NOTE FOR WEDNESDAY MEETING

MARKETS: 23 SEPTEMBER TO 29 SEPTEMBER 1981

MONEY

Pressure on the market's technical position tended to ease following Wednesday's very tight opening to the week. Conditions on Thursday were flat, while Monday, helped by an Exchequer position strongly in the market's favour, saw a small surplus. Shortages on the remaining two days, owed on Friday largely to a rise in note circulation and on Tuesday to an unfavourable Exchequer swing, were modest in size.

The Bank assisted the market by the outright purchase of bills on Wednesday and Friday, while on Tuesday bills were bought on an overnight repurchase basis. On Monday a very small amount of Treasury Bills was sold to absorb surplus funds.

Conditions in the interbank market continued extremely nervous and with lenders hesitant amid general apprehension of a further base rate increase, rates from one month onwards tended to firm throughout the week. Increases were particularly sharp on Monday, when the three month rate rose by 13/16%: Tuesday saw slightly more stable conditions, though the upward trend was still in evidence. The three month rate finished 1 5/16% up at 16 11/16%.

Eurostering rates were firm throughout the week, rising sharply in sympathy with domestic rates on Monday. The three month rate finished 1 5/16% up at 16 3/4%.

At the regular Treasury Bill tender on Friday the average rate of discount rose by 0.685 to 15.1231, with the highest rate accepted, rising to 15.3821. Bills at Tuesday's special tender were allotted at rates between 15.375 and 15.75. Only £300 mn of the £400 mn bills on offer were allotted following a reassessment of prospective money market flows.

LOCAL AUTHORITY BORROWING

The rate for one year bonds rose by 7/8% to 16 1/8%. Issues amounted to £14.0 mn (£14.85 mn last week) against maturities of £16.75 mn. The publication of the Government's plans to control the levying of supplementary rates seems to have had little impact.

GILTS

The failure of President Reagan's proposed expenditure cuts to restore confidence in US policy, and action by the Fed to put a floor under US short-term rates, which accentuated fears of a further rise in domestic short-term rates, undermined the gilt-edged market last week, after its earlier attempt to stabilise.

After a reasonably strong rally the previous day, the gilt market reacted to lack of follow through on Wednesday and prices fell away throughout the day. Mediums and longs were down 5/8 at the close and the selling continued in after hours trading. The selling continued on Thursday ahead of President Reagan's statement and prices were down a further 1 1/8-1 1/4 at the official close although covering of bear positions in after hours dealing stemmed the fall. Friday again opened easier and inactive awaiting Wall Street's reaction, with steadier after hours in the absence of a tap stock announcement. Fed intervention to drain reserves which helped to provoke higher short-term interest rates in London, and collapsing equity prices produced further falls on Monday. By mid-day shorts were 3/4 down and longs had fallen by up to 1 3/8 although prices recovered slightly in the afternoon. The recovery continued on Tuesday encouraged by equity market's rebound, although trading was light. Shorts were unchanged on the day but longs managed gains of 5/8. Over the week as a whole, shorts fell by up to 1 3/4; longs by 1 5/8 - 1 3/4.

EQUITIES

In common with other financial centres and prompted largely by loss of confidence in the ability of the US to contain its Budget deficit and to bring down interest rates, the equity market slumped during the week until yesterday's rebound.

The FT Index fell by 20.5 points on Wednesday, its largest drop in a single day since 1974. Selling continued on Thursday and at 3 pm the index was down a further 17 points although this was partially reversed in a late rally. However the selling continued on Friday and after bearish comment in the weekend press, the index dropped a further 17 points on Monday, having lost 58 points in four days. The market bounced back on Tuesday following a rally on Wall Street although an initial 30 point gain was not maintained and the market closed at 475.7, 18 points up on the day.

NEW ISSUES

Queue

Following the addition - for next year - of rights issues for MEPC (£70 mn), Davy Corp (£30 mn) and Pavell Duffryn (£20 mn), the queue now totals £1003 mn against £898 mn last week. The slump in the equity market has not yet had much effect although a number of earlier postponements of generally smaller issues has left the queue relatively thin over the next few weeks.

