

NOTE FOR WEDNESDAY MEETING

MARKETS: 20 MAY 1981 TO 26 MAY 1981

MONEY

This report covers only four days due to the Bank Holiday.

The main features of the week were a large surplus on Friday reflecting a net Exchequer position strongly favourable to the market and an almost equally large shortage yesterday. The latter was chiefly due to the final call on the index-linked stock and the maturity of commercial bills in the Bank's hands which outweighed the effects of continuing net Exchequer disbursements.

Friday's surplus was partly absorbed through the sale of Treasury bills. Large assistance was necessary yesterday through purchases of eligible bills, mostly for future resale. Small assistance had also been required on Thursday.

Short inter-bank rates dipped on Friday reflecting that day's easier conditions but rose sharply yesterday. Longer rates tended to firm slightly at all maturities, the three-month rate finishing $3/16\%$ higher at $12 \frac{7}{16}\%$.

Euro-sterling rates showed a similar trend with the three-month rate also rising by $3/16\%$ to $12 \frac{7}{16}\%$.

At the Treasury bill tender on Friday the average rate of discount rose by 0.0304 to 11.3674.

LOCAL AUTHORITY BONDS

The rate for one-year bonds rose by $1/4\%$ to 13% . Issues amounted to £12.75mn (£17.8mn last week) against maturities of £19.25mn.

GILTS

The market continued to be affected by uncertainties about international interest rates, but a somewhat better tone was apparent in the latter part of the week.

Sentiment was depressed on Wednesday by press speculation that interest rates were due to go higher in the UK as well as internationally; prices drifted lower in light trading with shorts down by up to 3/8 and longs up to 7/8 lower. The market staged a limited recovery in early trading on Thursday but lost momentum on disappointment at the PSBR outturn for 1980/81 and concern at further evidence of rising US interest rates. Selling continued during Friday morning but in the afternoon reports of an improvement in the US bond market brought in some buyers of shorts which closed only slightly lower; longs retained losses of up to 5/8.

After the holiday weekend, the better tone continued yesterday morning with interest largely concentrated on mediums and longs which recovered Friday's losses. The market tone remained firm in the afternoon though business was on a very small scale.

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

EQUITIES

Continuation of rumours about a large rights issue together with press-induced interest rate fears depressed the market on Wednesday and the FT Index lost 11 points. A rally developed in early trading on Thursday but petered out on lack of interest. The insurance sector was depressed on Friday by the announcement of the widely anticipated rights issue by Guardian Royal Exchange (£79mn) but the market generally ended the day only slightly lower. After the weekend, early trading on Tuesday was subdued following the announcement of a further major rights issue, £82mn of convertible stock by BOC. Little business was seen for much of the day but a late rally left the FT Index 4.2 higher at 547.6, a fall of 8.3 over the week as a whole.

NEW ISSUES

Queue

The flow of new issues continues unabated. A further seven issues of £10mn or more (totalling £160mn) were added to the queue this week including a rights issue of £75mn by LASMO. However, following the announcement of two large issues this week, the total queue dropped to £1,710mn against £1,784mn last week.

(Init EAJG)

