

64
BAMMS
4/16A

MONEY MARKETS (See Table IX)

The period commenced with conditions generally easy as tax revenue continued to be held up as a result of Civil Service industrial action and, apart from some sporadic shortages, this state of affairs prevailed throughout the quarter.

As a consequence of these conditions, short rates also remained generally easy for the greater part of the quarter. However, in early May, longer rates began to reflect US influences and hardened sharply. The sudden fall in sterling early in June brought further rises in long rates although some temporary easing occurred as sterling recovered somewhat. Nevertheless, there was progressive firming of all rates, particularly those at the longer end, later in June, as concern grew over the future course of domestic and international interest rates.

GOVERNMENT STOCKS (See Tables IA, IIA, IIB and VIII)

The market commenced the period in a somewhat subdued state following the large official sales after the budget and prices of long-dated stocks fell quite sharply on 7 April following the announcement of the March banking figures and the indicated rise in EM_3 . Very quiet conditions prevailed with the market weakening further towards the middle of April on the renewed upturn in US interest rates, but conditions stabilised around Easter. At the end of April, domestic and US interest rate considerations brought an easier tone and prices fell during early May. Some recovery was made as the month progressed and generally firm, although very quiet, conditions were maintained until near the end of May. There was a sharp improvement on 29 May associated with interest rate optimism and on that day additional tranches of £250mn of three existing stocks (two medium-dated and one long-dated) were created and issued direct to the Bank of England for subsequent sale to the market as demand developed. The optimism of the end of May was, however, short-lived as the decline in the sterling

exchange rate during early June brought concern over the future course of interest rates and inflation and, as a result, prices fell back sharply. However the market stabilised somewhat at the lower levels and following a cut in its prime rate by one US bank on 15 June the Bank was able to sell a significant amount of stock. In the second half of June there were renewed doubts about the course of US interest rates and, with sterling again weak, demand for conventional stocks dried up. This led to the decision to issue a second index-linked stock which was announced on 3 July.

Over the quarter as a whole, yields on all maturities rose by around 1%.

EQUITY MARKET (See Table VII)

After a buoyant start to the period with the Financial Times All-Share Index reaching an all-time peak of 317.01 on 2 April - partly on hopes of an early cut in MLR - an easier tendency developed. However, firm conditions returned on 8/9 April and, with increasing optimism that the recession had at last bottomed out and that company profits would rebound sharply, sustained institutional buying took place and the FT Index (30 Share) achieved a new record level of 597.3 on 30 April. During early May rising US interest rates together with some profit taking, further exacerbated by unhelpful April banking figures, brought a decline. For the remainder of May, although there were a number of days on which optimism surfaced, prices generally drifted lower on fears of the future course of interest rates and concern about the effect on the market of large rights issues. The fall in the sterling exchange rate during early June brought some purchases of shares of exporting companies but this optimism was soon eclipsed by a resurgence of interest rate worries and rumours of a very large rights issue for BP. During the middle of the month the somewhat improved performance of sterling and the periodic small bouts of activity in the gilts market helped a rather depressed equity market and during a period of generally quiet trading fairly firm conditions were maintained to the end of the period. On 18 June, following the persistent rumours, the BP rights issue to raise £624mn was announced. Over the period as a whole the FT Index rose 16.7 points to 544.8.

NEW DOMESTIC ISSUES (See Tables IA, IB, and III-V)

Two borrowers announced offers for sale in the sterling foreign stock (bulldog) market during the quarter. International Bank for Reconstruction and Development £100mn and Republic of Finland £50mn (£15mn raised in the quarter).

There was a new local authority stock issue by the City of Swansea of £7mn during the quarter and also raised were the final two instalments (£44mn) of the City of Leeds stock issue. In addition, these two local authorities made stock redemptions of £16mn.

In the company sector, net bond issues totalled £96mn compared with net redemptions of £82mn in the previous quarter. Company share issues (including preference capital) totalled £353mn. The main issues were both "rights" and were by BOC International (£86mn) and Guardian Royal Exchange (£79mn).

