

NOTE FOR WEDNESDAY MEETING

MARKETS: 15 JULY 1981 TO 21 JULY 1981

MONEY

The net Exchequer position was a major influence almost throughout the week, with substantial swings resulting in easy conditions on the first two days, while on Friday a swing against the market, allied with a sizeable increase in the note circulation, led to rather greater stringency. Monday was a day of large-scale shortage, in part due to a further Exchequer surplus; in addition bankers' balances were well run down over the weekend, and a substantial net Treasury Bill take-up, resulting from Friday's £100mn tender increase, was also influential. The week ended with some mild tightness on Tuesday, chiefly the result of bank bill maturities in official hands.

The Bank sold a small amount of Treasury Bills to absorb surplus funds on Thursday; on each of the final three days of the week, assistance was given to the market by the purchase of bank bills on a repurchase basis.

Longer inter-bank rates were firm throughout the week, particularly on Friday afternoon and Monday following the announcement of a special issue of £800mn short Treasury Bills later in July. The weakness of the exchange rate was, however, the major underlying influence, responsible for the further hardening of rates in the course of Tuesday. The three-month rate finished $1 \frac{1}{16}\%$ up at 14 9/16%

Short inter-bank rates opened firm on Wednesday but fell away as the Exchequer position swung in the market's favour, and remained easy in the similar circumstances of the following day. Friday afternoon saw these rates begin to harden, and the tendency continued in Monday's difficult conditions. There was some initial easing on Tuesday but by close of business, with the market continuing nervous, rates from seven days to one month were again firm. The Bank's intervention during the week was regarded in the market as indicating a desire to keep the cash position tight so as to hold rates up; but the actual rates at which money was provided for very short periods by repurchase operations were seen as neutral, or even as restraining a sharper upward movement of rates.

Euro-sterling rates followed the domestic pattern closely, with a general firmness which was most sharply in evidence on Monday. The three-month rate ended the week 1% up at 14 1/2%.

At the Treasury Bill tender on Friday the average rate of discount rose sharply by 0.7338 to 13.4703.

LOCAL AUTHORITY BORROWING

The rate for one-year bonds rose by 1/2% to 14 1/4%. Issues amounted to £10mn (£13.35mn last week) against maturities of £14.15mn.

GILTS

The market has declined steadily over the week as a result of the combination of a number of adverse factors, principally rising US interest rates and the declining sterling exchange rate.

After a quiet and steady start last Wednesday with significant demand developing for the low coupon tap 3% Treasury 1986, prices of longs eased before the close. Conditions continued easy on Thursday with the announcement of banking figures which indicated a net sterling outflow and, at the close, longs were up to 5/8 lower. On Friday, interest rate fears together with the weakness of sterling depressed the market again and shorts and mediums saw losses of up to 7/8.

After the weekend, continued concern on the rising level of domestic interest rates amid news of worse than expected US money supply figures and the resultant easing of US bond prices, served to lower quotations and longs lost up to 3/4. Bank action in the money markets provided some relief to short-dated maturities which recovered to around 1/8 lower. Yesterday the sharp overnight fall in the US bond market was not fully reflected in prices and the appearance of some buyers left mediums and longs little changed on the day. Shorts, however, were affected by the further decline in sterling and generally closed about 1/4 down. The FT Government Securities Index fell marginally to 63.12, its lowest level for some 4 1/2 years. Over the week as a whole prices of shorts were about 1 point lower while prices of most mediums and longs were down by 1 1/2 points.

EQUITIES

Last Wednesday the market opened with some optimism that the BP rights issue would be successfully concluded. There was also some demand for clearing bank shares on renewed bid rumours and the growing possibility of higher base rates. On Thursday confirmation of the successful outcome of the BP issue brought a mood of anti-climax and the market drifted lower as the day progressed. This uncertain tone continued on Friday amid interest rate concern and despite further activity in clearers' shares following good results from Lloyds, the Index fell 5.6 points on the day.

This week opened steady but a lack of buying interest with sentiment affected by a gloomy IMF report on world economic trends, brought a renewed decline in prices which was exacerbated by profit-taking in clearers' shares and the Index fell 9.7 points. Yesterday, the continued decline of sterling and associated concern on the future course of interest rates, together with the announcement of a £43mn rights issue for Hanson Trust, continued the weak tone initially. However, some recovery was seen later and the Index closed only 1.8 points down at 512.2, a fall of 19.7 points over the week as a whole.

