

NOTE FOR WEDNESDAY MEETING

MARKETS: 5 AUGUST TO 11 AUGUST 1981

MONEY

The week opened with a day of substantial surplus, due chiefly to the effect on bankers' balances of a £300mn payment made unexpectedly by HMG on behalf of the EEC the previous day. From Thursday onwards, however, conditions tightened, with a particularly large shortage occurring on Tuesday. Sizeable Exchequer swings against the market every day, due to the gradual appearance in the system of tax payments hitherto delayed by the Civil Service strike, were largely responsible; additional factors included the unwinding of an earlier repurchase agreement on Thursday and, following the weekend, substantial maturities of eligible bills in the Bank's hands.

On every day but Wednesday, when Treasury Bills were sold to absorb surplus funds, the Bank assisted the market by buying bills on a repurchase basis.

Short inter-bank rates were firmer on Thursday, reacting to the extreme softness of the previous day, but thereafter showed a generally stable to easy tendency. This was only temporarily interrupted towards the close of business on Monday, when the Bank's assistance did not meet the actual shortage and overnight rates rose briefly to 20%.

Longer rates were likewise generally steady or slightly soft, apparently unaffected by sterling's renewed weakness; the three-month rate finished $3/16\%$ down at $14 \frac{3}{16}\%$.

Euro-sterling rates also showed a tendency to easiness which was particularly marked on Thursday and again towards the close of the week. The three-month rate ended $5/16\%$ lower at $14 \frac{1}{4}\%$.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.0698 to 13.7316.

LOCAL AUTHORITY BONDS

The rate for one-year bonds fell by $1/8\%$ to $14\ 3/8\%$. Issues amounted to £12.5mn (£12.75mn last week) against maturities of £11.75mn.

GILTS

Despite continued weakness in sterling a firmer trend emerged during the week.

Some re-assessment of the banking figures and the better performance of sterling helped the long end on Wednesday to recover some of the previous day's losses; shorts remained firm reflecting the easier money market conditions. The improvement initially continued on Thursday morning but prices fell in the afternoon following a fresh reaction in sterling. Although sterling continued to fall on Friday, the undertone in gilts remained relatively firm, but with trading on a very small scale; longs closed about $1/8-1/4$ higher. After the weekend, the market continued to show resilience in the face of weakness in sterling. The long end improved further on Monday afternoon following publication of the better than expected July wholesale price figures, while shorts recovered earlier losses. Encouraged by a sharp overnight fall in US Treasury bill rates, the firmer trend continued yesterday, enabling some official sales of stock to be made; by the close shorts had risen by about $1/2$ and longs by up to $3/4$.

Over the week as a whole, prices of shorts rose by about $1/2$ and longs by about $1\ 7/8$.

EQUITIES

The market showed signs of gradual improvement prior to the weekend though business was on a small scale. Barclays, the last of the clearers to report, announced good half-yearly results on Thursday. Equity leaders continued their advance after the weekend and yesterday saw widespread gains on institutional buying. With stock in short supply, prices rose sharply and the FT Index closed 11.8 up at 555.6, the largest single day rise for two months and an increase of 27.0 over the week as a whole.

NEW ISSUES

Queue

Four new equity issues of £10mn or more were added to the queue; these include rights issues of £80mn by The Bowater Corporation and £25mn by RIT. The queue now totals £984mn against £902mn last week.

(Init ASC)

12 August 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

	5.8.81 <u>-11.8.81</u>	Cal Qtr to date	Fin Year to date	18.2.81 to date
Issue Department				
Purchases/sales				
Next Maturities	-	- 216	- 1,352	- 1,771
Other short-dated	+ 18	+ 219	+ 776	+ 1,264
	+ 18	+ 3	- 576	- 507
Mediums	+ 25	+ 139	+ 1,717	+ 2,450
Longs and undated	+ 75	+ 446	+ 1,180	+ 2,219
Total Issue				
Department trans-				
actions	+ 118	+ 588	+ 2,321	+ 4,162
CRND	- 2	+ 5	+ 190	+ 241
Redemptions*	- 14	- 157	- 478	- 573
	+ 102	+ 436	+ 2,033	+ 3,830

