

NOTE FOR TUESDAY MEETING

MARKETS: 22 JULY 1981 TO 27 JULY 1981

MONEY

This report covers only four days owing to the Royal Wedding holiday.

Despite a series of Exchequer deficits, aided on the first two days by substantial swings in the market's favour, conditions remained tight throughout the period, particularly on Friday and Monday. This was largely the result of the unwinding every day of earlier repurchase agreements; gilt sales were also influential on Thursday and Friday, together with a sizeable increase in the note circulation on the latter day. Following the weekend the market began to be affected by the taking up of five-week Treasury Bills from Friday's £800mn issue.

The Bank assisted the market by the outright purchase of bills on every day but Wednesday, when bills were bought on a purchase and resale basis. There was a further purchase of bills for resale on Friday.

The rates at which the Bank's bill operations were carried out continued to exert a stabilising influence on very short inter-bank rates, which remained soft relative to those at one month and over; a gap of 1% or over between one-week and one-month rates persisted throughout the period. On longer rates the position of sterling continued to be the major influence, and as this recovered slightly then stabilised on Thursday and Friday some softening was evident. Rates at one month and over showed some renewed firmness on Monday but despite this the three-month rate finished 1/4% lower at 14 7/16%.

After a slight easing at the beginning of the period euro-sterling rates steadied and by Monday were mildly firm at all maturities. The three-month rate ended 1/16% up at 14 9/16%.

At the regular Treasury Bill tender on Friday the average rate of discount rose by 0.2874 to 13.7577. Tenders for five-week bills were accepted at rates of discount between 13.625 and 13.969.

LOCAL AUTHORITY BONDS

The rate for one-year bonds was unchanged at 14 1/4%.

GILTS

Although trading has been thin, the market has staged a good recovery from the low-point reached last Tuesday.

The market rebounded sharply on Wednesday from the previous day's 4 1/2-year low. Although trading remained thin, investors were tempted by the high level of yields and encouraged by an improvement in the exchange rate. Shorts closed about 1/2 higher with longs up by about 1 1/4. The recovery was extended on Thursday and Friday though the gains were on a smaller scale. After the weekend the market moved up sharply encouraged by the fall in US money supply. Longs closed yesterday with rises of up to 1 1/4; shorts saw less demand and ended about 1/8-1/4 up on balance.

Over the week as a whole, prices of shorts rose by 1 - 1 1/4 and those of longs by about 3.

EQUITIES

The market took encouragement from the better tone in gilts and moved higher in thin trading on Wednesday following completion in the morning of the placing of the Government's 24% stake in British Sugar. Business remained slack on Thursday though the FT Index edged slightly higher with oils and electricals the main features. The market remained subdued, though steady, at the start of the new account on Friday. In the engineering sector, John Brown was sharply higher after better than expected annual profits, but worries about ICI's dividend intentions continued to depress its shares ahead of this Thursday's interim statement. After the weekend, most sectors improved on hopes of lower US interest rates. ICI recovered some of its lost ground and clearing banks were in demand with both NatWest and Midland reporting interim profits this week. Over the week as a whole the FT Index rose by 16.3 to 528.5.

NEW ISSUES

Queue

Only one new issue of £10mn or more was added to the queue: an offer for sale of £25mn by Houlder Offshore Ltd. The queue now totals £835mn against £880mn last week.

(Init ALC)

28 July 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

	22.7.81 <u>-27.7.81</u>	Cal Qtr to date	Fin Year to date	18.2.81 to date
Issue Department				
Purchases/sales				
Next Maturities	-	- 194	- 1,330	- 1,748
Other short-dated	+ 43	+ 205	+ 761	+ 1,249
	+ 43	+ 11	- 569	- 499
Mediums	+ 101	+ 133	+ 1,711	+ 2,444
Longs and undated	+ 90	+ 379	+ 1,112	+ 2,150
Total Issue				
Department trans- actions	+ 234	+ 523	+ 2,254	+ 4,095
CRND	-	+ 9	+ 193	+ 244
Redemptions	-	-	- 321	- 417
	<u>+</u> 234	<u>+</u> 532	<u>+</u> 2,126	<u>+</u> 3,922