27 May 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

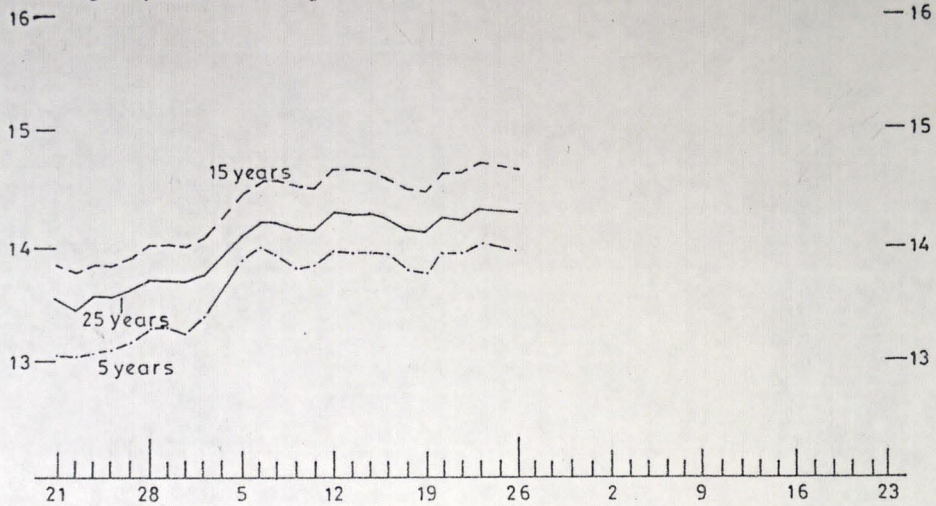
	20.5.81 <u>-26.5.81</u>	Cal.Qtr. and <u>Fin.Year to date</u>	18.2.81 <u>to date</u>
Issue Department			
Purchases/sales			
Next Maturities	- 1	- 706	- 1,124
Other short-dated	<u> </u>	<u>+ 194</u>	<u>+ 682</u>
	- 1	- 512	- 442
Mediums	+ 8	+ 1,320	+ 2,033
Longs and undated	<u>+ 279*</u>	<u>+ 560</u>	<u>+ 1,597</u>
Total Issue			
Department trans- actions	+ 286	+ 1,368	+ 3,188
CRND	-	+ 168	+ 220
Redemptions	-	- 206	- 301
	<u> </u>	<u> </u>	<u> </u>
	<u>+ 286</u>	<u>+ 1,330</u>	<u>+ 3,107</u>

* clearing on call on 2% Index-Linked Treasury 1996

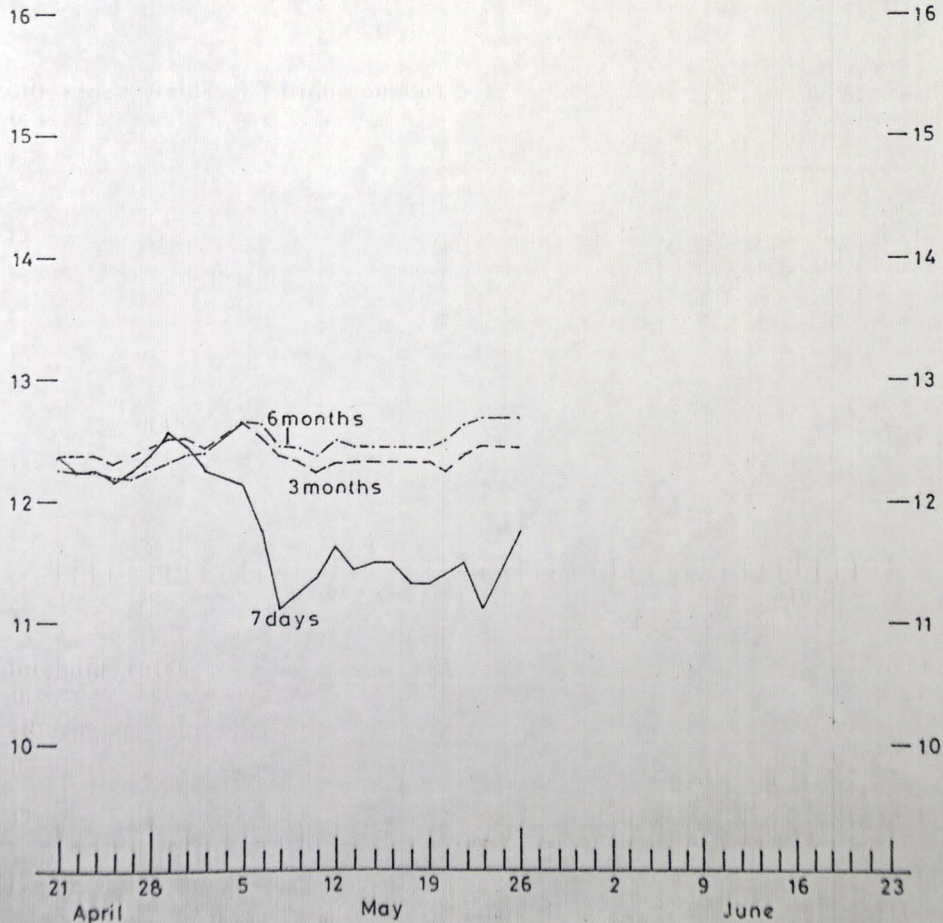
2. Redemption Yields (tax ignored)

