

NOTE FOR WEDNESDAY MEETING

MARKETS: 2 SEPTEMBER TO 8 SEPTEMBER 1981

MONEY

An excess on bankers' balances, due to the failure of some PRT payments to clear on 1 September, helped to open the week on an easy note. Conditions did not tighten until Friday, when the unwinding of a large repurchase agreement was chiefly responsible for a substantial shortage; the same factor affected the market on both days after the weekend, particularly on Tuesday when balances were also at a low ebb.

The Bank assisted the market only on Friday and Tuesday, on both occasions by the outright purchase of Treasury, Local Authority and bankbills.

Short inter-bank rates were easy at the beginning of the week but steadied on Friday. Monday saw a late flurry, with overnight rates as high as 50% as some banks found themselves unexpectedly short at the end of a day on which little market pressure had otherwise been evident. Rates in Tuesday's shorter conditions were generally firm, with the weaker exchange rate a further influence.

Longer rates showed some tendency to easiness almost throughout the week, possibly reflecting hopes of a decline in US rates. The three-month rate finished $3/16\%$ lower at $13\ 11/16\%$.

Euro-sterling rates were easy at all maturities for most of the week; the three-month rate fell from $14\ 1/16\%$ to $13\ 13/16\%$.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.1099 to 13.0768.

LOCAL AUTHORITY BORROWING

The rate for yearling bonds was unchanged at $14\ 3/8\%$. Issues amounted to only £8.55mn (£13.25mn last week) against maturities of £10.8mn.

GILTS

The market remained paralyzed by US influences. Initial reaction to yesterday's banking figures was moderately encouraging.

Trading remained very light on Wednesday but a firmer tone emerged on hopes that proposed US budget cuts might lead to a reduction in US interest rates. With the added assistance of an improvement in sterling, many longs rose by up to 5/8%, though at the shorter end gains were only small. Conditions became even quieter on Thursday with little movement in prices. Renewed weakness on Wall Street brought out a few sellers on Friday and prices eased slightly.

The market continued very quiet after the weekend. Prices tended to drift lower on Monday and initially on Tuesday as sterling weakened further. Some recovery took place after the publication of the August banking figures and longs closed yesterday little changed with shorts slightly lower.

Over the week as a whole shorts fell by up to 3/8 and longs by about 1/4.

EQUITIES

American influences caught up with a market already unsettled by fears of large cash demands and prices dropped sharply before and after the weekend. Yesterday saw somewhat steadier conditions.

Following the announcement of Trusthouse Forte's large rights issue, rumours of further imminent cash calls depressed investors for most of Wednesday, though a late technical rally left the FT Index slightly higher. Prices tended to improve initially on Thursday with interest stimulated by trading announcements, but lack of follow-through left most sectors unchanged by the close. BP's second-quarter figures disappointed though the shares ended the day off the bottom; Cadbury Schweppes and Plessey were affected by profit-taking after good results. Renewed weakness on Wall Street (with the Dow Jones Index falling to a 15-month low on Thursday), along with a rights issue of £25mn by John Brown caused prices to be marked down sharply on Friday, though not much actual selling materialised. The Index closed 14.2 lower, the largest single-day fall since 5 May.

Sentiment remained depressed after the weekend with the Index shedding a further 7 points on Monday. Guthrie Corporation, the UK-based plantation group, was the subject of a dawn-raid, followed by a full-scale takeover, by Permodalan Nasional, the Malaysian state equity institution which was already a major shareholder. The offer values Guthrie at £282mn. Yesterday the market remained subdued but managed to make some modest headway with the Index closing 3.4 higher at 551.3, a fall of 22.5 over the week as a whole.

NEW ISSUES

Queue

Three new issues of £10mn or more were added to the queue: an offer for sale by the Atomic Energy Authority of £50mn of shares in Amersham International; a rights issue of £40mn by Great Portland Estates; and a £40mn bulldog by the Province of Nova Scotia. The queue now totals £776mn (£738mn last week).

