

## NOTE FOR WEDNESDAY MEETING

MARKETS: 6 MAY 1981 TO 12 MAY 1981

## MONEY

Substantial market surpluses on the first three days of the week were chiefly owed to the settlement on Wednesday of further large next-maturity gilt purchases by the Bank (which contributed to a sizeable excess on bankers' balances carried over to Thursday) and on Friday to a considerable forecast Exchequer deficit. After the weekend rather tighter conditions supervened, mainly as a result of official gilt sales and maturities of commercial bills in the Bank's hands.

The Bank sold Treasury Bills to absorb surplus funds on every day before the weekend; a small amount of these matured on Monday, thus helping to reduce that day's shortage. Further market assistance, almost entirely in the form of Treasury and Local Authority Bill purchases, was also necessary on both Monday and Tuesday.

Short inter-bank rates were generally very easy before the weekend, with overnight and seven-day rates tending to fall away sharply late in the day. On Monday some renewed firmness was evident and the tendency continued in Tuesday's tighter conditions.

Longer rates were lower on balance over the period. They reacted to the sharp surge which followed rises in US rates on Tuesday, 5 May, but firmed a little after the weekend following a further jump in US rates. The three-month rate finished  $3/16\%$  lower at  $12\ 5/16\%$ .

Euro-sterling rates were likewise generally easier particularly in the early part of the week. The three-month rate ended  $1/4\%$  down at  $12\ 3/8\%$ .

At the Treasury Bill tender on Friday the average rate of discount rose by 0.0177 to 11.3028.

#### LOCAL AUTHORITY BONDS

The rate for one-year negotiable bonds rose by  $1/8\%$  to  $12\ 3/4\%$ . Issues amounted to £13.15mn (£18.5mn last week) against maturities of £17.35mn.

#### GILTS

After a weak start the market tone was firmer for most of the week, but further selling was seen yesterday reflecting the continuing concern about interest rate developments in the US.

The market opened steadier on Wednesday but further selling soon developed bringing falls of up to  $1/2$  ahead of the publication of the April banking figures; prices dipped further in reaction to the indicated growth in  $\text{EM}_3$  although shorts later recovered slightly on further consideration of the distortions in the figures. The firmer tone in shorts continued on Thursday with longs little changed, and the whole market improved by up to  $1/2$  on Friday. The absence of a new tap stock was a favourable after-hours influence.

After the weekend, the better tone continued on Monday and the short tap,  $11\ 1/2\%$  Treasury 1985, was reactivated at a price of  $27\ 3/8$  (30-paid). Prices then eased back reflecting worries about an all-out Civil Service strike and a further rise in US prime rate to  $19\ 1/2\%$ . By the close shorts were showing small losses while gains in longs were trimmed to  $1/8$ . Concern about interest rate developments abroad, coupled with disappointing wholesale price and CGBR figures for April, led to further selling yesterday and in spite of a small rally towards the close longs lost about  $7/8$  on the day, while shorts were down about  $1/4$ .

Over the week as a whole prices of shorts were slightly higher while longs lost about  $7/8$ .



## EQUITIES

The market continued to slide back from the record levels reached the previous week.

The market initially rallied on Wednesday after the previous day's sharp decline but then fell back on lack of follow-through. Concern about rising US interest rates led to further falls on Thursday with electrical shares marked sharply lower on British Telecom investment cuts. The slide was halted on Friday reflecting renewed investment demand as well as technical factors. But after the weekend the market mood was cautious with prices tending to drift lower and yesterday the market opened sharply lower on renewed worries about US interest rates, the overnight decline on Wall Street and the announcement of a further large rights issue. Although the initial fall in the FT Index was partly regained, it closed 10.9 lower at 556.0, a fall of 20.9 over the week as a whole and a drop of 41.3 from the record set on 30 April.

## NEW ISSUES

## Queue

The flow of new issues continued with twelve issues of £10mn or more being added to the queue. These include bulldog issues by Compania Telefonica Nacional de Espana (£20mn) and Royal Bank of Canada (£75mn). In addition, the Japanese-owned company, Central Finance Ltd, is making a convertible issue of £10mn.

The queue now totals £1,769mn (£1,708mn last week), the major component of which is straight equity issues at £1,286mn. Taking account of issues already made or announced this year, this means that equity issues should amount to at least £2bn this year against less than £1bn in 1980. If issues continue to be added to the queue at about the present rate, the total for the year could rise to £3bn or more. The next most active sector at present is the bulldog market where £220mn of issues are in the queue. Adding in issues already made and those presently in the waiting list would produce a total for the year of about £1.4bn.