NEW ISSUES

Queue

Four new issues of convertible stock by Japanese companies were added to the queue. (These issues have been provisionally booked for some time but their timing has recently been clarified.) The queue now totals £880mn against £845mn last week.

(Init EAJG)

22 July 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

	15.7.81 <u>-21.7.81</u>	Cal Qtr to date	Fin Year to date	18.2.81 to date
Issue Department				
Purchases/sales				
Next Maturities	- 10	- 194	- 1,330	- 1,748
Other short-dated	<u>+ 10</u>	<u>+ 162</u>	<u>+ 718</u>	<u>+ 1,206</u>
	-	- 32	- 612	- 542
Mediums	+ 10	+ 32	+ 1,610	+ 2,343
Longs and undated	<u>-</u>	<u>+ 289</u>	<u>+ 1,022</u>	<u>+ 2,060</u>
Total Issue				
Department trans- actions	+ 10	+ 289	+ 2,030	+ 3,861
CRND	+ 3	+ 8	+ 193	+ 244
Redemptions	-	-	- 321	- 417
	<u>+</u>	<u>+</u>	<u>+</u>	<u>+</u>
	13	297	1,892	3,688

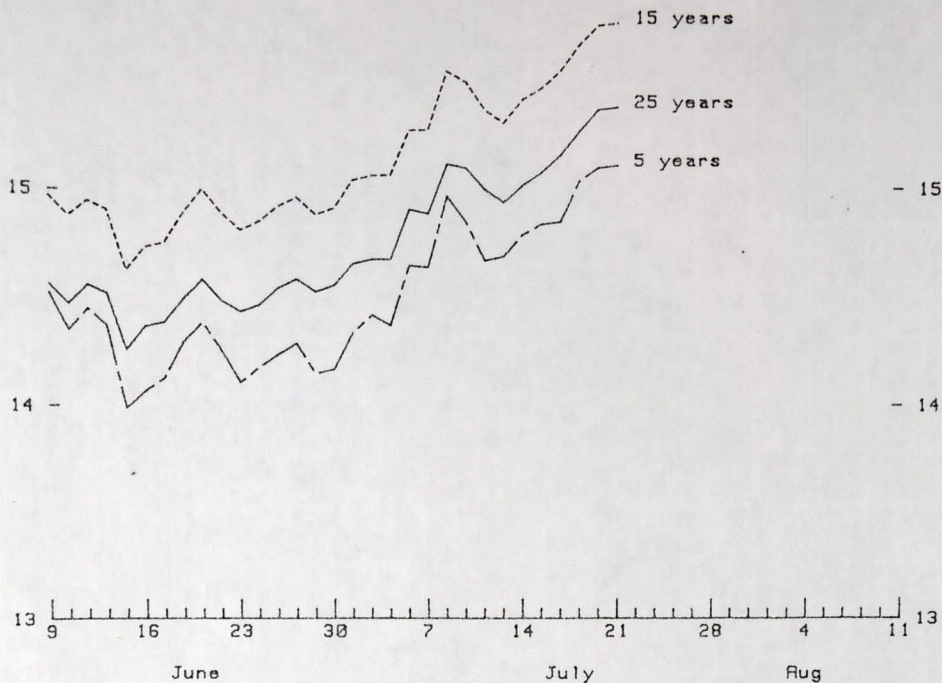
2. Redemption Yields (tax ignored)

	<u>14 July</u>	<u>21 July</u>	<u>Change</u>
12 3/4% Exchequer 1981	12.82	14.43	+1.61
13 1/2% Exchequer 1983	14.09	14.62	+0.53
12% Treasury 1984	14.32	14.94	+0.62
13 1/4% Exchequer 1987	14.34	14.80	+0.46
13% Treasury 1990	14.97	15.26	+0.29
2% Index-Linked	2.63	2.75	+0.12
Treasury 1996			
12 1/4% Exchequer 1999	15.27	15.61	+0.34
11 1/2% Treasury 2001/04	14.92	15.26	+0.34
12% Exchequer 2013/17	14.33	14.63	+0.30
3 1/2% War (Flat Yield)	12.70	13.02	+0.32

Gilt edged yields [F.T. High coupon]

16 -

- 16



Interbank rates
15 -

Yields
- 15