(Init EAJG)

9 September 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

	2.9.81 <u>- 8.9.81</u>	Cal Qtr <u>to date</u>	Fin Year <u>to date</u>	18.2.81 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	+ 19	- 199	- 1,335	- 1,754
Other short-dated	<u>+ 15</u>	<u>+ 380</u>	<u>+ 936</u>	<u>+ 1,425</u>
	+ 34	+ 181	- 399	- 329
Mediums	-	+ 184	+ 1,762	+ 2,495
Longs and undated	<u>- 3</u>	<u>+ 794</u>	<u>+ 1,528</u>	<u>+ 2,566</u>
Total Issue				
Department trans- actions	+ 31	+ 1,159	+ 2,891	+ 4,732
CRND	-	+ 3	+ 188	+ 239
Redemptions	<u>- 7</u>	<u>- 519</u>	<u>- 840</u>	<u>- 935</u>
	<u>+ 24</u>	<u>+ 643</u>	<u>+ 2,239</u>	<u>+ 4,036</u>

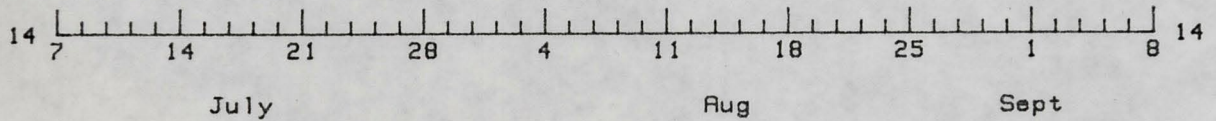
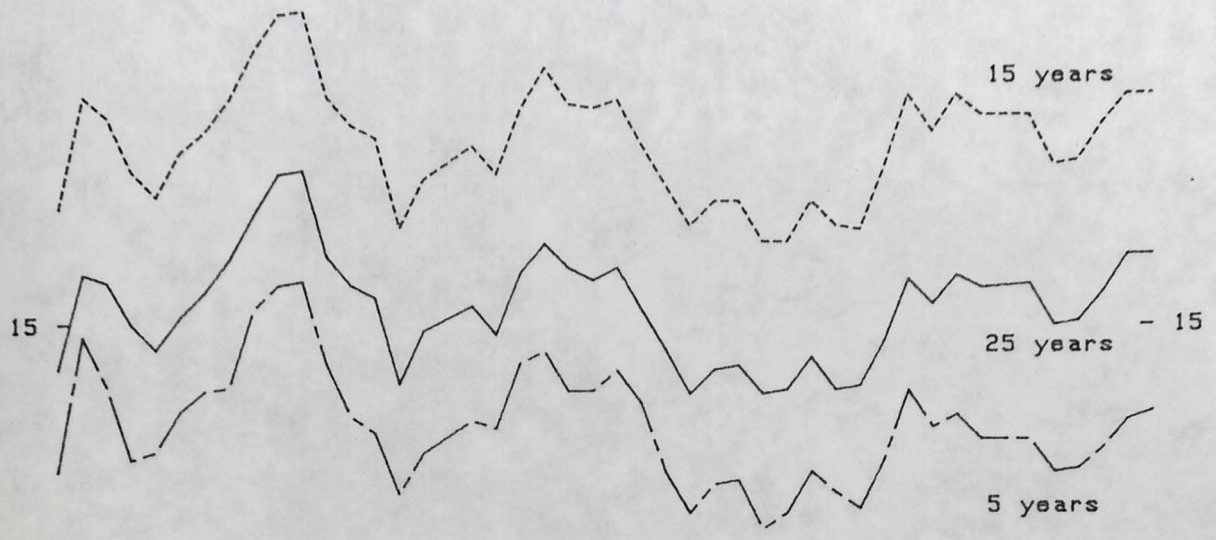
2. Redemption Yields (tax ignored)

	<u>1 September</u>	<u>8 September</u>	<u>Change</u>
14% Treasury 1982	13.17	12.97	-0.20
13 1/2% Exchequer 1983	14.11	14.29	+0.18
12% Treasury 1984	14.25	14.42	+0.17
13 1/4% Exchequer 1987	14.36	14.36	-
13% Treasury 1990	14.81	14.95	+0.14
2% Index-Linked Treasury 1996	2.72	2.73	+0.01
12 1/4% Exchequer 1999	15.27	15.36	+0.09
11 1/2% Treasury 2001/04	14.90	15.01	+0.11
12% Exchequer 2013/17	14.39	14.47	+0.08
3 1/2% War (Flat Yield)	13.10	13.19	+0.09

Gilt edged yields [F.T. High coupon]

16 -

- 16



Interbank rates

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Yields
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