

## NOTE FOR WEDNESDAY MEETING

MARKETS: 30 SEPTEMBER 1981 TO 6 OCTOBER 1981

## MONEY

The market mood was generally calmer this week, following Thursday's 2% base rate increase which gave rise to hopes that the rate structure would now begin to settle at its new levels. The move had been largely discounted in advance, and its firming effect on longer interbank rates was minor and shortlived. These rates began to show an easier tendency after the weekend, reflecting both the improved performance of sterling following the EMS realignment and the influence of falls in US prime rates. Tuesday's news of a 2% rise in £M3 was not entirely unexpected and apparently had little unfavourable market impact (partly perhaps because the accompanying clearing bank lending figures were better than anticipated) and the three month rate finished 5/16% lower over the week at 16 9/16%.

Eurosterling rates continued to mirror domestic trends closely, and the three month rate finished 3/8% down at 16 11/16% after a particularly sharp fall on Monday.

The week opened with a substantial shortage in the market on Wednesday, caused by the take-up of special Treasury Bills issued against an expected Exchequer deficit which did not in fact materialise. Conditions on Thursday and Friday were eased by large Exchequer swings in the market's favour, of which VAT refunds formed the major part. Of the two days following the weekend Monday saw a modest shortage caused chiefly by commercial bill maturities, while on Tuesday a marked increase in pressure resulted from very sizeable official gilt sales. There were further large Exchequer movements in the market's favour on both days.

The Bank assisted the market by the outright purchase of bills on every day but Friday. On Tuesday bills were also bought on a two-day repurchase basis.



At the regular Treasury Bill tender on Friday the average rate of discount rose by 0.8564 to 15.9795. Bills at Tuesday's special tender, due to mature on 2 November, were allotted at rates of discount between 16 and 16.125; only £100 mn bills of £300 mn originally on offer were in fact allotted.

#### LOCAL AUTHORITY BORROWING

The rate for one-year negotiable bonds was unchanged at 16 1/8%. Issues amounted to £9.275 mn (£16.75 mn last week) against maturities of £12.125 mn.

#### GILTS

Following the rise in clearing bank base rates to 16% on Thursday, the mood improved sharply after the weekend on hopes of a fall in US interest rates. This enabled the funding programme to be resumed: the short tap was reactivated on Monday and exhausted yesterday when three tranches were announced at the close.

The market was quiet and slightly easier on Wednesday ending the day about 1/8 - 1/4 down. However, the two IGs saw heavier losses of 3/4 - 7/8 on speculation about an early new issue. The rise in base rates on Thursday had been anticipated and caused only a modest reaction in shorts which closed about 1/4 - 3/8 down (having been 1/2 lower at one stage); longs were unchanged. The possibility of a new funding initiative tended to stifle activity on Friday. Shorts eased slightly while longs were again unchanged.

After the weekend, renewed optimism about the course of US interest rates (encouraged by the latest money figures and lower prime rates) and the stable trend in sterling after the EMS revaluation led to a marked improvement in sentiment on Monday. Buyers emerged in all sections and it was possible to reactivate the short tap, 11 1/2% Treasury 1985, at 86 3/4 and then 86 7/8 before withdrawing; large amounts were sold along with quantities of other stocks in the Issue Department portfolio. Shorts closed



about 1/4 better with longs showing rises up to 5/8. Yesterday, the market opened quietly firm and the short tap was quickly exhausted at 87. Longs also made some headway and were about 1/2 higher by lunchtime. In the afternoon the market eased back slightly ahead of and after the September banking figures, being also unsettled by news of President Sadat's assassination. Longs ended little changed and shorts slightly lower. At the close three tranches of £250 mn each were announced: 12% Treasury 1987, 12 3/4% Treasury 1992 and 14% Treasury 1998-2001.

Over the week as a whole prices of shorts were generally unchanged (yields about 15 3/4 - 16 1/4%) while longs were about 3/8 higher (yields about 16%.)

#### EQUITIES

After its recent gyrations, the market stabilised prior to the weekend. But sentiment remains fragile and large gains on Monday were more than reversed yesterday.

Wednesday saw much calmer conditions though with underlying nervousness about the upward pressure on interest rates. Prices eased in late trading on Wall Street's opening weakness. The market opened lower on Thursday but regained most of the lost ground during the day with the increase in base rates having little net impact. Selective demand was evident on Friday but this was not sustained and the FT index closed only slightly higher.

After the weekend, the market was encouraged on Monday by the better tone in gilts and the index gained 14 points. Yesterday, however, saw nervous trading ahead of the banking figures and sentiment was further depressed by the Sadat assassination, though oil shares were marked up after the news. The index dropped by 15.4 to 475.0, little changed over the week as a whole.

#### NEW ISSUES Queue

No new issues were added to the queue which with some recent drop-outs (including one or two small borrowers this week)



is now looking rather thin over the next few weeks. The total amounts to £988 mn against £1003 mn last week.

