

NOTE FOR WEDNESDAY MEETING

MARKETS: 7 OCTOBER TO 13 OCTOBER 1981

MONEY

A small shortage in the market on Wednesday was followed on all subsequent days by substantial shortages. The main factor draining funds from the market throughout the week was heavy official gilt sales with other significant factors being the unwinding of a repurchase agreement on Thursday, a rise in the note circulation on Friday and commercial bill maturities on Monday.

The Bank assisted the market by the outright purchase of bills every day except Wednesday.

The first part of the week in the inter-bank market was marked by falls in period rates reflecting the decline in rates in the US. Following the weekend, with sterling weaker, some reaction took place and longer inter-bank rates firmed slightly. Despite this, the week closed with a reduction in Barclays' and Lloyds' base rates from 16% to 15 1/2%. The three-month inter-bank rate ended 1 percentage point down on the week at 15 11/16%.

Euro-sterling rates also moved down sharply in the early part of the week but again steadied after the weekend. The three-month rate closed the week 1 1/8% down at 15 13/16%.

At the Treasury Bill tender on Friday there was greatly increased competition and the average rate of discount fell sharply by 1.1739 to 14.8056.

LOCAL AUTHORITY BORROWING

The rate for one-year bonds fell by 3/4% to 15 3/8%. Issues amounted to £16.5mn (£9.3mn last week) against maturities of £16mn.

GILTS

Falling interest rates at home and abroad, coupled with a firm pound, encouraged continuing strong demand before the weekend and enabled very heavy official sales of stock to be made. After the weekend, conditions were more unsettled reflecting the renewed weakness of sterling.

The fall in US and domestic interest rates encouraged strong demand on Wednesday and by the close shorts and longs showed rises of up to 5/8 and 7/8 respectively despite further official sales. With sterling improving despite the fall in UK rates, the firm trend continued on Thursday and it was possible to sell large amounts of the recently issued 1992 and 1998-2001 tranches. Fresh enthusiasm was generated on Friday by the overnight reduction to 18 1/2% in Chase Manhattan's prime rate and at the official close a new issue of £1bn of 15% Exchequer 1997 was announced, (the first conventional long-dated stock since January). This was well-received by the market which had enjoyed its best week for over a year.

After the weekend, conditions initially remained firm on Monday, enabling further official sales to be made, mainly of the 1987 tranche. However, after gaining up to 1/2 at one stage prices slipped back on profit-taking and in reaction to renewed weakness in sterling. Yesterday, with sterling declining further, prices drifted lower in quiet trading, despite US prime rate cuts to 18%, and closed about 1/4-1/2 down in all sections. Some recovery was seen after-hours on news of Barclays' reduction in base rate.

Over the week as a whole prices of shorts rose by up to 1 3/8 (yields of 15 1/4-15 1/2%) and those on longs by about 2 (yields of 15 3/8-15 3/4%).

EQUITIES

Following the trend in gilts the market improved before the weekend but subsequently eased back in nervous trading in line with sterling.

Continuing its recent volatility the market rebounded sharply on Wednesday in line with the trend in gilts. Prices were marked higher on Thursday morning following Wall Street's good overnight performance, but sellers emerged at the higher levels and most of the early gains were lost. Encouraged by the fall in interest rates, more firmly based demand was evident on Friday and the FT Index closed 10.5 higher at 498.2, a rise of 23.5 over the two-week account compared with a loss of 78.7 over the previous account.

After the weekend, the market followed the trend in gilts on Monday with initial firmness giving way to uncertainty in the wake of sterling's decline. The market remained nervous yesterday and prices were marked down sharply at the opening. Part of these losses was regained in late trading and the Index closed 6.4 lower on balance at 484.6, a rise of 9.6 over the week as a whole.

NEW ISSUES

Queue

Only two issues - both by investment trusts - were added to the queue which now totals £978mn against £988mn last week.

(Init EAJG)