	<u>19 May</u>	<u>26 May</u>	<u>Change</u>
12 3/4% Exchequer 1981	11.75	11.88	+0.13
13 1/2% Exchequer 1983	13.20	13.41	+0.21
12% Treasury 1984	13.33	13.46	+0.13
13 1/4% Exchequer 1987	13.76	13.93	+0.17
13% Treasury 1990	14.23	14.42	+0.19
2% Index-Linked Treasury 1996	2.28	2.37	+0.09
12 1/4% Exchequer 1999	14.27	14.46	+0.19
11 1/2% Treasury 2001/04	13.96	14.15	+0.19
12% Exchequer 2013/17	13.48	13.65	+0.17
3 1/2% War (Flat Yield)	11.97	12.11	+0.14

Gill edged yields (F.T. High coupon)



Intebank rates



NEW ISSUES

Fixed interest
(excl convertibles)

	<u>Domestic borrowers</u>	<u>Foreign borrowers</u>	<u>Convertibles</u>	<u>Equities</u>
TOTAL QUEUE*	<u>104</u>	<u>145</u>	<u>70</u>	<u>1391</u>
Of which issues of 10 or more:				
Current week (27/5-29/5)				KCA Drilling Ltd (offer for sale) (28/5) 20
Week 2 (1/6-5/6)		Compania Telefonica Nacional de Espana (1/6) 20		Split Capital Investment Trust (offer for sale) (1/6) 20 Cambridge Electronic Industries Ltd (offer for sale) (5/6) 20
Week 3 (8/6-12/6)	Wellingborough (placing) (8/6) 10			Sapphire Petroleum PLC (offer for sale) (12/6) 15
Week 4 (15/6-19/6)			Property Holdings & Investment Trust Ltd (rights) (16/6) 15	British Petroleum Co Ltd (rights) (18/6) 700
Week 5 (22/6-26/6)		Royal Bank of Canada (22/6) 75	Chloride Group Ltd (rights) (24/6) 15	
Week 6 (29/6-3/7)		Inco Ltd (placing) (30/6) 50		
Week 7 (6/7-10/7)	The South Staffordshire Waterworks Co (offer for sale by tender) (8/7) 10			<u>Mercantile House Holdings Ltd (rights)</u> (6/7) 10 Hamilton Bros Oil Company (Great Britain) Ltd (offer for sale) (7/7) 20 Gold & Precious Metal Investment Trust (offer for sale) (9/7) 20 Hill Samuel Group Ltd (rights) (10/7) 15

Forthcoming

Allied Breweries
Ltd (placing)
(14/7) 50

Electrocomponents
Ltd (rights)
(20/7) 15
Central Finance
Co Ltd ϕ
(20/7) 10
London Trust
Company Ltd
(rights)
(8/9) 15

Inchcape & Co Ltd
(rights)
(15/7) 75
F & C Enterprise
Trust PLC 20
(offer for sale)
(17/7) 10
Hanson Trust Ltd
(rights)
(21/7) 30
Emirex Petroleum Ltd
(offer for sale)
(22/7) 10
Nimslo European
Holdings Ltd
(offer for sale)
(23/7) 25
BICC Ltd (rights)
(28/7) 65
United Scientific
Holdings Ltd
(rights)
(30/7) 25
An investment trust
(offer for sale)
(4/8) 10
Ladbroke Group Ltd
(rights)
(6/8) 20
Hadson Petroleum
(International) PLC
(offer for sale)
(11/8) 10
William Press (rights)
(12/8) 10
Burnett & Hallamshire
Holdings Ltd
(rights)
(18/8) 20
HAT Group Ltd
(rights)
(19/8) 10
London and Scottish
Marine Oil Company
Ltd (rights)
(25/8) 75
J P M Machines Ltd
(offer for sale)
(10/9) 10
Habitat Design
Holdings Ltd
(offer for sale)
(24/9) 15
Second Save & Prosper
Linked Investment
Trust PLC
(offer for sale)
(7/10) 30

Forthcoming
contd

Kwik Save Discount
Group Ltd
(rights)
(12/11) 15
Astley & Pierce Ltd
(offer for sale)
(3/12) 10

/Issues announced:	1978	60	959
	1979	162	946
	1980	290	1,066
	1981 to date	67	499
/Issues completed	1978	63	910
	1979	150	979
	1980	284	945
	1981 to date	56	459