UNIT TRUSTS (Table X)

Gross sales of units by Unit Trusts during the quarter totalled £291mn (net £172mn). The June net new investment figure of £76.2 mn was the highest in the industry's history.

WORKING PARTY ON TRANSFERABLE SECURITIES MARKET

United Kingdom
Table 1A

Domestic Bond Issues 2nd Quarter 1981

Gross Issues over £2 million

| Date of initial payment | Borrower | Amount £ million | Method of issue | Maturity period (years) | Issue price £ | Redemption price £ | Coupon | Yield at final redemption date | Comments |
|-------------------------|----------------------------|-------------------|-----------------|-------------------------|---------------|--------------------|--------|--------------------------------|--|
| <u>Non-government</u> | | | | | | | | | |
| April | Suter Electrical | 4.1 | Rights | 13 | Par | Convertible | 9 3/4% | 9.75 | Convertible into ord. shares at £11 nominal of ord share per £100 of stock |
| May | London Shop Property Trust | 4.9 | Rights | 18 | Par | Convertible | 9% | 9.00 | - |
| June | Laing Property | 20.9 | Rights | 24 | Par | Convertible | 8 3/4% | 8.75 | Convertible at 46 ord shares per £100 of stock |
| | BOC International | 85.6 | Rights | 25 | Par | Convertible | 9% | 9.00 | Convertible at 74 ord shares per £100 stock |
| | TOTAL | <u>115.5</u> | | | | | | | |
| <u>Government</u> | | | | | | | | | |
| | TOTAL | <u> </u> | | | | | | | |

TABLE 1B

GROSS DOMESTIC BOND ISSUES (EXCLUDING GOVERNMENT ISSUES):
SUMMARY FOR 2ND QUARTER 1981

| | |
|----------------------------------|--------------|
| Issues over £2 million | 115.5 |
| Issues of £2 million or less: | |
| Local authority | 247.2 |
| Company | 1.9 |
| Overseas borrowers (traditional) | <u>149.4</u> |
| | <u>514.0</u> |

TABLE IIA

GOVERNMENT BOND ISSUES (NET) (a)

| | 1979 | | | 1980 | | | 1981 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | III | IV | I | II | III | IV | I |
| Purchase and new issues (+) | | | | | | | |
| Sales and redemptions (-) | | | | | | | |
| (1) Bank of England and National Debt Commissioners | +1,442 | - 844 | +1,410 | -1,937 | +1,902 | - 833 | + 158 |
| (2) The Public | <u>+2,648</u> | <u>+2,511</u> | <u>+1,086</u> | <u>+3,377</u> | <u>+3,186</u> | <u>+3,055</u> | <u>+3,501</u> |
| | <u>+4,090</u> | <u>+1,667</u> | <u>+2,496</u> | <u>+1,440</u> | <u>+5,088</u> | <u>+2,222</u> | <u>+3,659</u> |

(a) Although applications to subscribe to new issues of Government bonds are invited from the general public, it is usual for much the greater part of each issue to be taken up by the Issue Department of the Bank of England, which then stands ready to sell it to the public through the Stock Exchange during the following months. Figures of new issues are therefore less useful (and of less economic significance) than those of net purchases by the general public of old and new issues combined.

(Alternative version)

NET PURCHASES OF GOVERNMENT BONDS BY THE PUBLIC ^{(a) (b)}

(net purchases by the public +/sales -)

£ millions

| | 1978 | 1979 | 1979 | 1980 | | | | 1981 |
|----------------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Year | Year | IV | I | II | III | IV | I |
| Overseas holders (c) | - 117 | + 1,205 | + 366 | + .9 | +1,094 | + 490 | - 95 | + 4 |
| Banking sector (d) | - | + 227 | - 18 | - 584 | + 552 | - | +1,560 | + 572 |
| Other holders | <u>+5,169</u> | <u>+ 8,713</u> | <u>+2,163</u> | <u>+1,661</u> | <u>+1,731</u> | <u>+2,696</u> | <u>+1,590</u> | <u>+2,925</u> |
| TOTAL | <u>+5,052</u> | <u>+10,145</u> | <u>+2,511</u> | <u>+1,086</u> | <u>+3,377</u> | <u>+3,186</u> | <u>+3,055</u> | <u>+3,501</u> |

