

NOTE FOR WEDNESDAY MEETING

MARKETS: 14 OCTOBER TO 20 OCTOBER 1981

MONEY

Each day last week saw the market experiencing a shortage but Friday was the only occasion on which the shortage was substantial. Commercial bills matured each day and on Wednesday and Monday this was the principal factor against the market. The Exchequer position on Thursday, Friday and Monday was not in the market's favour but this was offset on Monday and Thursday by purchases from the market of gilts nearing redemption. The situation on Friday was exacerbated by a rise in the note circulation and on Tuesday the main influence on the market's position was the unwinding of the previous day's repurchase agreement.

The Bank assisted the market by an outright purchase of bills on Wednesday and on every other day by buying bills on a repurchase basis for periods ranging from overnight to ten days.

The inter-bank market seemed to lack any clear trend last week although there was a suggestion of an upward drift in period rates. A pattern of slight firming followed by an easing back emerged across all maturities probably in response to uncertainty over the immediate prospects for US rates and sterling. The three-month rate ended about 7/16 up over the week at 16 1/8%.

Euro-sterling rates, in contrast, after experiencing a slight fall on Wednesday firmed each day subsequently with three- and six-month rates showing the greatest rises. The three-month rate finished the week 5/8 up at 16 1/4%.

At the Treasury Bill tender on Friday the average rate of discount rose by 0.5393 to 15.3449 in greatly reduced competition.

LOCAL AUTHORITY BORROWING

The rate for one-year bonds rose by 1/2% to 15 7/8%. Issues amounted to £12mn (£16.5mn last week) against maturities of £21.75mn.

GILTS

Prior to the weekend, the weakness of sterling and concern about interest rates continued to unsettle the market which was still digesting the very large purchases of the previous week; a somewhat firmer tone emerged thereafter as sales by earlier speculative buyers were absorbed, although conditions were generally quiet.

The market continued to weaken on Wednesday as interest rate fears re-emerged despite the reduction (to 15 1/2%) in clearing bank base rates. The easier tendency was mainly concentrated in shorts which lost up to 3/4 as the previous week's speculative buyers sought to cut their losses. Only small applications were received for 15% Exchequer 1997. Conditions on Thursday were quiet and prices tended to drift lower; the announcement of the September money figures had little impact. Friday saw the return of heavier selling - again mainly at the short end - against a background of a weaker pound and firmer short-term interest rates. After a slight rally in the afternoon, prices closed about 1/2 lower.

After the weekend, the market opened lower on Monday reflecting the after-hours trend on Friday. However, with sterling somewhat improved, buyers emerged and a small, but persistent, improvement occurred during the rest of the day. By the close prices were around 1/4 higher. This tendency continued on a modest scale yesterday in quiet trading, enabling some short-dated stock to be sold back to the market, which closed with further gains of 1/4; longs eased slightly before the close and finished unchanged or marginally higher.

Over the week as a whole, prices of shorts generally fell by about 1/4-1/2 (yields up to 16 1/4%) and those of longs by 3/4-1 (yields of 16-16 1/2%).

EQUITIES

Industrial problems added to the market's gloom prior to the weekend, but prices rallied yesterday with most interest concentrated in the oil sector.

Concern over sterling and interest rates was augmented on Wednesday by worries about financial problems in the engineering industry and the FT Index fell by a further 12.2. The market was lower at Thursday's opening following Wall Street's poor overnight performance but ended little changed on the day. Sentiment worsened again on Friday, however, following the strike vote at BL.

After the weekend, the underlying mood remained gloomy on Monday. A technical recovery encouraged some interest but this faded as Wall Street opened easier. Yesterday, however, early demand forced prices up sharply. The oil sector was particularly firm on overseas buying which reflected hopes that a reunified OPEC pricing structure would mean higher North Sea prices; the proposed denationalisation of BNOC's production business and the sale of British Gas's North Sea oil interests were also taken as favourable influences. Although prices retreated slightly before the close, the Index ended 9 points up at 473.3, a fall of 11.3 over the week as a whole.

NEW ISSUES

Queue

Activity remains at a low ebb: no new issues were added to the queue and one issue dropped out. The total amounts to £923mn against £978mn last week.

The Province of Nova Scotia has placed a £30mn bulldog issue carrying a thirty-year maturity and 16 3/4% coupon (yield 17 1/4%).

The Cable and Wireless offer for sale is due to be underwritten today.