Init EAJG
30 September 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

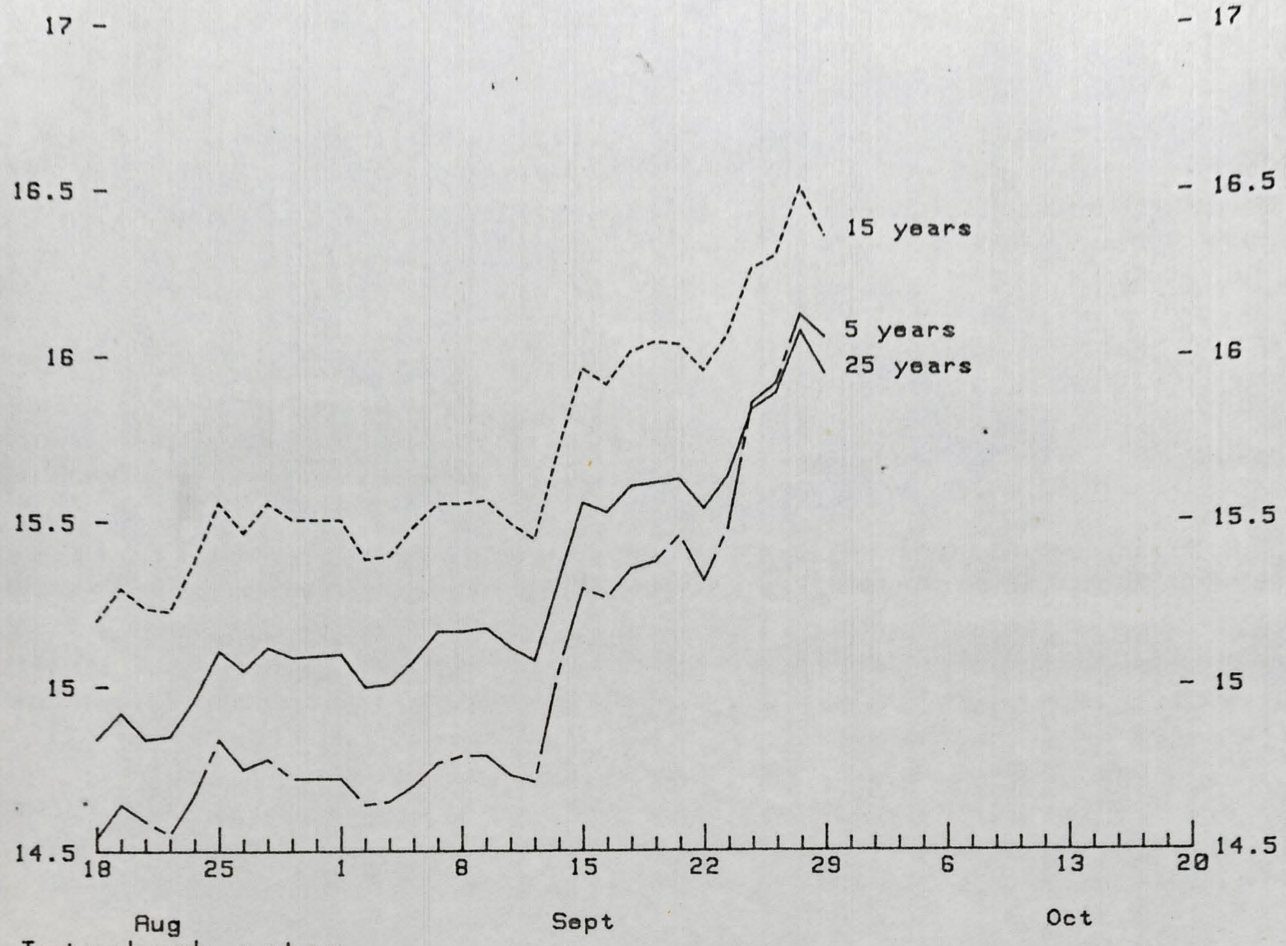
1. Transactions (cash value)