which:

| | | | | | | | | |
|--|--------|---------|--------|--------|--------|--------|--------|--------|
| Redemptions/ conversions | - 423 | - 1,069 | - 431 | - 298 | - 544 | - 19 | - 263 | - 325 |
| Up to one-year stocks | -1,450 | - 1,748 | - 178 | - 644 | - 574 | - 136 | - 734 | - 608 |
| Over one and up to five-year stocks | +2,169 | + 2,403 | + 159 | + 754 | +1,358 | - 261 | +1,186 | +1,248 |
| Over five and up to 15-year stocks | + 956 | + 3,458 | +1,317 | - 67 | + 943 | +3,130 | +1,425 | +1,400 |
| Over 15-year stocks and undated | +3,800 | + 7,101 | +1,644 | +1,341 | +2,194 | + 472 | +1,441 | +1,786 |

(a) This table provides further analysis of net purchases of Government bonds by the public [line (2) in Table IIA]. Attention is directed to purchases by "other holders" because these will, other things being equal, tend to moderate the growth of the money stock.

(b) At cash value, except for the banking sector, where the figures relate mainly to changes in book value - any difference between the book and cash value being reflected in the residual figures for "other holders".

(c) Estimated: there may be some unidentified overseas holdings under "other holders" but the amounts involved are thought not to be very large.

(d) Other than Bank of England, Banking Department.

AND SHARE ISSUES (EXCLUDING GOVERNMENT AND INTERNATIONAL ISSUES)

in millions

TABLE III

Bond Issues - Gross

| | 1979 | | 1980 | | | | 1981 | |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | III | IV | I | II | III | IV | I | II |
| Financial companies (Fm) | 4.0 | 2.1 | 4.0 | - | 2.5 | - | - | - |
| (Fs) | - | 15.2 | - | - | - | - | - | - |
| Industrial and commercial companies | 1.9 | 4.9 | - | 13.1 | 26.7 | 174.2 | 19.3 | 117.4 |
| Local authority | <u>165.6</u> | <u>129.7</u> | <u>219.9</u> | <u>197.6</u> | <u>185.8</u> | <u>170.7</u> | <u>178.4</u> | <u>247.2</u> |
| Total domestic | 171.5 | 151.9 | 223.9 | 210.7 | 215.0 | 344.9 | 197.7 | 364.6 |
| Overseas borrowers | - | - | - | - | 73.5 | - | 39.3 | 149.4 |
| TOTAL | <u>171.5</u> | <u>151.9</u> | <u>223.9</u> | <u>210.7</u> | <u>288.5</u> | <u>344.9</u> | <u>237.0</u> | <u>514.0</u> |

TABLE IV

Bond Issues - Net

| | 1979 | | 1980 | | | | 1981 | |
|-------------------------------------|---------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|
| | III | IV | I | II | III | IV | I | II |
| Financial companies (Fm) | - 8.5 | - 6.3 | 1.0 | - 5.6 | -17.6 | - 19.0 | - 66.9 | - 5.0 |
| (Fs) | - 1.6 | 14.6 | - 4.3 | - 5.4 | -10.6 | - 3.2 | - 0.2 | - 2.3 |
| Industrial and commercial companies | - 53.1 | -10.8 | -44.7 | - 8.4 | -31.9 | 98.2 | - 14.6 | 103.3 |
| Local authority | <u>- 37.1</u> | <u>-63.7</u> | <u>12.8</u> | <u>-24.0</u> | <u>-24.2</u> | <u>-129.5</u> | <u>- 45.2</u> | <u>19.9</u> |
| Total domestic | -100.3 | -66.2 | -35.2 | -43.4 | -84.3 | - 53.5 | -126.9 | 115.9 |
| Overseas borrowers | - 4.6 | - 1.8 | -40.4 | - 4.9 | 66.8 | - 15.5 | 28.3 | 138.1 |
| TOTAL | <u>-104.9</u> | <u>-68.0</u> | <u>-75.6</u> | <u>-48.3</u> | <u>-17.5</u> | <u>- 69.0</u> | <u>- 98.6</u> | <u>254.0</u> |

