

NOTE FOR WEDNESDAY MEETING

MARKETS: 12 AUGUST TO 18 AUGUST 1981

MONEY

Market conditions remained extremely difficult throughout the week as delayed tax payments continued to filter through, resulting in substantial Exchequer swings against the market on every day but Tuesday. Other factors involved included official gilt sales on Wednesday, Thursday and Tuesday and a 30% call on the index-linked Treasury stock on Friday; the market was also affected at the end of the week by the unwinding of a sizeable repurchase agreement.

The Bank gave assistance to the market every day by buying bills on a repurchase basis (a total of almost £1.7bn over the week). Bills were also bought outright on Monday and Tuesday.

Short inter-bank rates were firm throughout the week, particularly after the weekend. Longer rates showed some easiness early in the week, perhaps reflecting sterling's temporary recovery against the dollar, but tended to harden from Friday onwards as the effect of tight day-to-day conditions fed through. The three-month rate finished 1/4% up at 14 5/16%.

Three-month euro-sterling rates were easy up to Monday but rose sharply on the final day of the week, and finished 1/16% higher at 14 1/8%. Longer rates showed a mild tendency to easiness throughout the week.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.2308 to 13.5007, while at the special tender on Tuesday for 1 September bills bids were accepted at rates of discount between 12.75 and 13.25. At both tenders, following a re-assessment of prospective money market flows, the number of bills allotted was reduced to £100mn from the £200mn offer.

LOCAL AUTHORITY BORROWING

The rate for one-year bonds fell by 1/8 to 14 3/8. Issues amounted to £14.6mn (£12.5mn last week) against maturities of £11.75mn. The local authority markets appear to have taken the £47mn cut in Lothian's rate support grant calmly; Lothian raised substantial amounts by way of syndicated loans last month and is said not to be in the market at present.

GILTS

A firm tone has been maintained during the week with the market largely influenced by movements in the sterling exchange rate.

Last Wednesday the strength of sterling brought a continuation of the firm conditions of the previous day and some official sales of stock were made. On Thursday some lessening of activity was evident as the exchange rate eased and Friday was quiet with the 30% call on IG II and most investment interest focussed on the equity market.

Despite the increasing likelihood of a rail strike, Monday saw a modest resurgence of activity on the renewed strength of sterling and a number of official sales were made including amounts of the short tap 11 1/2 Treasury 1985 at 91 1/4. Yesterday was quieter, and prices generally moved up and back in sympathy with sterling. Shorts closed marginally lower but other maturities were largely unchanged.

Over the week as a whole prices of shorts rose by only a small margin but mediums and longs were about 1 point higher.

EQUITIES

Last Wednesday the market continued its advance for the tenth successive day on optimism on the prospects for economic recovery. Although on Thursday prices eased somewhat, there were no signs of any institutional selling and the fall of 5.6 points in the FT Index was modest seen against the rise of some 42 points over the previous ten days. On Friday the market again advanced on renewed selective institutional investment demand; the FT 30 Share Index rose 11.1 to 572.5 and the FT Actuaries All-Share Index reached a new record level of 338.45 (up .5% on the week).

Quieter conditions returned on Monday with few buyers evident although activity in life assurance shares left the FT Index up 0.4 and the all-share at a new high. Yesterday concern over the economic implications of a rail strike together with US interest rate uncertainties brought easier conditions with the FT Index closing at its lowest level of the day down 5.8 at 567.1, a rise over the week as a whole of 11.5 points.

NEW ISSUES

Queue

One new equity issue exceeding £10mn was added to the queue which now totals £654mn against £673mn last week.