INIT EAJG

7 October 1981



Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases - )

1. Transactions (cash value)

	30.9.81 <u>-6.10.81</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	- 27	-	- 1,429	- 1,848
Other short-dated	+ 256	+ 256	+ 1,174	+ 1,663
	+ 229	+ 256	- 255	- 185
Mediums	+ 106	+ 106	+ 1,947	+ 2,680
Longs and undated	+ 85	+ 85	+ 1,889	+ 2,928
Total Issue				
Department trans-				
actions	+ 420	+ 447	+ 3,581	+ 5,423
CRND	- 3	-	+ 176	+ 227
Redemptions	-	-	- 843	- 938
	<u>+</u> 417	<u>+</u> 447	<u>+</u> 2,914	<u>+</u> 4,712

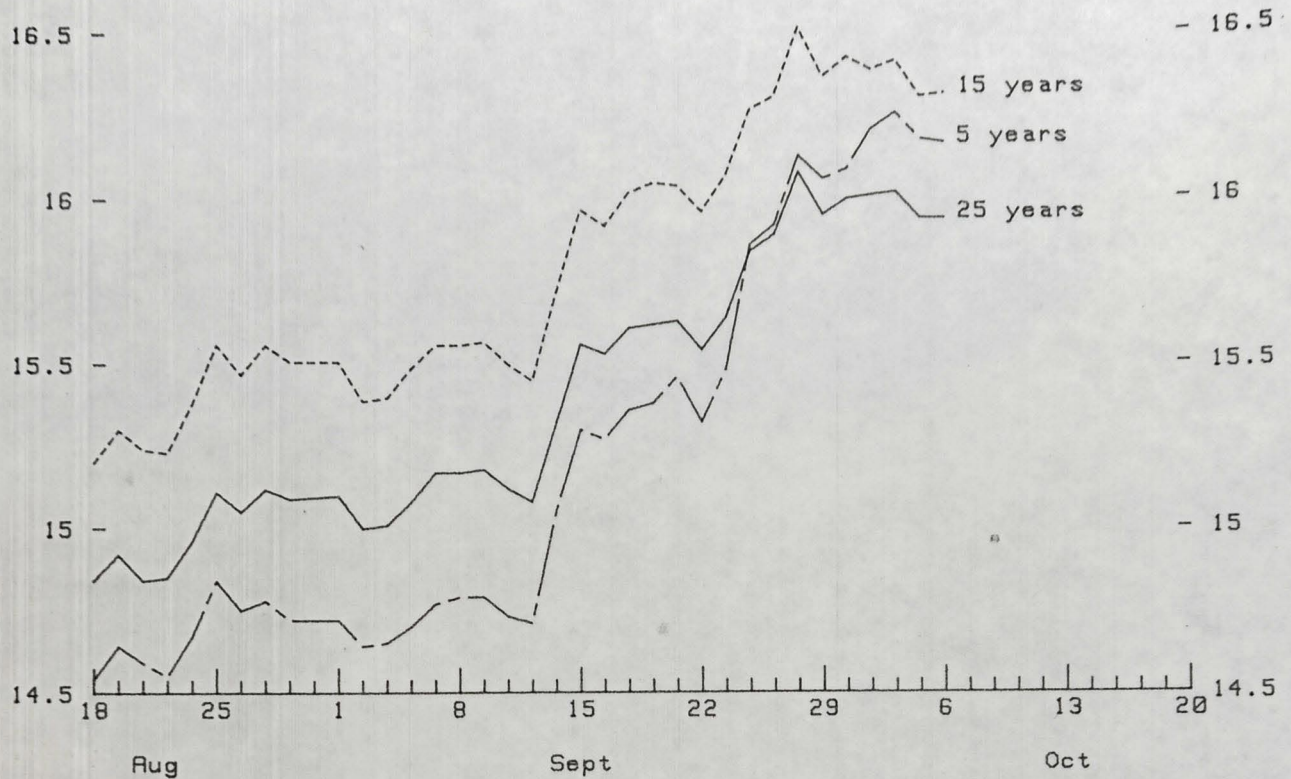
2. Redemption Yields (tax ignored)

	29 September	6 October	Change
14% Treasury 1982	15.07	15.23	+0.16
3 1/2% Exchequer 1983	15.86	16.21	+0.35
12% Treasury 1984	15.80	15.81	+0.01
13 1/4% Exchequer 1987	15.31	15.31	-
13% Treasury 1990	15.94	15.91	-0.03
2% Index-Linked Treasury 1996	3.06	3.13	+0.07
12 1/4% Exchequer 1999	16.20	16.15	-0.05
11 1/2% Treasury 2001/04	15.76	15.72	-0.04
12% Exchequer 2013/17	15.22	15.19	-0.03
3 1/2% War (Flat Yield)	14.10	14.06	-0.04