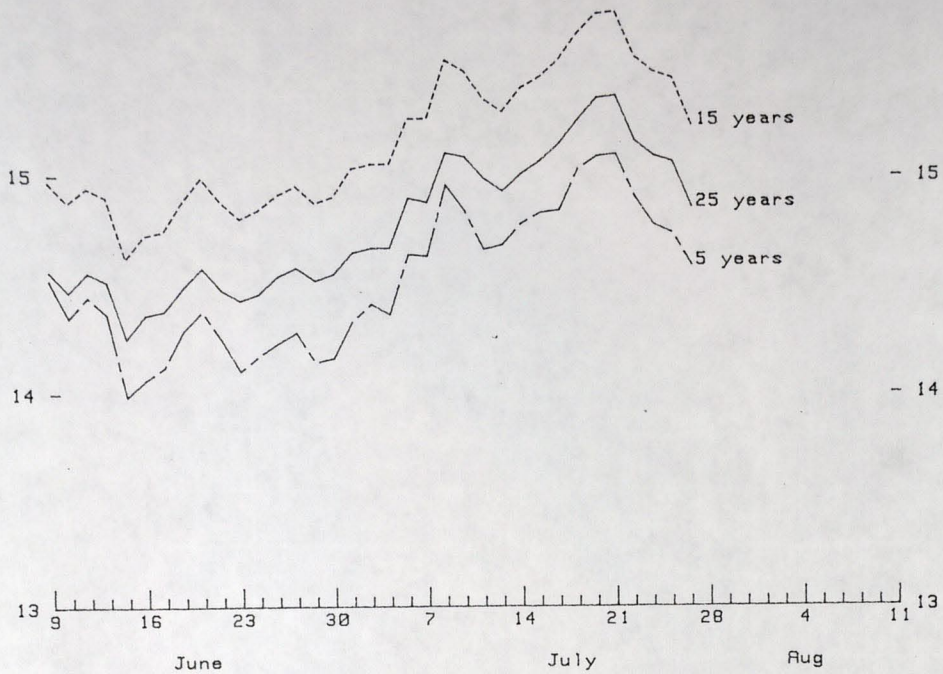
2. Redemption Yields (tax ignored)

	<u>21 July</u>	<u>27 July</u>	<u>Change</u>
12 3/4% Exchequer 1981	14.43	13.09	-1.34
13 1/2% Exchequer 1983	14.62	14.06	-0.56
12% Treasury 1984	14.94	14.43	-0.51
13 1/4% Exchequer 1987	14.80	14.17	-0.63
13% Treasury 1990	15.26	14.78	-0.48
2% Index-Linked	2.75	2.74	-0.01
Treasury 1996			
12 1/4% Exchequer 1999	15.61	15.05	-0.56
11 1/2% Treasury 2001/04	15.26	14.74	-0.52
12% Exchequer 2013/17	14.63	14.20	-0.43
3 1/2% War (Flat Yield)	13.02	12.76	-0.26

Gilt edged yields [F.T. High coupon]