(Init EAJG)

19 August 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

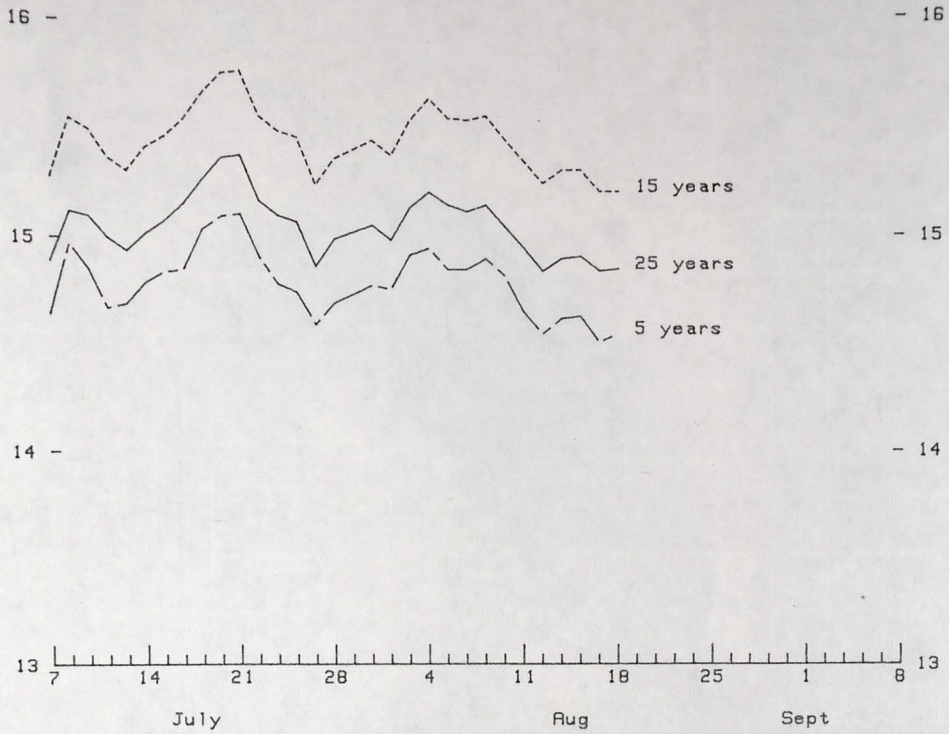
	12.8.81	Cal Qtr	Fin Year	18.2.81
	<u>-18.8.81</u>	<u>to date</u>	<u>to date</u>	<u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	-	- 216	- 1,352	- 1,771
Other short-dated	+ 48	+ 267	+ 823	+ 1,312
	+ 48	+ 51	- 529	- 459
Mediums	+ 52	+ 191	+ 1,769	+ 2,502
Longs and undated	+ 377*	+ 824	+ 1,558	+ 2,596
Total Issue				
Department trans-				
actions	+ 477	+1,066	+ 2,793	+ 4,639
CRND	- 1	+ 4	+ 188	+ 240
Redemptions	- 2	- 159	- 480	- 575
	<u>+ 474</u>	<u>+ 911</u>	<u>+ 2,506</u>	<u>+ 4,304</u>

* of which 285 is in respect of clearing on 2% ILT 2006

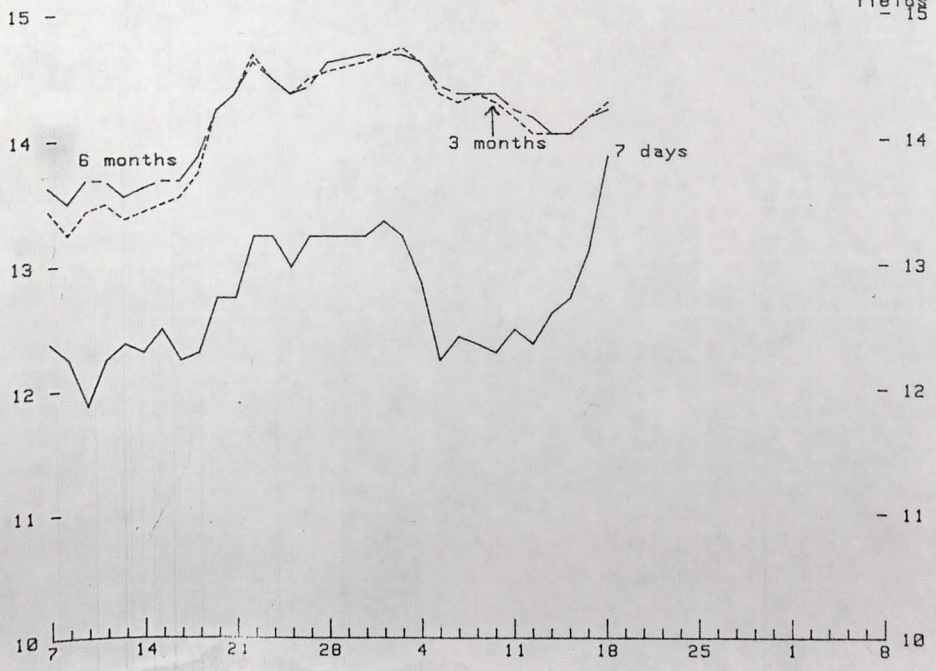
2. Redemption Yields (tax ignored)

