

NOTE FOR WEDNESDAY MEETING

MARKETS: 27 MAY 1981 - 2 JUNE 1981

MONEY

Market conditions were fairly flat almost throughout the week. Before the weekend, and particularly on Friday, the net Exchequer position was the main favourable influence, counterbalancing maturities of commercial bills in the Bank's hands and Friday's oil revenue payment to a Bank customer. Monday saw the Exchequer swing into surplus, but with a fall in the note circulation and bankers' balances a little over target the market remained comfortable until the following day. Tuesday's sharply tighter conditions were chiefly the result of gilt sales, together with the unwinding of an earlier repurchase agreement.

The Bank gave a very small amount of assistance to the market on Monday and a large amount the following day.

Short inter-bank rates were generally easy on Wednesday but thereafter, in flat conditions with Bank intervention at a minimum, a steady to mildly firm tendency developed. On Tuesday, the only day of substantial shortage, rates opened firm but fell away very sharply (the overnight rate dropping to 3%) after the Bank's assistance.

Longer rates showed little significant movement, reflecting market uncertainty on the likely direction of the next MLR change. There was some easing in rates at six months and over at the end of the week, but the three-month rate finished 1/16% up at 12 9/16%.

Euro-sterling rates up to three months changed little over the week, the three-month rate itself ending, like the domestic rate, 1/16% higher at 12 9/16%. Longer rates were slightly easier at the end of the week, possibly reflecting Monday's cuts in some US banks' prime rates.

At the Treasury Bill tender on Friday the average rate of discount rose by 0.0778 to 11.4452.

LOCAL AUTHORITY BORROWING

The rate for one-year bonds was unchanged at 13%. Issues amounted to £11.15mn (£12.75mn last week) against maturities of £16.65mn. There continues to be a good deal of grumbling in the local authority markets following press comment on the security of lending to local authorities in the wake of the Local Government (Miscellaneous Provisions) (Scotland) Bill, but there has been minimal effect on local authority interest rates and no difficulty in placing the local authority bonds on offer.

GILTS

Another week with the market affected by international interest rate considerations. A firm trend generated by lower US money numbers and falling US prime rates was terminated by uncertainty as to whether the falls would be sustained.

Last Wednesday and Thursday a quiet but firm tone predominated with some selective investment demand. In late trading on Thursday and during Friday the news of a prime rate cut of 1/2% by Chase Manhattan, together with some hopes of a settlement of the Civil Service dispute produced gains of up to 1 point in medium- and long-dated stocks. At 3.30 pm the issue was announced of three additional tranches of £250mn of existing stocks; 12 1/4% Exchequer 1992, 12% Treasury 1995 and 12% Exchequer 1999/2002. This news brought only a small reaction and quotations after hours were only slightly below earlier levels.

On Monday the news of other US banks cutting their prime rates kept a firm tone in the market and prices advanced in all maturities although the scale of rises was erratic.

Yesterday, revived uncertainty on the future course of US rates brought some sellers to the market and in quiet trading prices of longs fell back by 3/4 - 1 and shorts by up to 3/8.

Over the week as a whole prices of shorts rose by about 1/8 while rises in the prices of longs generally ranged between 1 and 1 1/2.

EQUITIES

Last Wednesday, after a firm opening, the market drifted lower. On Thursday a similar pattern developed with a firm opening following the trend on Wall Street being countered by disappointing annual results and a cut in dividend by Courtaulds. Nevertheless, a fairly firm undertone remained. Further rumours of imminent rights issues circulated on Friday and in quiet trading prices drifted lower.

Monday morning brought the first large dawn raid to follow the new rules. The West German insurance company Allianz Versicherungs purchased a 14.9% stake in Eagle Star and announced a tender offer to take their total holding to 29.9%. In the remainder of the equity market, after an uncertain start, the appearance of some buyers, together with US prime rate news brought a rise in the Index of 6.7 points on the day. Yesterday in very quiet conditions a firm opening was not followed up and prices drifted lower to close 2.2 points down on the day at 547.0; a fall in the Index over the week as a whole of 0.6 points.