16 -

- 16

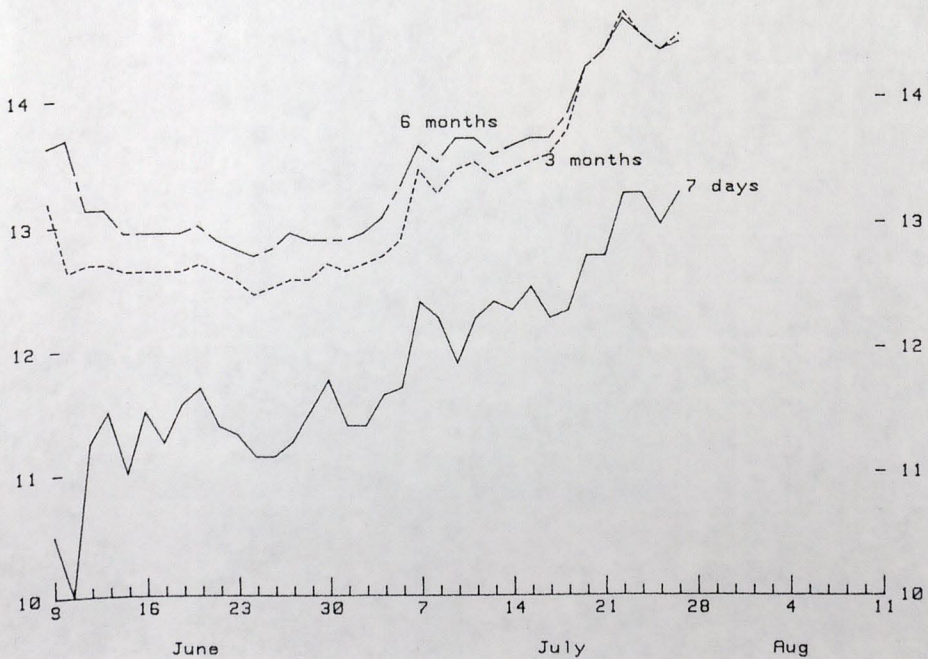


Interbank rates

15 -

Yields

- 15



NEW ISSUES

	Fixed interest (excl convertibles)			
	Domestic borrowers	Foreign borrowers	Convertibles	Equities
TOTAL QUEUE*	90		159	586
Of which issues of 10 or more:				
Current week (30/7-31/7)				United Scientific Holdings Ltd (rights) (30/7) 25
Week 2 (3/8-7/8)			Kyowa Hakko Kogyo Co Ltd ϕ (3/8) 15	Iadbroke Group Ltd (rights) (6/8) 20
Week 3 (10/8-14/8)			Carrington Viyella (13/8) 15	The Ailsa Investment Trust Ltd (12/8) 14 The Laird Group (rights) (14/8) 14
Week 4 (17/8-21/8)	City of Birmingham (17/8) 75			Burnett & Hallamshire Holdings Ltd (rights) (18/8) 20 MAT Group Ltd (rights) (19/8) 10 The Morgan Crucible Co Ltd (rights) (20/8) 10
Week 5 (24/8-28/8)			Nifco ϕ (24/8) 10	
Week 6 (1/9-4/9)			Nippon Electric ϕ (1/9) 40	Trusthouse Forte Ltd (rights) (1/9) 100 John Brown & Co Ltd (rights) (4/9) 25
Week 7 (7/9-11/9)			London Trust Company Ltd (8/9) 15	BICC Ltd (rights) (9/9) 65

Forthcoming

Nippon Seiko ♂		Legal and General	
(23/9)	30	(15/9)	20
Sanyo Electric ♂		Foseco Minsep Ltd	
(7/10)	30	(rights)	
		(17/9)	35
		J P M Machines Ltd	
		(offer for sale)	
		(19/9)	10
		Split Capital	
		Investment Trust	
		(offer for sale)	
		(16/9)	20
		An investment trust	
		(offer for sale)	
		(21/9)	10
		Habitat Design	
		Holdings Ltd	
		(offer for sale)	
		(24/9)	15
		Second Throgmorton	
		Investment Co	
		PLC (offer for sale)	
		(28/9)	13
		Guinness Peat Group	
		Ltd (rights)	
		(29/9)	15
		Hudson Petroleum	
		(International) PLC	
		(offer for sale)	
		(30/9)	10
		Second Save & Prosper	
		Linked Investment	
		Trust PLC	
		(offer for sale)	
		(1/10)	30
		Associated Biscuit	
		Manufacturers Ltd	
		(rights)	
		(9/10)	10
		Exco Securities	
		(1979) Ltd	
		(offer for sale)	
		(5/11)	12
		Houlder Offshore Ltd	
		(offer for sale)	
		(10/11)	25
		Rwik Save Discount	
		Group Ltd	
		(rights)	
		(12/11)	15

/Issues announced:	1978	60	959
	1979	162	946
	1980	364	1,066
	1981 to date	494	1,172
/Issues completed	1978	63	910
	1979	150	979
	1980	358	945
	1981 to date	397	985

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

29 July 1981