	<u>11 August</u>	<u>18 August</u>	<u>Change</u>
12 3/4% Exchequer 1981	13.34	13.62	+0.28
13 1/2% Exchequer 1983	14.07	14.11	+0.04
12% Treasury 1984	14.56	14.39	-0.17
13 1/4% Exchequer 1987	14.35	14.14	-0.21
13% Treasury 1990	14.72	14.53	-0.19
2% Index-Linked Treasury 1996	2.75	2.71	-0.04
12 1/4% Exchequer 1999	15.14	14.99	-0.15
11 1/2% Treasury 2001/04	14.81	14.58	-0.23
12% Exchequer 2013/17	14.23	14.10	-0.13
3 1/2% War (Flat Yield)	12.88	12.79	-0.09

Gilt edged yields [F.T. High coupon]



Interbank rates



NEW ISSUES

	Fixed interest (excl convertibles)			
	Domestic borrowers	Foreign borrowers	Convertibles	Equities
TOTAL QUEUE*	<u>12</u>	<u>125</u>	<u>99</u>	<u>654</u>
Of which issues of 10 or more:				
Current week (19/8-21/8)			Nifco ϕ (19/8) 10	The Ailsa Investment Trust Ltd 14 (19/8) HAT Group Ltd (rights) 10 (19/8) The Morgan Crucible Co Ltd (rights) 10 (20/8)
"				
Week 2 (24/8-28/8)				Electra Risk Capital PLC (offer for sale) (25/8) 15
Week 3 (1/9-4/9)				Trusthouse Forte Ltd (rights) 100 (1/9) John Brown & Co Ltd (rights) 25 (4/9)
Week 4 (7/9-11/9)			London Trust Company Ltd 15 (8/9) Nippon Electric ϕ (8/9) 40	EICC Ltd (rights) (9/9) 65
Week 5 (14/9-18/9)		Mexico (14/9) 75		A Japanese Investment Trust (offer for sale) 10 (16/9) Foseco Minsep Ltd (rights) 35 (17/9)
Week 6 (21/9-25/9)				An Investment Trust (offer for sale) 10 (21/9) Habitat Design Holdings Ltd (offer for sale) 15 (24/9)

Book 4
(28/9-2/10)

Eid
(28/9 or 5/10) 50

Nippon Seiko /
(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

Forthcoming

Second Save & Prosper
Linked Investment
Trust PLC
(offer for sale)
(7/10) 30
Associated Biscuit
Manufacturers Ltd
(rights)
(9/10) 10
Drayton Montagu
Japan Trust
(offer for sale)
(16/10) 15
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	1,248
/Issues completed	1978	63	910
	1979	150	979
	1980	358	945
	1981 to date	420	990

