NOTE FOR WEDNESDAY MEETING

MARKETS: 16 SEPTEMBER TO 22 SEPTEMBER 1981

Money

The week opened on a fairly easy note, with the net Exchequer position favouring the market and bankers' balances remaining comfortably over target. On Friday, however, despite a large favourable Exchequer swing, maturities of commercial bills in official hands and a substantial rise in the note circulation made the market's position tighter. The two days following the weekend saw a very substantial shortage followed by an equally large forecast surplus, in both cases chiefly the result of Exchequer transactions with further bill maturities contributing on Monday; conditions on both days were smoothed by means of a single overnight repurchase arrangement.

The Bank assisted the market by the purchase of bills outright on Friday while on Monday £400mn bills were bought for resale to the market the following day.

Short inter-bank rates appeared nervous and unsettled during the week, moving sharply in sympathy both with market conditions and with shifts in longer rates. Both these factors contributed to a very marked firmness on either side of the weekend, and despite an otherwise easier tendency seven-day rates finished the week little changed with rates at one month some 3/16% higher.

Longer rates tended to firmness for most of the week, particularly on Monday when following further pressure on sterling and pessimistic weekend press comment, three- and six-month rates rose by 11/16% in nervous morning trading. The three-month rate finished the week 5/8% up at 15 5/16% despite a somewhat easier tendency on Tuesday.

Euro-sterling rates reflected domestic trends with a similarly sharp increase on Monday; the three-month rate finished 11/16% up at 15 3/8%.

At the Treasury Bill tender on Friday the average rate of discount rose by 1.2271 to 14.4381. On Tuesday a further special tender was announced, to take place on 29 September for £400mn bills maturing on 21 October. This move was prompted by the pattern of market flows now expected to result from payments and refunds of VAT delayed earlier in the year by the Civil Service strike.

LOCAL AUTHORITY BORROWING

The rate for one-year bonds rose by 1/2% to 15 1/4%. Issues amounted to £14.85mn (£19.5mn last week) against maturities of £17.6mn.

GILTS

The market steadied after last week's sharp downward adjustment; the underlying mood remained cautious initially as the performance of sterling encouraged fears of higher interest rates, but improved towards the end of the period following lower US interest rates and a steadier tone to sterling.

Wednesday saw steadier conditions after the sharp decline of the previous two days. Prices were able to make modest headway in the morning with some demand for shorts enabling small official sales to be made; later, however, with Wall Street opening sharply lower the market became very inactive and prices eased back to close only about 1/8-1/4 higher. On Thursday the downward trend resumed amid speculation about an early funding iniative (in particular an issue of index-linked stock). Selling was mainly concentrated on longs which lost up to 3/4 before recovering slightly after publication of the August money supply figures. The market was again easier at Friday's opening but encountered some buying at the lower levels and prices reverted to the overnight close.

After the weekend, the market recorded further falls on Monday as the continuing weakness of sterling against Continental currencies encouraged the view that interest rates might have to rise still further. However, early losses of up to 1/2 were largely regained after news of prime rate cuts in the US. Low coupon stocks saw falls of about 3/4 on fears that they would be particularly vulnerable to the issue of a derestricted IG. Monday's late rally was extended yesterday as the market took heart from lower interest rates in the US and from sterling's better performance and some easing in money market rates. Although activity declined in the afternoon prices ended the day up to 1/2 highe in shorts and 3/4 higher in longs despite moderate official sales. Over the week as a whole prices of shorts were little changed while longs rose by about 1/4.

EQUITIES

Confidence was further undermined by the continuing upward pressure on interest rates and Friday saw the largest one-day loss for five years.

Renewed selling was apparent on Wednesday which gathered strength later in the day reflecting Wall Street's early weakness. After a cautious start, more settled conditions prevailed on Thursday helped by relief that GKN's interim dividend was being maintained. However, following the sharp overnight reaction on Wall Street, prices were marked down defensively on Friday morning. This failed to deter heavy selling across the board as sentiment was undermined by renewed upward pressure on short-term rates and the weakness of sterling. The FT Index closed 16 points down at 515.4, the heaviest one-day loss since November 1976. The fall of 38 points (7%) over the week was also the largest in percentage terms for five years.

After the weekend, interest rate fears led to a continued slide on Monday but this was brought to a halt by a technical rally yesterday which left the Index 8.4 higher at 515.3, a fall of 19.0 over the week as a whole. Since climing back to 572.5 on 14 August the Index has fallen by 57 points (10%).

NEW ISSUES

Queue

The rout in the equity market deterred any new offerings and led to the cancellation of several proposed new issues.

Other

Overseas financing subsidiaries of Lloyds Bank and Co-operative Bank are to make euro-dollar issues of floating rate notes of \$150mn and \$30mn respectively. (Lloyds has also recently joined the queue for a sterling rights issue.)