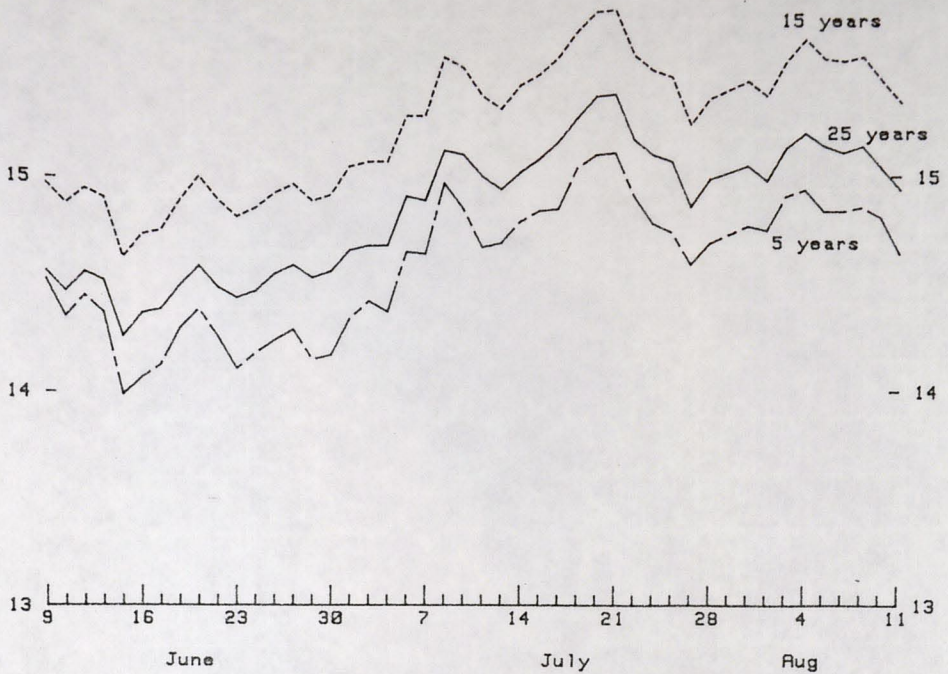
2. Redemption Yields (tax ignored)

	<u>4 August</u>	<u>11 August</u>	<u>Change</u>
12 3/4% Exchequer 1981	14.17	13.34	-0.83
13 1/2% Exchequer 1983	14.33	14.07	-0.26
12% Treasury 1984	14.76	14.56	-0.20
13 1/4% Exchequer 1987	14.66	14.35	-0.31
13% Treasury 1990	15.00	14.72	-0.28
2% Index-Linked	2.77	2.75	-0.02
2% Treasury 1996			
12 1/4% Exchequer 1999	15.46	15.14	-0.32
11 1/2% Treasury 2001/04	15.08	14.81	-0.27
12% Exchequer 2013/17	14.51	14.23	-0.28
3 1/2% War (Flat Yield)	13.03	12.88	-0.15

Gilt edged yields [F.T. High coupon]

16 -

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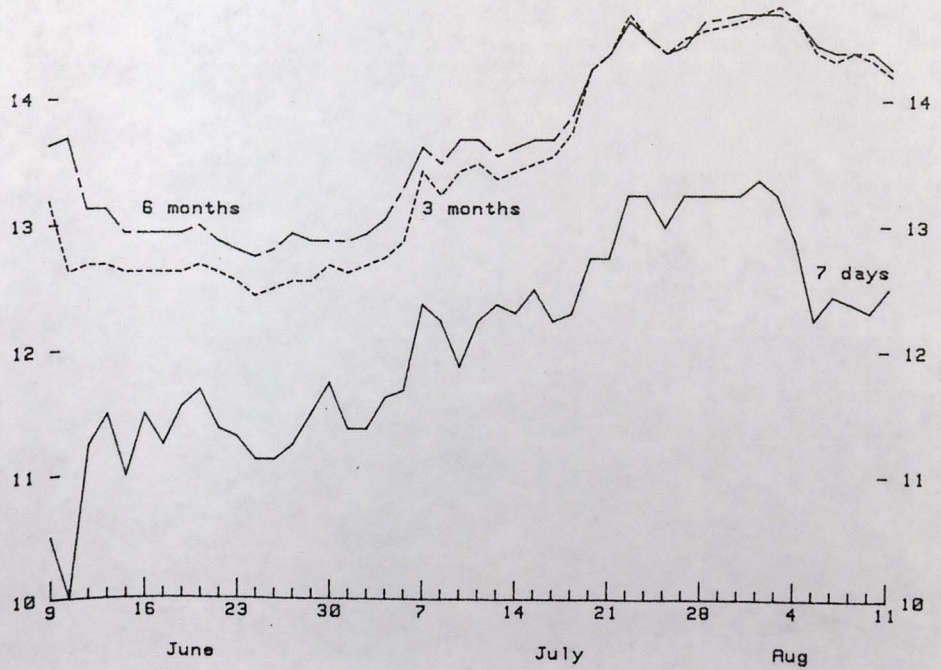