Gilt edged yields [F.T. High coupon]  
17 -

- 17



Interbank rates

Yields

17 -

- 17

16 -

- 16

15 -

- 15

14 -

- 14

13 -

- 13

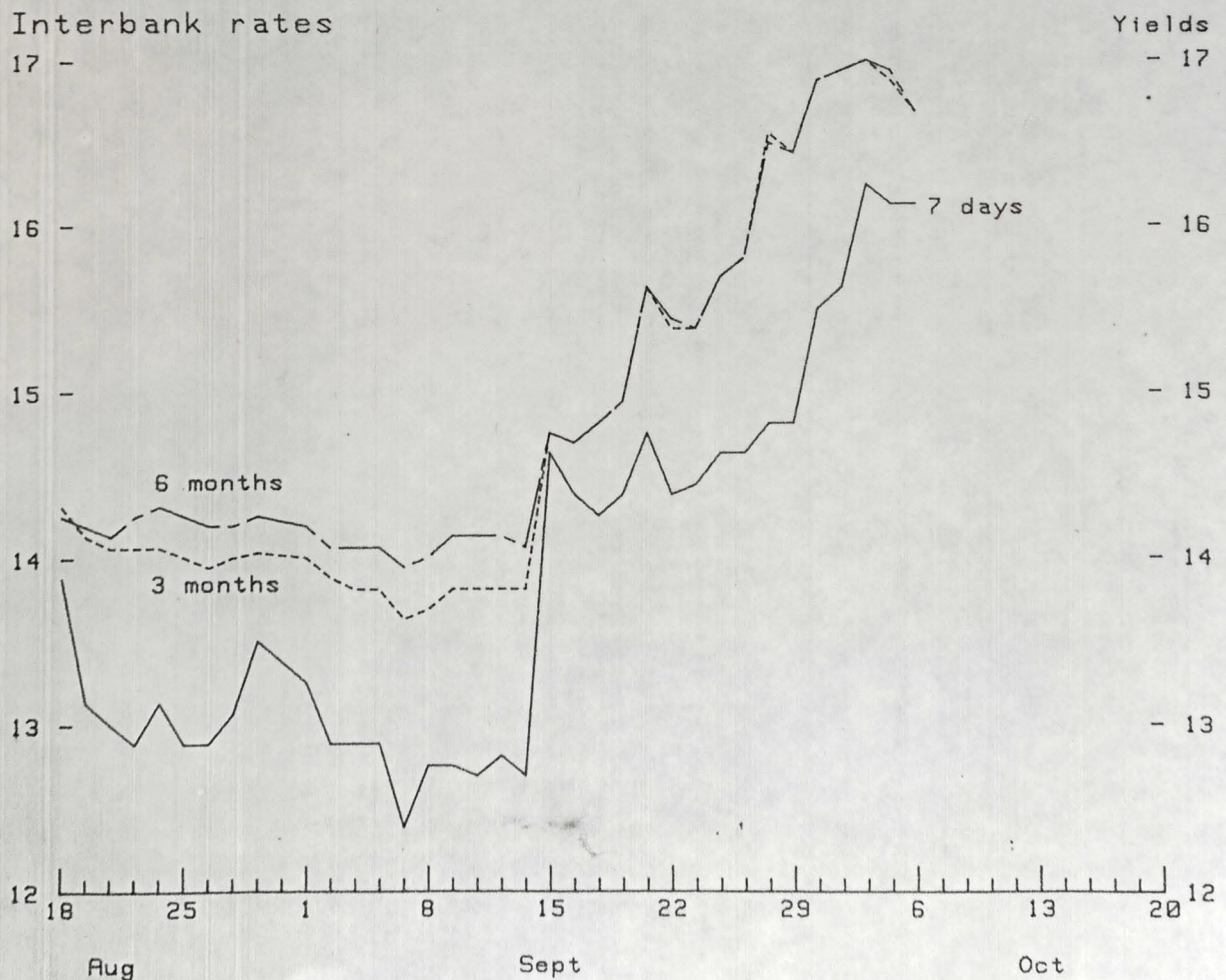
12

12

Aug

Sept

Oct





## NEW ISSUES

Fixed interest  
(excl convertibles)

	<u>Domestic borrowers</u>	<u>Foreign borrowers</u>	<u>Convertibles</u>	<u>Equities</u>
TOTAL QUEUE*	<u>6</u>	<u>140</u>	<u>34</u>	<u>808</u>
Of which issues of 10 or more:				
Current Week (7/10-11/10)				Second Save & Prosper Linked Investment Trust PLC (offer for sale) (7/10) 30
Week 2 (12/10-16/10)				
Week 3 (19/10-23/10)		Nova Scotia (19/10) 40		Cable and Wireless (offer for sale) (21/10?) 200
Week 4 (26/10-30/10)				
Week 5 (2/11-6/11)				Exco Securities (1979) Ltd (offer for sale) (5/11) 12
Week 6 (9/11-13/11)				Houlder Offshore Ltd (offer for sale) (10/11) 25  Vickers Ltd (rights) (12/11) 35
Week 7 (16/11-20/11)		EIB (offer for sale) (16/11?) 100		
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
Drayton Montagu Japan Trust (offer for sale) (27/1)	15
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	552	1,467
/Issues completed	1978	63	910
	1979	150	979
	1980	358	945
	1981 to date	485	1,221

\*Includes issues of 3 or more  
 /Includes issues of less than 3  
 ØForeign borrower