(Init EAJG)

23 September 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

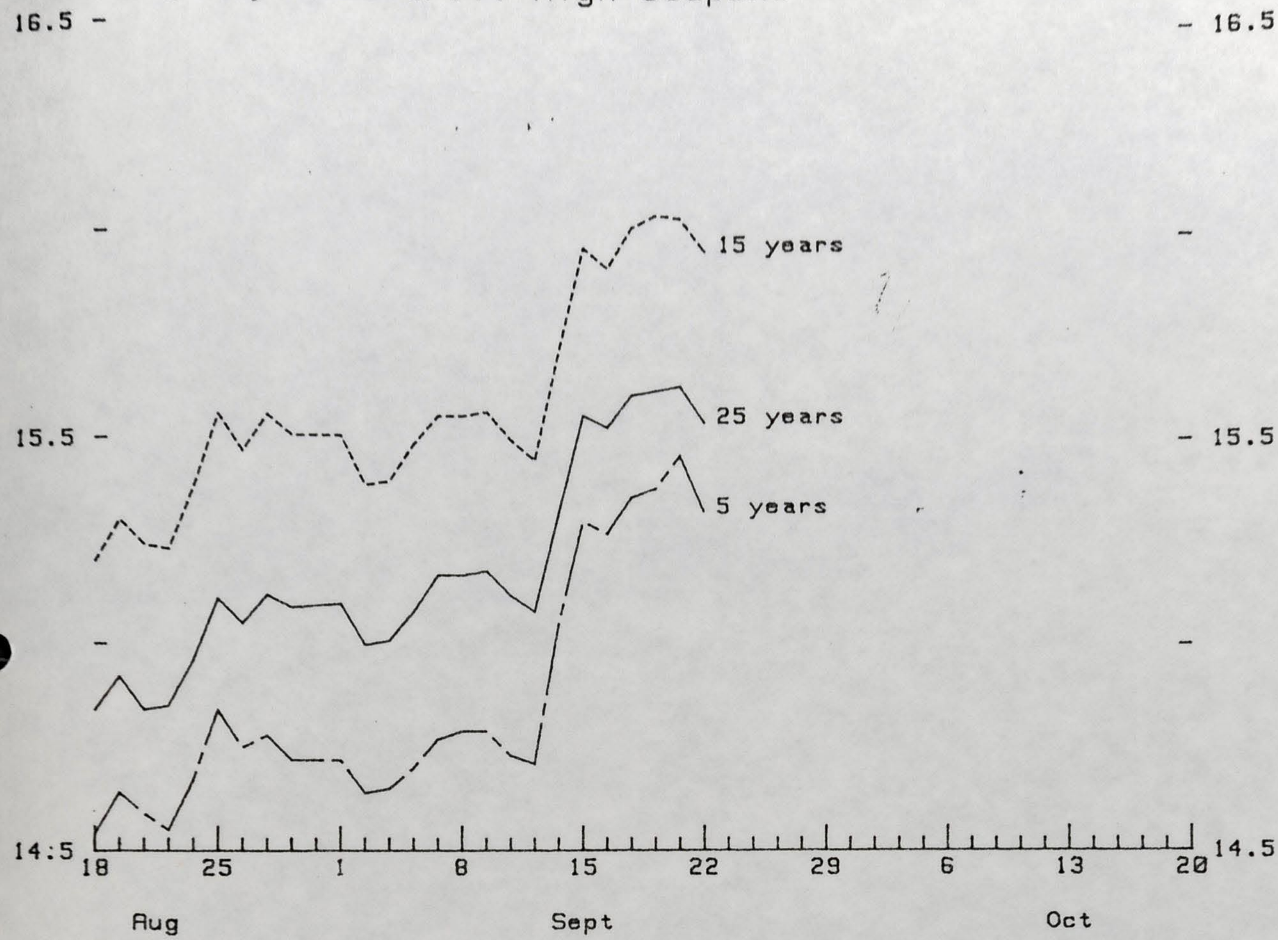
1. Transactions (cash value)

	16.9.81 -22.9.81	Cal Qtr to date	Fin Year to date	18.2.81 to date
Issue Department Purchases/sales				
Next Maturities	-	- 198	- 1,334	- 1,753
Other short-dated	+ 28	+ 414	+ 971	+ 1,459
	+ 28	+ 216	- 363	- 294
Mediums	+ 87	+ 267	+ 1,845	+ 2,578
Longs and undated	+ 82	+ 1,076	+ 1,810	+ 2,848
Total Issue Department transactions	+ 197	+ 1,559	+ 3,292	+ 5,132
CRND	- 4	- 2	+ 183	+ 234
Redemptions	- 1	- 522	- 843	- 938
	+ 192	+ 1,035	+ 2,632	+ 4,428

2. Redemption Yields (tax ignored)

		15 September	22 September	Change
14%	Treasury 1982	13.84	13.94	+0.10
13 1/2%	Exchequer 1983	14.82	14.83	+0.01
12%	Treasury 1984	14.89	14.91	+0.02
13 1/4%	Exchequer 1987	14.79	14.79	-
13%	Treasury 1990	15.30	15.42	+0.12
2%	Index-Linked Treasury 1996	2.77	2.86	+0.11
12 1/4%	Exchequer 1999	15.79	15.78	-0.01
11 1/2%	Treasury 2001/04	15.43	15.42	-0.01
12%	Exchequer 2013/17	14.85	14.85	-
3 1/2%	War (Flat Yield)	13.55	13.58	+0.03

Gilt edged yields [F.T. High coupon]



Interbank rates