*Includes issues of 3 or more

/Includes issues of less than 3

øForeign borrower

27 May 1981

Per cent Time / Yield Curves of British Government Stocks

27th May 1981

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 5.68 at 26th May

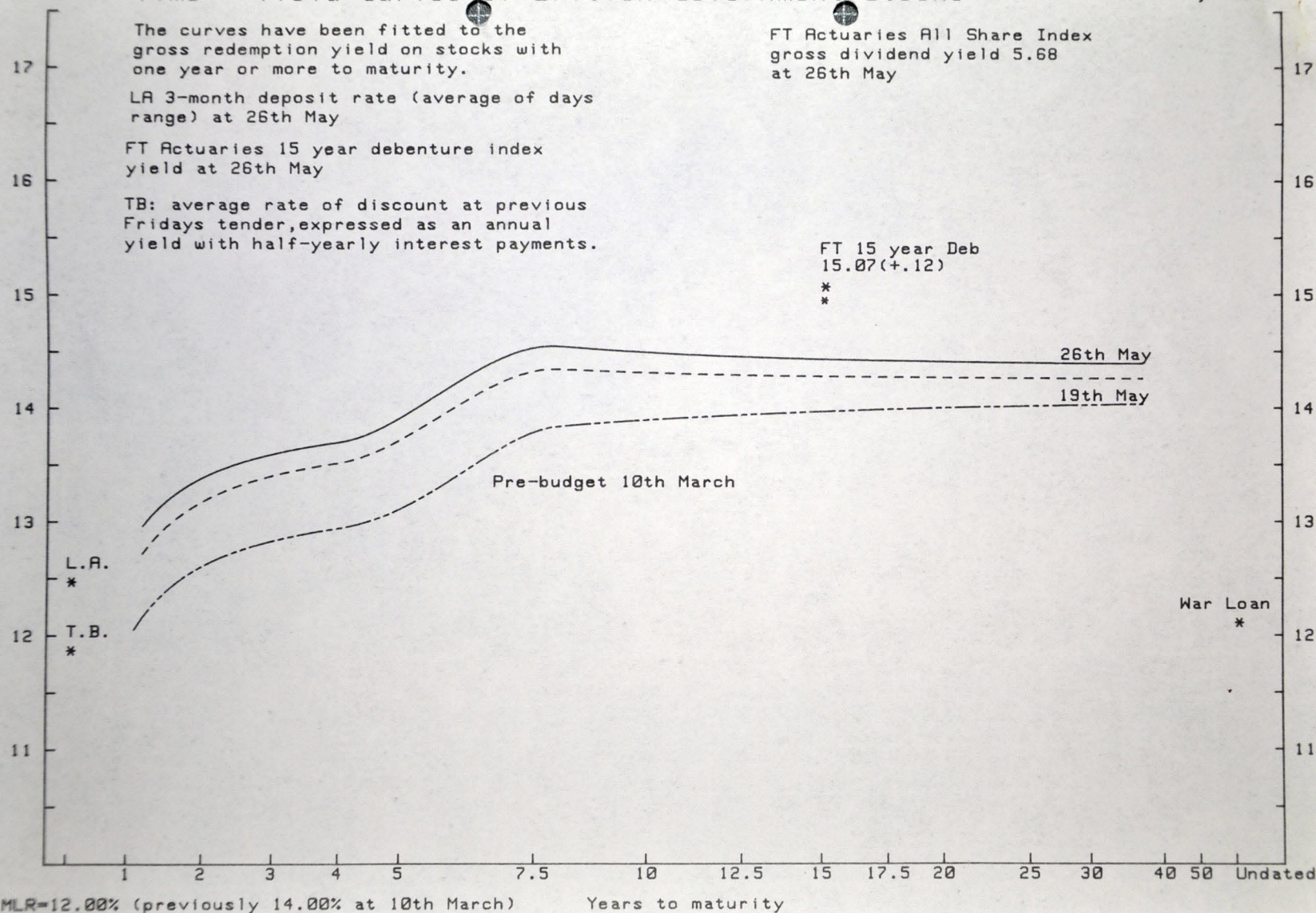
LA 3-month deposit rate (average of days range) at 26th May

FT Actuaries 15 year debenture index yield at 26th May

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

FT 15 year Deb 15.07(+.12)

*
*



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

Years to maturity