(Init EAJG)

21 October 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

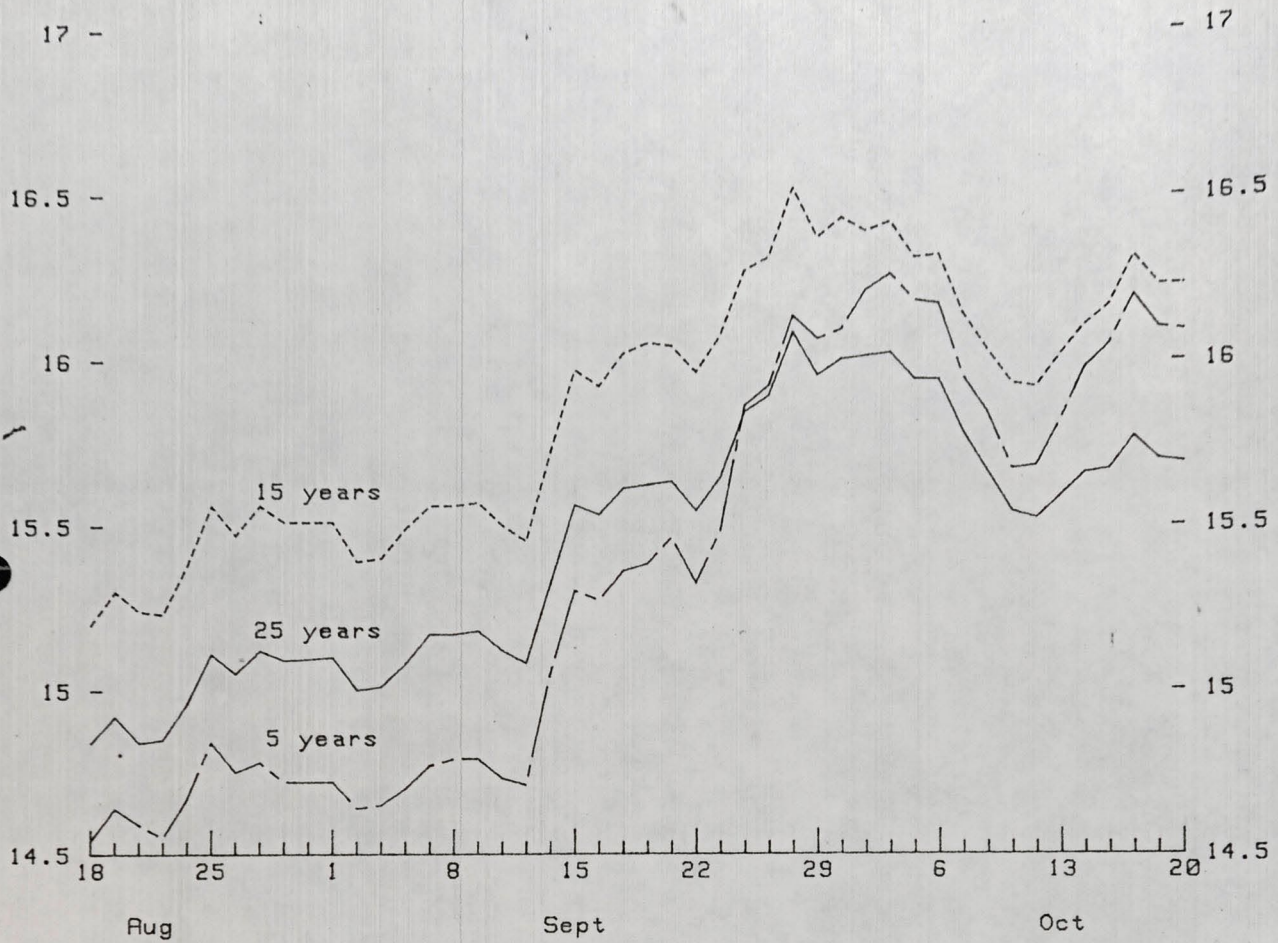
1. Transactions (cash value)

	14.10.81 <u>-20.10.81</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	- 166	- 329	- 1,759	- 2,177
Other short-dated	<u>- 44</u>	<u>+ 451</u>	<u>+ 1,370</u>	<u>+ 1,858</u>
	- 210	+ 122	- 389	- 319
Mediums	- 14	+ 387	+ 2,227	+ 2,961
Longs and undated	<u>- 17</u>	<u>+ 298</u>	<u>+ 2,102</u>	<u>+ 3,141</u>
Total Issue				
Department trans- actions	- 241	+ 807	+ 3,940	+ 5,783
CRND	-	+ 82	+ 258	+ 309
Redemptions	-	-	- 843	- 938
	<u>- 241</u>	<u>+ 889</u>	<u>+ 3,355</u>	<u>+ 5,154</u>

