

NOTE FOR WEDNESDAY MEETING

MARKETS: 28 OCTOBER TO 3 NOVEMBER 1981

MONEY

Sizeable daily shortages in the market persisted throughout the week. Sales of gilt-edged stock and the unwinding of earlier repurchase agreements were most frequently the principal factors although Friday also saw the customary rise in the note circulation and commercial bill maturities were occasionally sizeable. On Friday the market was particularly unsettled as banks retained substantial precautionary balances against cheques drawn by customers to purchase Cable and Wireless shares. As this retention placed the banks substantially over their targets these funds returned to the market on Monday.

The Bank provided assistance each day by the outright purchase of bills and on Friday by lending to the discount market over the weekend to smooth the effects of the banks' actions.

Period inter-bank rates continued to fall over the first part of the week as recession fears caused US market rates to decline. Monday opened sharply down as the US market moves were given added weight by a 1% reduction in the Federal Reserve's Discount Rate. Thereafter rates remained fairly steady and the three-month rate closed about $13/16\%$ down on the week at $15\ 15/16\%$.

The euro-sterling market was similarly dominated by the US and rates moved down throughout the week. The three-month rate fell about $3/4\%$ to close also at $15\ 15/16\%$.

At the Treasury Bill tender on Friday the discount rate fell by 0.2918 to 15.6619 in increased competition.

LOCAL AUTHORITY BORROWING

The rate for one-year bonds fell by $7/8\%$ to $15\ 1/2\%$. Issues amounted to £11.4mn (£9.375mn last week) against maturities of £12mn.

GILTS

The fall in US and domestic interest rates and the consistently firm pound extended the market's recovery from its five-year low on 26 October. Prices improved on each day of the period and sizeable official sales were made, particularly on Monday when the long tap was activated.

The better trend continued on Wednesday helped by a further easing in money market rates and sterling's continued recovery against the dollar. Some further official sales were made (mainly of the recently issued 1987 tranchette) and prices closed about $1/4$ - $3/8$ higher. The market paused on Thursday morning but then advanced strongly as the exchange rate improved further and following a sharp rise in US bonds at Wall Street's opening. Further sales were made of shorts (exhausting the 1987 tranchette) and prices in this area ended up to $3/8$ higher with rises of about $3/4$ in mediums/longs. A prime rate cut (to $17\ 1/2\%$) by a US bank and US broker loan rate reductions gave added impetus on Friday morning although activity dropped and prices slipped back later in the day.

After the weekend, the continued reduction in domestic and US interest rates (the latter evidenced by a 1% cut in the Federal Reserve's discount rate), the firmness of Wall Street and the steady improvement in sterling encouraged renewed buying on Monday. The long tap, 15% Treasury 1997, was activated at $22\ 3/4$ (25-paid) and large sales were made, along with other stocks - mainly short-dated but also including some of IG 1. Prices rose by up to 1 point before retreating slightly on news of the BL situation. This continued to exercise a restraining influence yesterday morning, but prices hardened following the majority acceptance of the pay offer and some further sales of shorts were made. Little business was seen in the afternoon and prices drifted to close about $1/4$ up in shorts/mediums and $1/8$ up in longs.

EQUITIES

Conditions were quiet ahead of the Cable and Wireless offer for sale on Friday. After the weekend the market moved ahead sharply, taking particular encouragement from the BL vote yesterday.

The market initially continued to improve on Wednesday but sentiment deteriorated in later trading as the prospects of a BL strike hardened. On Thursday, the market was largely preoccupied by the Cable and Wireless offer for sale the next day and ICI's third quarter results, though at the upper range of estimates, failed to arouse much enthusiasm. Conditions remained very quiet on Friday with oils a feature following the OPEC agreement on prices and news of Saudi production cutbacks. ICI improved on further consideration of the previous day's figures.

After the weekend, optimism about BL and the rise on Wall Street led to prices being marked up sharply at Monday's opening. Sentiment was further improved by the result of the Cable and Wireless issue which had been oversubscribed 5.6 times attracting £1.26bn for the 133.29mn shares on offer. Although prices fell back after the BL shop stewards' decision, the FT Index closed 10.4 higher. Yesterday, the market opened cautiously but improved sharply in thin trading after news of the BL vote and the Index ended 13.3 up at 492.2, a rise of 26.2 over the week as a whole, and 6 1/2% above the most recent low point on 26 October.

NEW ISSUES

Queue

No new issues of £10mn or more were added to the queue which now totals £814mn against £810mn last week.

Net Capital Issues

The net amount of new money raised during banking October was £180mn compared with £143mn in banking September. The total so far this year of £1,388mn compares with £658mn in the same period of 1980.