TABLE V

Share Issues - Net
(Including Preference Capital)

| | 1979 | | 1980 | | | | 1981 | |
|-------------------------------------|--------------|--------------|-------------|-------------|--------------|--------------|--------------|--------------|
| | III | IV | I | II | III | IV | I | II |
| Financial companies (Fm) | 1.4 | - | - | - | 0.7 | 2.7 | - 3.8 | - 1.6 |
| (Fs) | 0.1 | 0.4 | 1.8 | - | 30.4 | 21.9 | 120.5 | 79.2 |
| Industrial and commercial companies | <u>99.4</u> | <u>233.4</u> | <u>69.8</u> | <u>99.2</u> | <u>408.6</u> | <u>348.5</u> | <u>231.4</u> | <u>275.7</u> |
| Total domestic | 100.9 | 233.8 | 71.6 | 99.2 | 439.7 | 373.1 | 348.1 | 353.3 |
| Overseas borrowers | - | - | - | - | - | - | - | - |
| TOTAL | <u>100.9</u> | <u>233.8</u> | <u>71.6</u> | <u>99.2</u> | <u>439.7</u> | <u>373.1</u> | <u>348.1</u> | <u>353.3</u> |

Fm = Banks, discount houses, hire purchase finance houses and special finance agencies.
Fs = Investment trusts and insurance companies.

Notes to Tables III, IV and V

- (i) Estimates of the amounts raised are based on the prices at which securities are offered to the market.
- (ii) Subscriptions are recorded in the periods in which they are due to be paid. If an issue is paid by instalments, only that part paid during the period is included. (In Table I, however, the full amount of each issue is included at the time of payment of the first instalment.)
- (iii) Net issues comprise gross issues less redemptions; conversion issues in lieu of cash repayments are included in the gross figures of issues and redemptions. No allowance is made in Table V for company liquidations or other repayments of share capital.
- (iv) The series relates only to new money raised; bonus issues, share exchanges and issues for other forms of consideration are excluded, as are issues in which the cash raised accrues not to the borrowing company but to its existing shareholders.
- (v) The tables exclude international issues, ie. those which are issued in several countries simultaneously and which are denominated in a currency or currencies which need not be that either of the borrower or the lender (Euro-issues).

5/4(a) B5

Gross redemption yield on company bonds ⁽¹⁾

| | | Financial Times Actuaries Series ⁽²⁾ 20/25 years to maturity* |
|------|-----------|--|
| 1980 | July | 13.68 |
| | August | 13.65 |
| | September | 13.85 |
| | October | 13.68 |
| | November | 13.65 |
| | December | 13.85 |
| 1981 | January | 14.22 |
| | February | 14.18 |
| | March | 14.09/14.33* |
| | April | 14.42 |
| | May | 14.89 |
| | June | 15.30 |

TABLE VII

Price index on company shares ⁽²⁾

| | | Financial Times ⁽³⁾ Actuaries Industrial Shares (500) 10.4.62 = 100 | Financial Times ⁽⁴⁾ Actuaries All Share (750) 10.4.62 = 100 | Financial Times ⁽⁵⁾ Industrial Ordinary Share (30) 1.7.35 = 100 |
|------|-----------|---|---|---|
| 1980 | July | 294.14 | 280.90 | 488.54 |
| | August | 295.07 | 282.53 | 484.89 |
| | September | 301.79 | 292.29 | 491.72 |
| | October | 307.44 | 298.39 | 483.80 |
| | November | 318.96 | 304.95 | 493.45 |
| | December | 307.61 | 292.73 | 470.10 |
| 1981 | January | 297.77 | 284.68 | 459.63 |
| | February | 309.19 | 295.20 | 487.03 |
| | March | 314.14 | 301.24 | 497.79 |
| | April | 337.09 | 320.72 | 559.19 |
| | May | 339.79 | 321.53 | 557.93 |
| | June | 332.11 | 316.97 | 545.03 |