NEW ISSUES

A further three issues of £10mn or more (totalling £100mn) were added to the queue this week including a rights issue of £65mn by Legal and General. However, as a result of a number of drop-outs, including a debenture issue of £50mn by Allied Breweries, the total queue fell by £1mn to £1,709mn.

(Init EAJG)

3 June 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

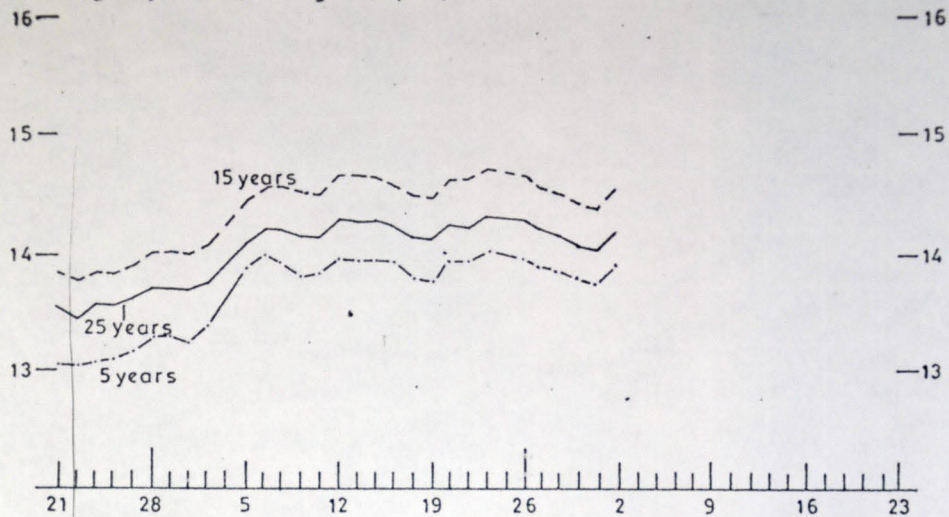
	27.5.81 <u>- 2.6.81</u>	Cal.Qtr. and <u>Fin.Year to date</u>	18.2.81 <u>to date</u>
Issue Department			
Purchases/sales			
Next Maturities	- 35	- 741	- 1,159
Other short-dated	<u>+ 59</u>	<u>+ 253</u>	<u>+ 741</u>
	+ 24	- 488	- 418
Mediums	+ 26	+ 1,346	+ 2,059
Longs and undated	<u>+ 156*</u>	<u>+ 716</u>	<u>+ 1,753</u>
Total Issue			
Department trans- actions	+ 206	+ 1,574	+ 3,394
CRND	+ 16	+ 184	+ 236
Redemptions	-	- 206	- 301
	<u>+</u> 222	<u>+</u> 1,552	<u>+</u> 3,329

* including 48 clearing on call on 2% Index-Linked Treasury 1996

2. Redemption Yields (tax ignored)

	<u>26 May</u>	<u>2 June</u>	<u>Change</u>
12 3/4% Exchequer 1981	11.88	11.82	-0.06
13 1/2% Exchequer 1983	13.41	13.34	-0.07
12% Treasury 1984	13.46	13.41	-0.05
13 1/4% Exchequer 1987	13.93	13.61	-0.32
13% Treasury 1990	14.42	14.26	-0.16
2% Index-Linked Treasury 1996	2.37	2.36	-0.01
12 1/4% Exchequer 1999	14.46	14.33	-0.13
11 1/2% Treasury 2001/04	14.15	13.92	-0.23
12% Exchequer 2013/17	13.65	13.51	-0.14
3 1/2% War (Flat Yield)	12.11	11.93	-0.18

Gilt edged yields (F.T. High coupon)



Interbank rates