13 | 9 | 16 | 23 | 30 | 7 | 14 | 21 | 28 | 4 | 11 | 13
June July Aug

Interbank rates

15 -

Yields - 15



10 | 9 | 16 | 23 | 30 | 7 | 14 | 21 | 28 | 4 | 11 | 10
June July Aug

NEW ISSUES

	Fixed interest (excl convertibles)		Convertibles	Equities
	Domestic borrowers	Foreign borrowers		
TOTAL QUEUE*	<u>87</u>	<u>125</u>	<u>99</u>	<u>673</u>
Of which issues of 10 or more:				
Current week (12/8-14/8)				The Laird Group (rights) (14/8) 14
Week 2 (17/8-21/8)	City of Birmingham (17/8) 75		Nifco ø (19/8) 10	The Ailsa Investment Trust Ltd (19/8) 14 HAT Group Ltd (rights) (19/8) 10 The Morgan Crucible Co Ltd (rights) (20/8) 10
Week 3 (24/8-28/8)				<u>Electra Risk Capital PLC (offer for sale) (25/8) 15</u>
Week 4 (1/9-4/9)				Trusthouse Forte Ltd (rights) (1/9) 100 John Brown & Co Ltd (rights) (4/9) 25
Week 5 (7/9-11/9)			London Trust Company Ltd (8/9) 15 Nippon Electric ø (8/9) 40	BICC Ltd (rights) (9/9) 65
Week 6 (14/9-18/9)		Mexico (14/9) 75		Split Capital Investment Trust (offer for sale) (16/9) 20 Foseco Minsep Ltd (rights) (17/9) 35
Week 7 (21/9-25/9)				An Investment Trust (offer for sale) (21/9) 10 Habitat Design Holdings Ltd (offer for sale) (24/9) 15

Northcoming

EIB
(28/9 or 5/10) 50

Nippon Seiko ϕ
(30/9) 30

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)
(7/10) 30
Associated Biscuit
Manufacturers Ltd
(rights)
(9/10) 10
RIT Ltd
(rights)
(2/11) 25
Charterhouse Venture
Capital Fund
(private placing)
(3/11) 10
Exco Securities
(1979) Ltd
(offer for sale)
(5/11) 12
Houlder Offshore Ltd
(offer for sale)
(10/11) 25
Superdrug Stores Ltd
(offer for sale)
(13/11) 10
Kwik Save Discount
Group Ltd
(rights)
(26/11) 15
J P M Machines Ltd
(offer for sale)
(3/12) 10
The Bowater Corporation
Ltd (rights)
(8/12) 80

/Issues announced:	1978	60	959
	1979	162	946
	1980	364	1,066
	1981 to date	497	1,228
/Issues completed	1978	63	910
	1979	150	979
	1980	358	945
	1981 to date	418	990