	23.9.81 -29.9.81	Cal Qtr to date	Fin Year to date	18.2.81 to date
Issue Department				
Purchases/sales				
Next Maturities	- 68	- ~~226~~ 266	- 1,402	- 1,821
Other short-dated	- 53	+ 362	+ 918	+ 1,407
	- 121	+ 96	- 484	- 414
Mediums	- 4	+ 262	+ 1,841	+ 2,574
Longs and undated	- 5	+ 1,071	+ 1,804	+ 2,843
Total Issue Department transactions	- 130	+ 1,429	+ 3,161	+ 5,003
CRND	- 4	- 5	+ 179	+ 230
Redemptions	-	- 522	- 843	- 938
	- 134	+ 902	+ 2,497	+ 4,295

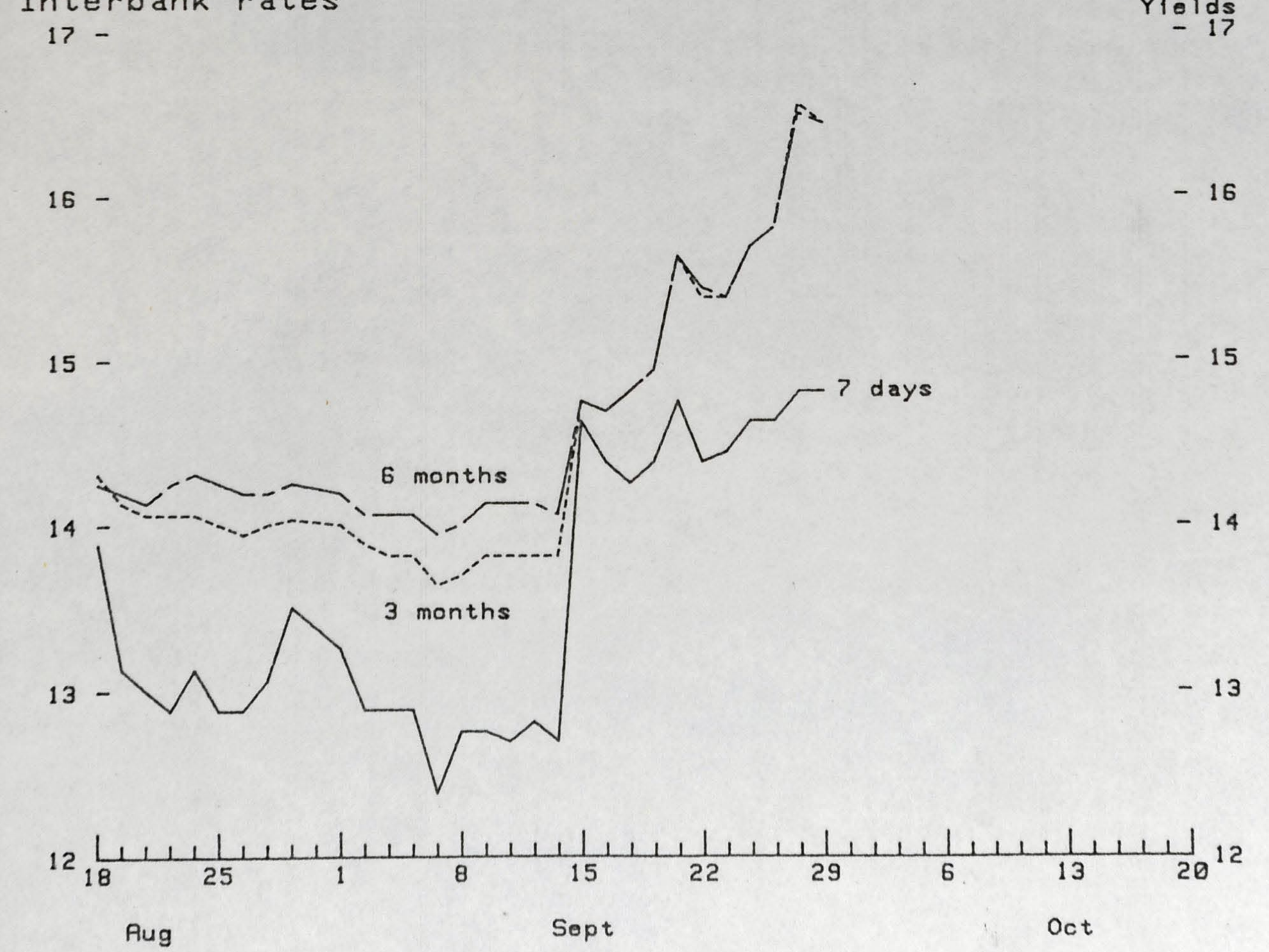
2. Redemption Yields (tax ignored)