Finland's £50mn five-year bulldog issue was priced to yield 14.55% (3/4% over the comparable gilt). About half of the stock may have been left with the managers and there have been reports of widespread dumping on the secondary market.

(Init EAJG)

13 May 1981



Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases - )

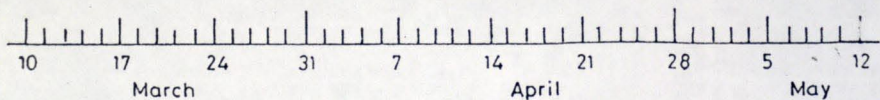
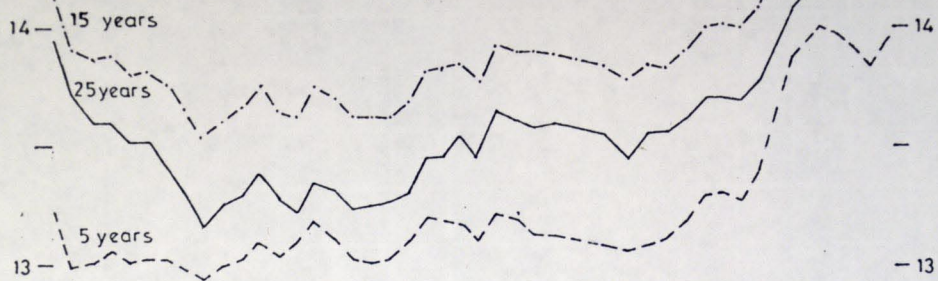
1. Transactions (cash value)

	6.5.81 <u>-12.5.81</u>	Cal.Qtr. and <u>Fin.Year to date</u>	18.2.81 <u>to date</u>
Issue Department			
Purchases/sales			
Next Maturities	- 10	- 658	- 1,096
Other short-dated	<u>+ 122</u>	<u>+ 144</u>	<u>+ 632</u>
	+ 112	- 514	- 464
Mediums	+ 32	+ 740	+ 1,455
Longs and undated	<u>- 5</u>	<u>+ 287</u>	<u>+ 1,323</u>
Total Issue			
Department trans-			
actions	+ 139	+ 513	+ 2,314
CRND	+ 103	+ 121	+ 170
Redemptions	-	- 206	- 301
	<u>+</u>	<u>+</u>	<u>+</u>
	<u>242</u>	<u>428</u>	<u>2,183</u>

2. Redemption Yields (tax ignored)

	<u>5 May</u>	<u>12 May</u>	<u>Change</u>
12 3/4% Exchequer 1981	11.63	11.50	-0.13
13 1/2% Exchequer 1983	13.57	13.45	-0.12
12% Treasury 1984	13.54	13.52	-0.02
13 1/4% Exchequer 1987	13.79	13.99	+0.20
13% Treasury 1990	14.34	14.50	+0.16
2% Index-Linked Treasury 1995	2.25	2.26	+0.01
12 1/4% Exchequer 1999	14.25	14.45	+0.20
11 1/2% Treasury 2001/04	13.94	14.13	+0.19
12% Exchequer 2013/17	13.41	13.62	+0.21
3 1/2% War (Flat Yield)	11.97	12.15	+0.18

Gilt edged yields (FT High coupon)

