (5/6) 20
Week 7 (8/6-13/6)				

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Forthcoming	The South Staffordshire Waterworks Co (offer for sale by tender) (8/7) 10 Allied Breweries Ltd (placing) (14/7) 50		Property Holdings & Investment Trust Ltd (rights) (16/6) 15 Chloride Group Ltd (rights) (24/6) 15	British Petroleum Co Ltd (rights) (18/6) 700 ~~Emirex Petroleum Ltd (offer for sale) (22/7) 10~~ Habitat Design Holdings Ltd (offer for sale) (24/9) 15

/Issues announced:	1978	60		959
	1979	162		946
	1980	290		1,066
	1981 to date	55		275
/Issues completed	1978	63		910
	1979	150		979
	1980	284		945
	1981 to date	41		395

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

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Time / Yield Curves of British Government Stocks

29th April 1981