14 October 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

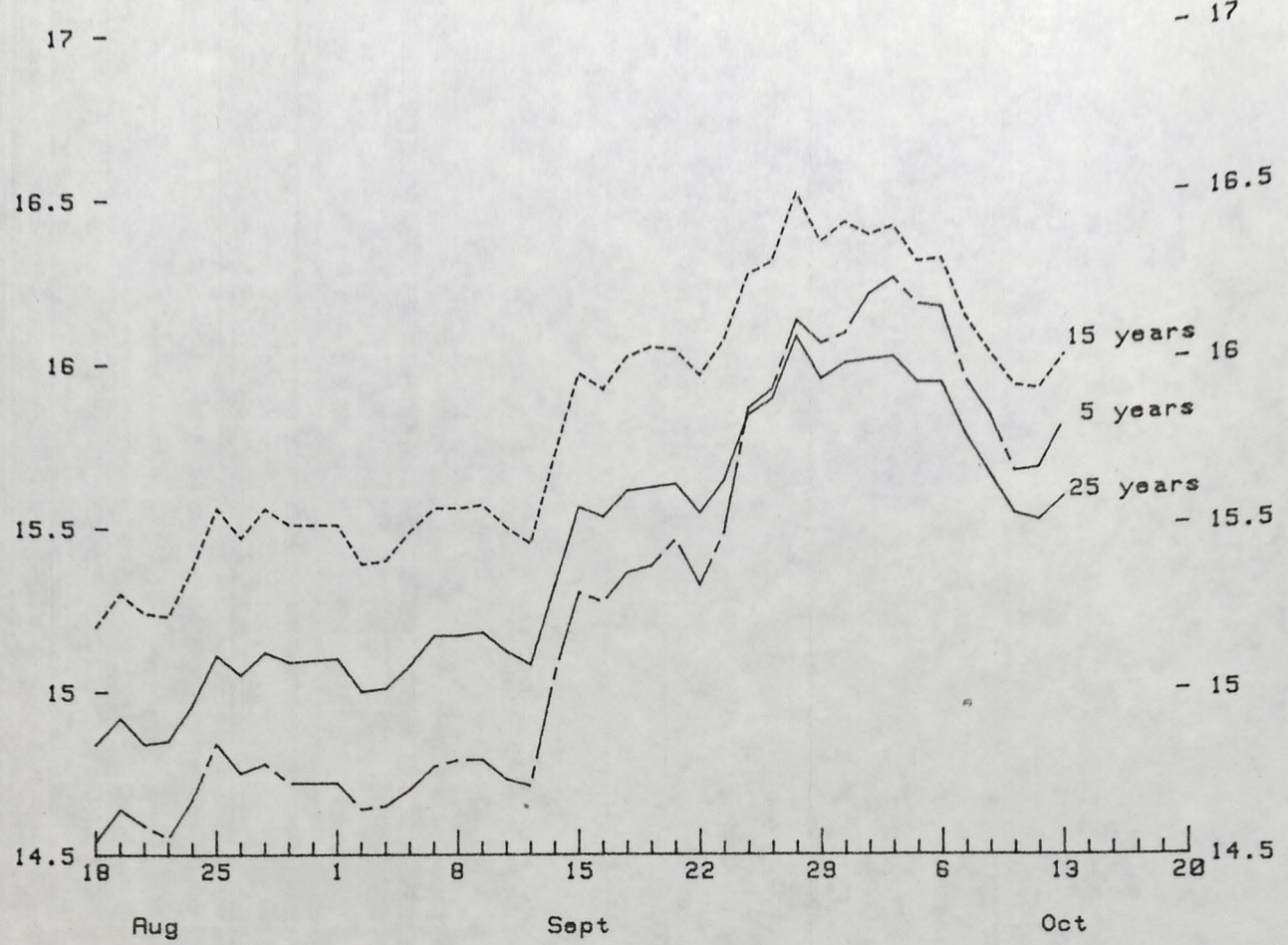
1. Transactions (cash value)

	7.10.81 <u>-13.10.81</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	- 163	- 163	- 1,592	- 2,011
Other short-dated	<u>+ 239</u>	<u>+ 495</u>	<u>+ 1,413</u>	<u>+ 1,902</u>
	+ 76	+ 332	- 179	- 109
Mediums	+ 295	+ 401	+ 2,242	+ 2,975
Longs and undated	<u>+ 230</u>	<u>+ 314</u>	<u>+ 2,119</u>	<u>+ 3,158</u>
Total Issue				
Department trans- actions	+ 601	+ 1,047	+ 4,182	+ 6,024
CRND	+ 82	+ 82	+ 258	+ 309
Redemptions	-	-	- 843	- 938
	<u>+</u> 683	<u>+</u> 1,129	<u>+</u> 3,597	<u>+</u> 5,395

2. Redemption Yields (tax ignored)

	<u>6 October</u>	<u>13 October</u>	<u>Change</u>
14% Treasury 1982	15.23	14.45	-0.78
13 1/2% Exchequer 1983	16.21	15.53	-0.68
12% Treasury 1984	15.81	15.20	-0.61
13 1/4% Exchequer 1987	15.31	15.32	+0.01
13% Treasury 1990	15.91	15.67	-0.24
2% Index-Linked	3.13	2.98	-0.15
Treasury 1996			
12 1/4% Exchequer 1999	16.15	15.80	-0.35
11 1/2% Treasury 2001/04	15.72	15.35	-0.37
12% Exchequer 2013/17	15.19	14.86	-0.33
3 1/2% War (Flat Yield)	14.06	13.82	-0.24

Gilt edged yields [F.T. High coupon]



Interbank rates