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

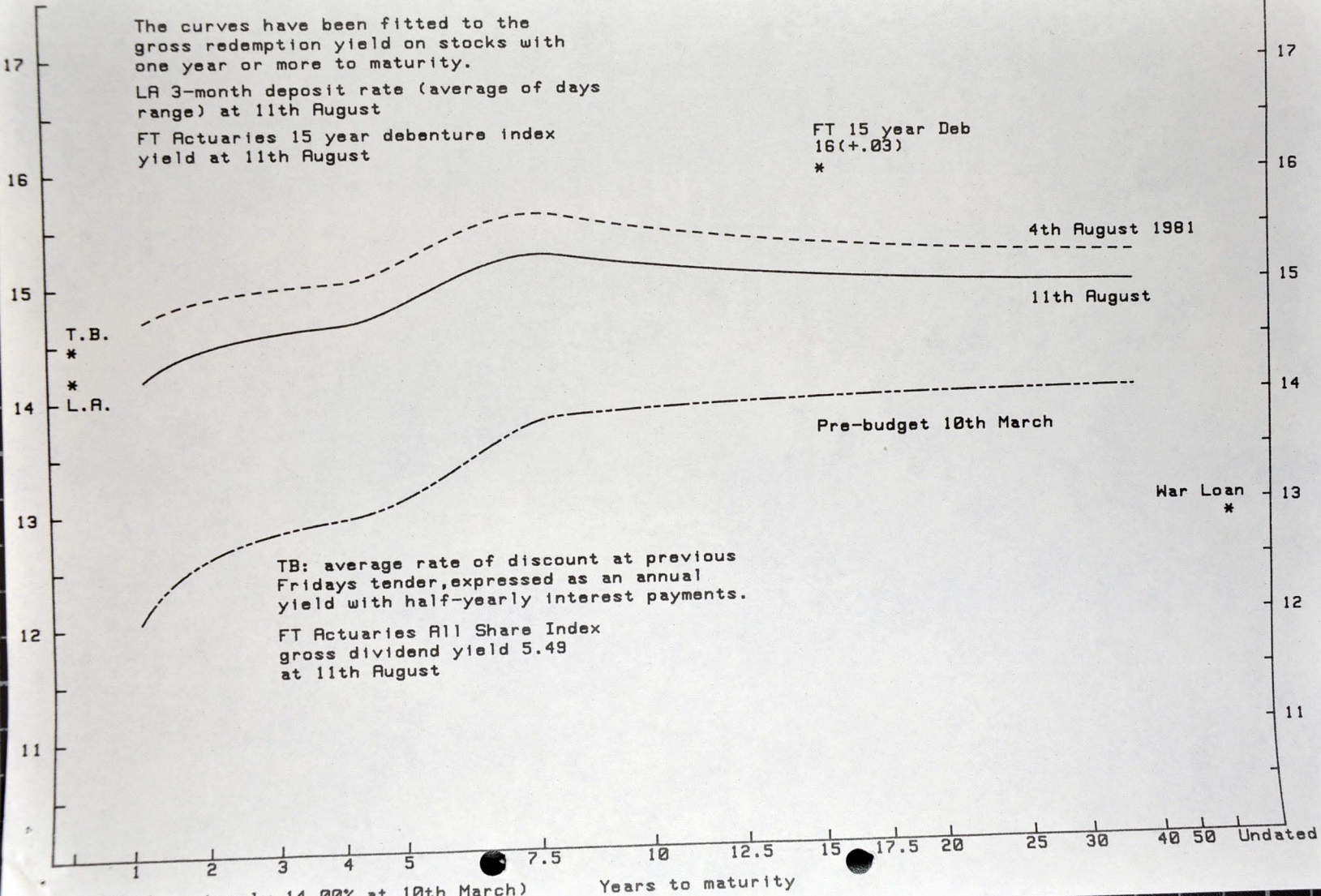
12 August 1981

Per cent Time / Yield Curves of British Government Stocks

12th August 1981

The curves have been fitted to the gross redemption yield on stocks with one year or more to maturity.
 LA 3-month deposit rate (average of days range) at 11th August
 FT Actuaries 15 year debenture index yield at 11th August

FT 15 year Deb
 16(+.03)
 *



T.B.
 *
 L.A.
 *

TB: average rate of discount at previous Fridays tender, expressed as an annual yield with half-yearly interest payments.
 FT Actuaries All Share Index gross dividend yield 5.49 at 11th August

Pre-budget 10th March

4th August 1981

11th August

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

Years to maturity