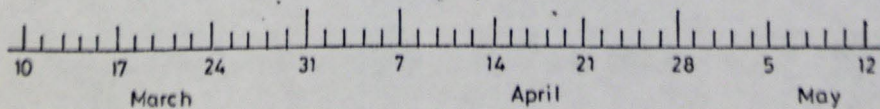
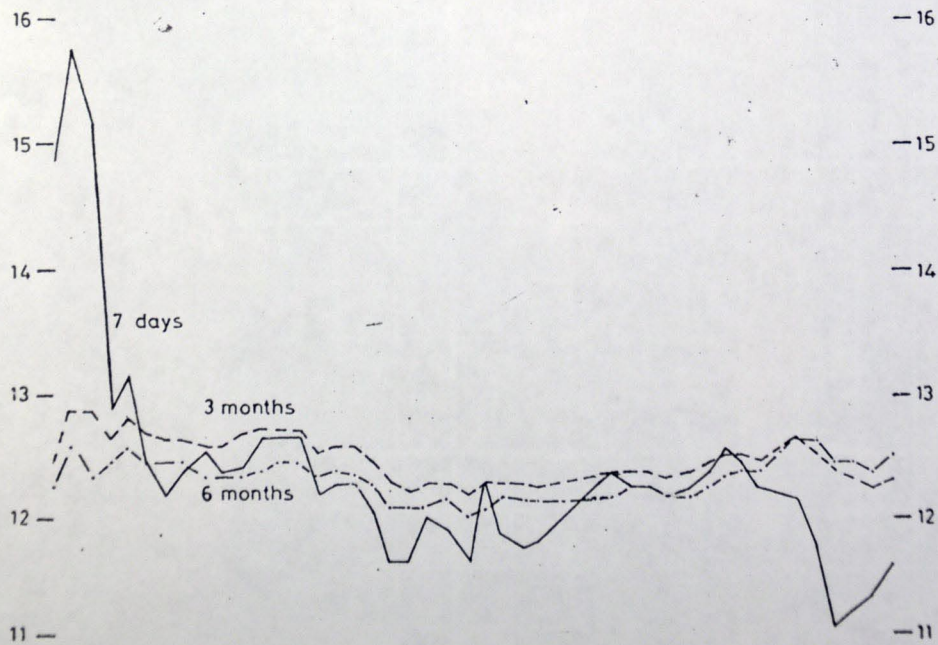


Interbank rates

17 —

Yields

— 17





## NEW ISSUES

Fixed interest  
(excl convertibles)

	<u>Domestic borrowers</u>	<u>Foreign borrowers</u>	<u>Convertibles</u>	<u>Equities</u>
TOTAL QUEUE*	<u>108</u>	<u>220</u>	<u>155</u>	<u>1286</u>
Of which issues of 10 or more:				
Current week (11/5-15/5)				<u>Morgan Grenfell Holdings Ltd (rights) (14/5) 13</u>
				Jefferson Smurfit Group Ltd (rights) (15/5) 14
Week 2 (18/5-22/5)		Hydro Quebec (20/5) 75	Nissan Motor Co Ltd $\phi$ (20/5) 50	Guardian Royal Exchange Assurance Ltd (rights) (22/5) 100
Week 3 (26/5-29/5)			BOC International Ltd (rights) (26/5) 75	KCA Drilling Ltd (offer for sale) (28/5) 20
Week 4 (1/6-5/6)		<u>Compania Telefonica Nacional de Espana (1/6) 20</u>		Split Capital Investment Trust (offer for sale) (1/6) 20
				Hadson Petroleum (UK) Ltd (offer for sale) (4/6) 10
				Cambridge Electronic Industries Ltd (offer for sale) (5/6) 20
Week 5 (8/6-12/6)	<u>Wellingborough (placing) (8/6) 10</u>			<u>Sapphire Petroleum PLC (offer for sale) (12/6) 15</u>
Week 6 (15/6-19/6)			Property Holdings & Investment Trust Ltd (rights) (16/6) 15	British Petroleum Co Ltd (rights) (18/6) 700
Week 7 (22/6-26/6)		<u>Royal Bank of Canada (22/6) 75</u>	Chloride Group Ltd (rights) (24/6) 15	



## SECRET

Forthcoming		Inco Ltd (placing) (30/6)	50	Electrocomponents Ltd (rights) (20/7)	15	Hamilton Bros Oil Company (Great Britain) Ltd (offer for sale) (7/7)	20
The South Staffordshire Waterworks Co (offer for sale by tender) (8/7)	10			Central Finance Co Ltd $\phi$ (20/7)	10	Gold & Precious Metal Investment Trust (offer for sale) (9/7)	20
Allied Breweries Ltd (placing) (14/7)	50					Hill Samuel Group Ltd (rights) (10/7)	15
						Inchcape & Co Ltd (rights) (15/7)	75
						<u>F &amp; C Enterprise Trust PLC</u> (offer for sale) (17/7)	10
						Hanson Trust Ltd (rights) (21/7)	30
						Emirex Petroleum Ltd (offer for sale) (22/7)	10
						<u>Mimslo European Holdings Ltd</u> (offer for sale) (23/7)	25
						<u>United Scientific Holdings Ltd</u> (rights) (30/7)	25
						Habitat Design Holdings Ltd (offer for sale) (24/9)	15
						Second Save & Prosper Linked Investment Trust PLC (offer for sale) (7/10)	30
						<u>Kwik Save Discount Group Ltd</u> (rights) (12/11)	15

*Issues announced:	1978	60	959
	1979	162	946
	1980	290	1,066
*Issues completed	1981 to date	67	310
	1978	63	910
	1979	150	979
	1980	284	945
	1981 to date	43	405

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



The curves have been fitted to the gross redemption yield on stocks with one year or more to maturity.