TABLE VIII

Calculated gross redemption yield on Government bonds ⁽¹⁾ ⁽⁶⁾

| | | Terms to maturity | | |
|------|-----------|-------------------|----------|----------|
| | | 5 years | 10 years | 20 years |
| 1980 | July | 12.67 | 13.08 | 13.07 |
| | August | 13.55 | 13.70 | 13.58 |
| | September | 13.10 | 13.47 | 13.38 |
| | October | 12.91 | 13.20 | 13.12 |
| | November | 13.14 | 13.34 | 13.22 |
| | December | 13.29 | 13.78 | 13.67 |
| 1981 | January | 13.29 | 13.97 | 13.96 |
| | February | 13.14 | 13.84 | 13.89 |
| | March | 12.99 | 13.66 | 13.68 |
| | April | 13.09 | 13.66 | 13.64 |
| | May | 13.83 | 14.40 | 14.31 |
| | June | 14.17 | 14.69 | 14.57 |

Please see over for footnotes

* Series rebased on 16 March.

- (1) Calculated in conformity with UK market practice in respect of semi-annual interest payments.
- (2) Average of working days.
- (3) Comprised of three main groups of industrial companies:-
 - (i) capital goods;
 - (ii) consumer; and
 - (iii) other.
- (4) Including the shares in the Industrial Share Index and a group of financial companies' shares.
- (5) The leading shares from each sector of the market.
- (6) Taken from a yield/maturity curve, fitted mathematically, which reflects the current cost of issues of new bonds at par. Explanation of the method of calculation appeared in the Bank of England Quarterly Bulletins of December 1972, September 1973 and June 1976. Averages of three daily observations per week.

SHORT-TERM RATES

Table IX

| End-Month | Treasury Bills (Rate at Tender) | Local Authority Deposits (3 months) | Inter-Bank Overnight Lending (1) |
|--------------|------------------------------------|--|--|
| 1980 April | 16.06 | 17.50-17.63 | 17.00-18.00 |
| May | 16.06 | 17.13-17.25 | 16.13-17.00 |
| June | 15.68 | 17.00 | 17.38-18.00 |
| July | 14.43 | 15.75 | 15.50-17.25 |
| August | 14.95 | 15.63-16.75 | 14.00-16.50 |
| September | 14.33 | 15.88-16.00 | 16.00-17.00 |
| October | 14.36 | 16.63-16.75 | 16.75-18.00 |
| November | 12.95 | 14.50-14.63 | 13.75-14.50 |
| December | 13.02 | 14.88 | 10.00-14.50 |
| 1981 January | 12.61 | 13.81-13.88 | 14.19-14.38 |
| February | 11.59 | 12.63-12.75 | 14.75-16.50 |
| March | 11.53 | 12.63-12.75 | 11.88-12.25 |
| April | 11.24 | 12.50-12.63 | 12.25-12.50 |
| May | 11.45 | 12.50-12.63 | 10.50-11.63 |
| June | 11.88 | 12.50-12.63 | 10.00-11.75 |

(1) The inter-bank market is a market in unsecured loans between members of the banking system.

UNIT TRUSTS

Table X

£ millions

| | 1978 | 1979 | 1979 | 1980 | | | | 1981 | |
|----------------------|-------|-------|------|-------|-------|-------|-------|-------|-------|
| | Year | Year | IV | I | II | III | IV | I | II |
| Sales of units | 529.5 | 412.0 | 86.8 | 95.9 | 122.1 | 144.8 | 168.7 | 247.7 | 181.3 |
| Repurchases of units | 294.0 | 353.9 | 79.5 | 105.0 | 92.3 | 118.5 | 108.0 | 96.8 | 54.8 |
| | 235.5 | 58.1 | 7.3 | - 9.1 | 29.8 | 26.3 | 60.7 | 150.9 | 96.5 |

*Figures for April and May only.