(Init EAJG)

4 November 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

	28.10.81 <u>- 3.11.81</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	- 10	- 339	- 1,768	- 2,187
Other short-dated	<u>+ 227</u>	<u>+ 659</u>	<u>+ 1,577</u>	<u>+ 2,066</u>
	+ 217	+ 320	- 191	- 121
Mediums	+ 128	+ 514	+ 2,355	+ 3,089
Longs and undated	<u>+ 48</u>	<u>+ 346</u>	<u>+ 2,150</u>	<u>+ 3,189</u>
Total Issue				
Department trans-				
actions	+ 393	+ 1,180	+ 4,314	+ 6,157
CRND	- 2	+ 81	+ 257	+ 308
Redemptions	-	-	- 843	- 938
	<u>+</u>	<u>+</u>	<u>+</u>	<u>+</u>
	<u>391</u>	<u>1,261</u>	<u>3,728</u>	<u>5,527</u>

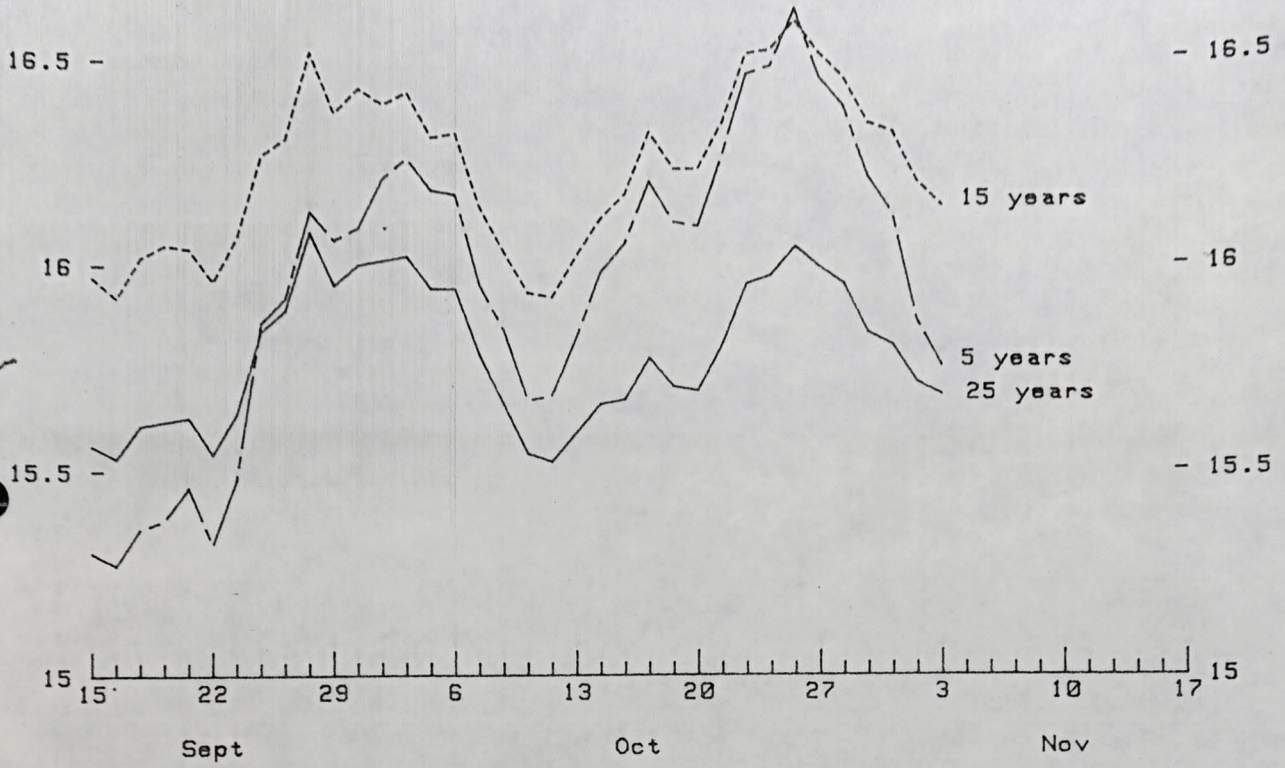
2. Redemption Yields (tax ignored)

	<u>27 October</u>	<u>3 November</u>	<u>Change</u>
12% Treasury 1983	15.71	14.73	-0.98
15% Treasury 1985	16.47	15.66	-0.81
12% Treasury 1987	16.82	16.10	-0.72
11 3/4% Treasury 1991	16.82	16.20	-0.62
13 1/2% Treasury 1994	16.72	16.31	-0.41
2% Index-Linked			
Treasury 1996	3.10	3.04	-0.06
12 1/4% Exchequer 1999	16.33	15.95	-0.38
14% Treasury 1998/01	16.36	16.03	-0.33
12% Exchequer 2013/17	15.33	15.04	-0.29
3 1/2% War Loan (Flat Yield)	14.10	13.79	-0.31

Gilt edged yields [F.T. High coupon]

17 -

- 17



Interbank rates

17 -

Yields
- 17