2. Redemption Yields (tax ignored)

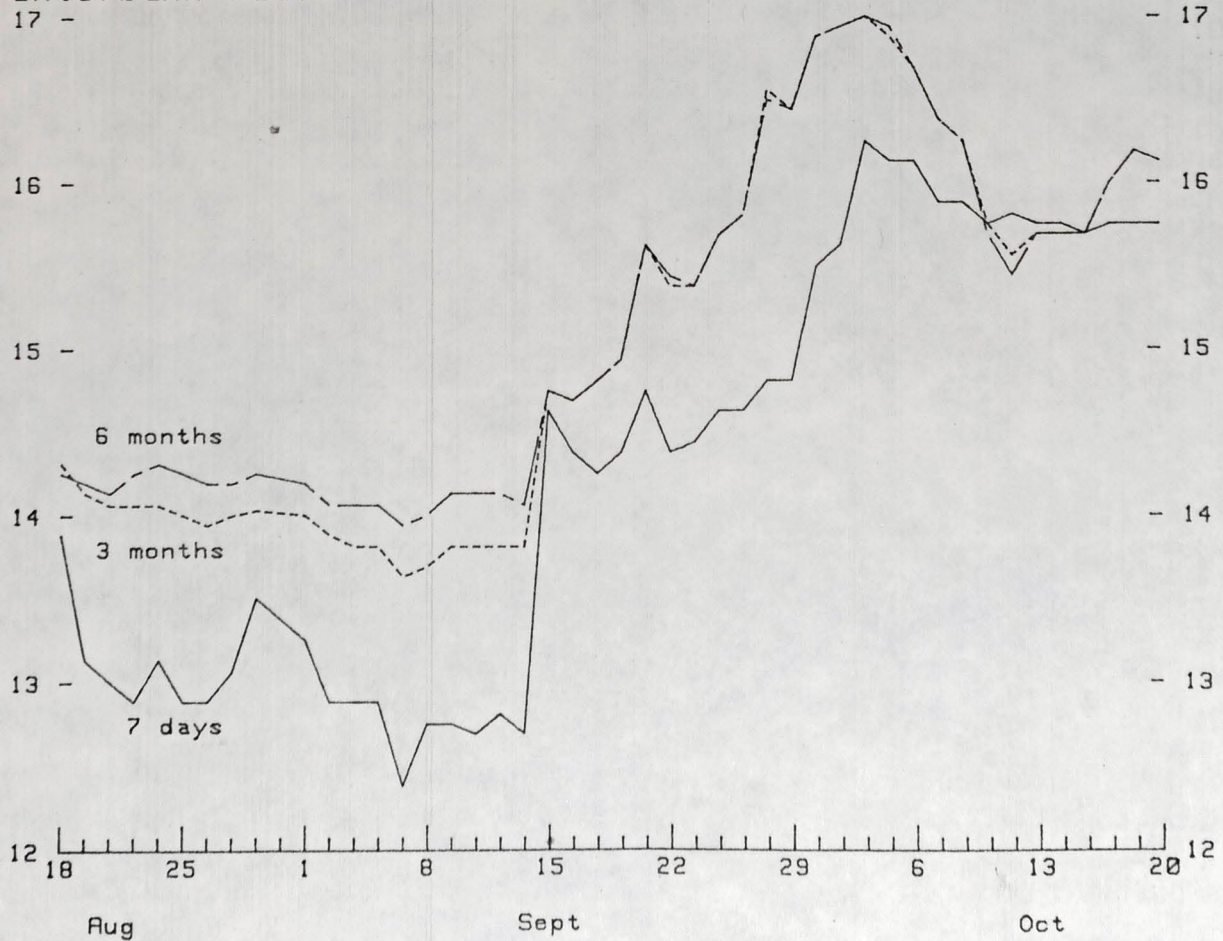
	13 October	20 October	Change
14% Treasury 1982	14.45	15.10	+0.65
13 1/2% Exchequer 1983	15.53	15.45	-0.08
12% Treasury 1984	15.20	15.41	+0.21
13 1/4% Exchequer 1987	15.32	15.74	+0.42
13% Treasury 1990	15.67	15.91	+0.24
2% Index-Linked	2.98	3.05	+0.07
Treasury 1996			
12 1/4% Exchequer 1999	15.80	16.01	+0.21
11 1/2% Treasury 2001/04	15.35	15.55	+0.20
12% Exchequer 2013/17	14.86	15.07	+0.21
3 1/2% War (Flat Yield)	13.82	14.00	+0.18

Gilt edged yields [F.T. High coupon]



Interbank rates

Yields



NEW ISSUESFixed interest
(excl convertibles)

	<u>Domestic borrowers</u>	<u>Foreign borrowers</u>	<u>Convertibles</u>	<u>Equities</u>
TOTAL QUEUE*	<u>6</u>	<u>100</u>	<u>34</u>	<u>783</u>
Of which issues of 10 or more:				
Current week (21/10-23/10)				Cable and Wireless (offer for sale) (21/10?) 200
Week 2 (26/10-30/10)				
Week 3 (2/11-6/11)			Nippon Seiko (2/11?) 30	Exco Securities (1979) Ltd (offer for sale) (5/11) 12
Week 4 (9/11-13/11)				Vickers Ltd (rights) (12/11) 35
Week 5 (16/11-20/11)		EIB (offer for sale) (16/11?) 100		
Week 6 (23/11-27/11)				Kwik Save Discount Group Ltd (rights) (26/11) 15
Week 7 (30/11-4/12)				Great Portland Estates PLC (rights) (1/12) 40 J P M Machines Ltd (offer for sale) (3/12) 10
Forthcoming				Japanese Investment Trust (offer for sale) (7/12) 10

Forthcoming

The Bowater Corporation Ltd (rights) (9/12)	80
Split Level Investment Trust (offer for sale) (11/1)	20
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
Lloyds Bank Ltd (rights) (19/2)	100
Amersham International (offer for sale by Atomic Energy Authority) (25/2)	50
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	556	1,467
/Issues completed	1978	63	910
	1979	150	979
	1980	358	945
	1981 to date	485	1,246

*Includes issues of 3 or more
 /Includes issues of less than 3
 /Foreign borrower