		22 September	29 September	Change
14%	Treasury 1982	13.94	15.07	+1.13
13 1/2%	Exchequer 1983	14.83	15.86	+1.03
12%	Treasury 1984	14.91	15.80	+0.89
13 1/4%	Exchequer 1987	14.79	15.31	+0.52
13%	Treasury 1990	15.42	15.94	+0.52
2%	Index-Linked Treasury 1996	2.86	3.06	+0.20
12 1/4%	Exchequer 1999	15.78	16.20	+0.42
11 1/2%	Treasury 2001/04	15.42	15.76	+0.34
12%	Exchequer 2013/17	14.85	15.22	+0.37
3 1/2%	War (Flat Yield)	13.58	14.10	+0.52

Gilt edged yields [F.T. High coupon]



Interbank rates



£ millions

SECRET

NEW ISSUES

	Fixed interest (excl convertibles)			
	Domestic borrowers	Foreign borrowers	Convertibles	Equities
TOTAL QUEUE*	6	140	34	823
Of which issues of 10 or more:				
Current week (30/9-2/10)			Nippon Seiko ø (30/9) 30	
Week 2 (5/10-9/10)				Second Save & Prospe[r] Linked Investment Trust PLC (offer for sale) (7/10) 30
Week 3 (12/10-16/10)		EIB (offer for sale) (12/10) 100		Drayton Montagu Japan Trust (offer for sale) (16/10) 15
Week 4 (19/10-23/10)		Nova Scotia (19/10) 40		Cable and Wireless (offer for sale) (19/10) 200
Week 5 (26/10-30/10)				
Week 6 (2/11-6/11)				Charterhouse Venture Capital Fund (private placing) (3/11) 10 Exco Securities (1979) Ltd (offer for sale) (5/11) 12
Week 7 (9/11-13/11)				Houlder Offshore Ltd (offer for sale) (10/11) 25 Vickers Ltd (rights) (12/11) 35

Forthcoming				Kwik Save Discount Group Ltd (rights) (26/11) 15 Great Portland Estates PLC (rights) (1/12) 40 J P M Machines Ltd (offer for sale) (3/12) 10 The Bowater Corporation Ltd (rights) (8/12) 80 Associated Biscuit Manufacturers Ltd (rights) (14/1) 10 MEPC Ltd (rights) (19/1) 70 The Throgmorton Finsbury Trust PLC (offer for sale) (20/1) 13 Davy Corp. Ltd (rights) (28/1) 30 Norsk Data AS (offer for sale) (4/2) 10 Amersham International (offer for sale by Atomic Energy Authority) (11/2) 50 Lloyds Bank Ltd (rights) (19/2) 100 Powell Duffryn Ltd (rights) (23/6) 20 Superdrug Stores Ltd (offer for sale) (9/7) 10

⁄Issues announced:	1978	60	959
	1979	162	946
	1980	364	1,066
	1981 to date	550	1,467
⁄Issues completed	1978	63	910
	1979	150	979
	1980	358	945
	1981 to date	484	1,148

*Includes issues of 3 or more
⁄Includes issues of less than 3
ØForeign borrower

30 September 1981

Per cent Time / Yield Curves of British Government Stocks 30th September 1981