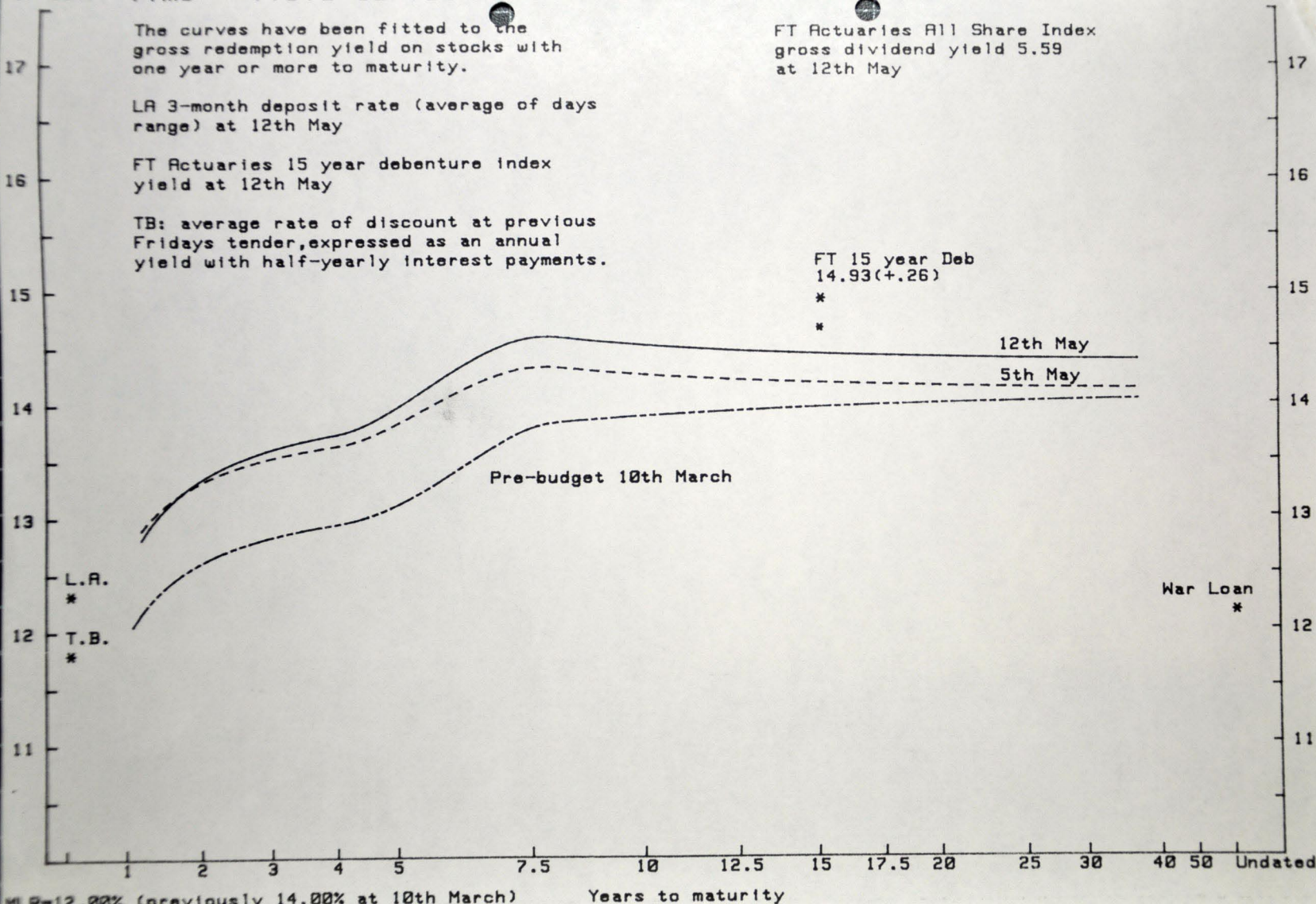
FT Actuaries All Share Index gross dividend yield 5.59 at 12th May

LA 3-month deposit rate (average of days range) at 12th May

FT Actuaries 15 year debenture index yield at 12th May

TB: average rate of discount at previous Fridays tender, expressed as an annual yield with half-yearly interest payments.

FT 15 year Deb 14.93(+.26)



MLR=12.00% (previously 14.00% at 10th March)

Years to maturity