*Includes issues of 3 or more
/Includes issues of less than 3
oForeign borrower

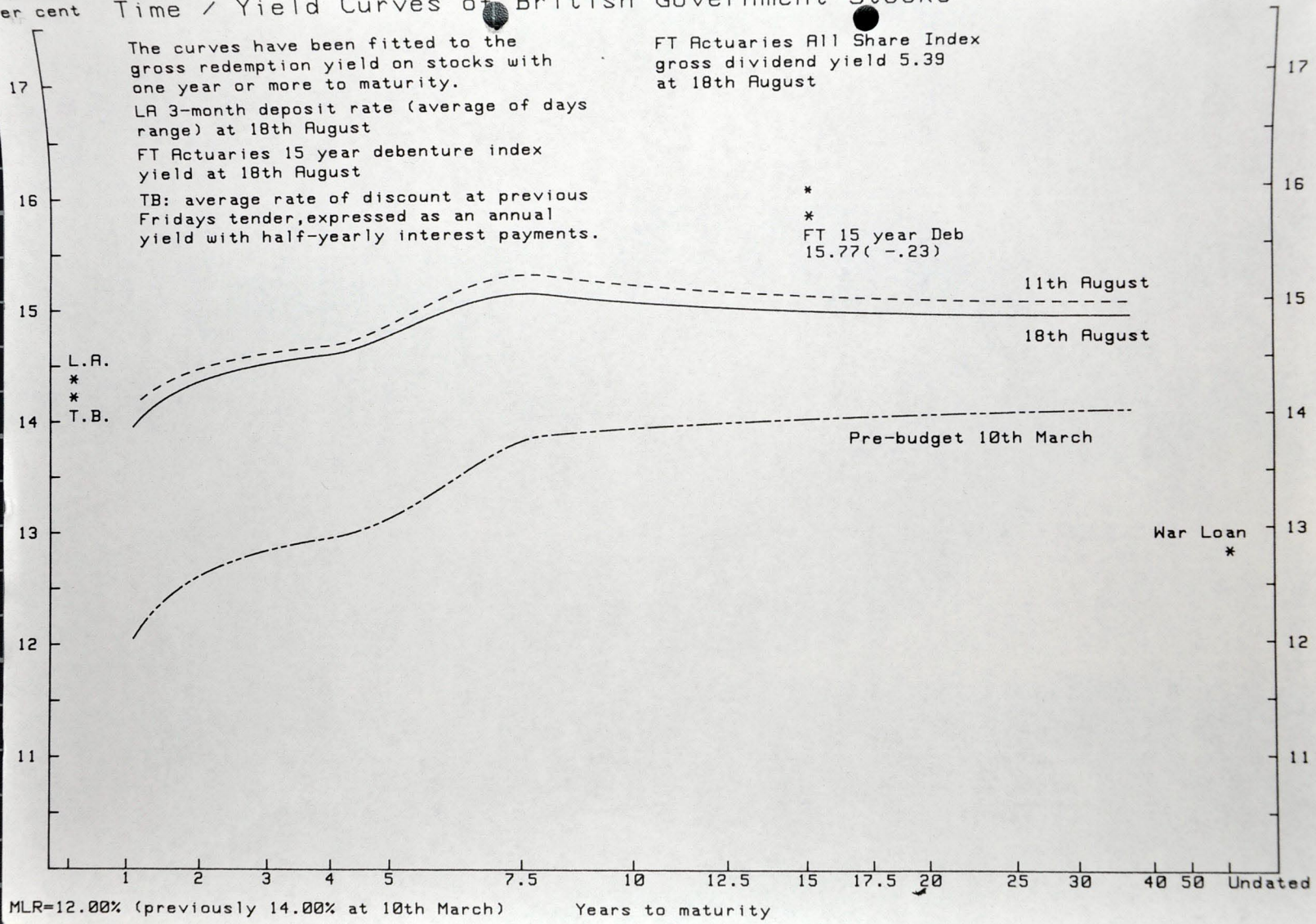
Per cent Time / Yield Curves of British Government Stocks

19th 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 18th August
 FT Actuaries 15 year debenture index yield at 18th August
 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 5.39 at 18th August

*
 *
 FT 15 year Deb 15.77 (-.23)



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

Years to maturity