

NOTE FOR WEDNESDAY MEETING

MARKETS: 4 NOVEMBER TO 10 NOVEMBER 1981

MONEY

Conditions were again tight in the market this week as shortages were experienced each day. The first two days saw relatively modest shortages with the unwinding of an earlier repurchase agreement and maturing commercial bills being the main factors. From Friday, however, the Exchequer position became quite strongly adverse as backlog VAT payments were collected, and this, coupled with maturing commercial bills and an increase in the note circulation, made the market considerably short of funds. Monday's position was exacerbated by the very large and unexpected payments which left the banks substantially below their target balances. Replenishment of these funds by the banks, together with payment due on Monday's heavy gilt sales meant that Tuesday saw a very large shortage.

The Bank provided assistance each day by the outright purchase of bills and on Tuesday by buying bills also on a repurchase basis.

Inter-bank rates continued fairly steady before the weekend though there was some easing early on Thursday. Following developments in the US, however, rates moved sharply down in early trading on Monday with falls of about 1/2% in all maturities. This early movement was followed by announcements (led by National Westminster) of a reduction in clearers' base rates from 15 1/2% to 15% which acted to confirm the new lower levels. Tuesday was a rather unsettled day and rates saw a slight firming after the announcement of the large shortage and later in response to the preliminary money supply figures which the market considered disappointing. Nevertheless, the three-month rate ended about 7/8% down on the week at 15 1/16%.

With sterling quite steady, euro-sterling rates moved in a similar fashion to inter-bank rates over the week. Some easing was in evidence on Thursday but Monday again saw the largest falls, of about 5/8%. The three-month rate similarly fell about 7/8% over the week to close at 15 1/16%.

At the Treasury bill tender on Friday the level of competition was largely unchanged and the average rate of discount reflected market movements since the last tender when it fell 0.7662 to 14.8957.

LOCAL AUTHORITY BORROWING

The rate for one-year bonds fell by 1% to 14 1/2%. Issues amounted to £15.3mn (£11.4mn last week) against maturities of £7.8mn. Proposed £12mn droplock issues for Southwark and Islington have had to be cancelled because of resistance among the institutions to these names. (The droplocks would have committed the institutions to take 25-year stock at 1% over gilts.) However, against this, the GLC was able to sell its bills at Monday's tender at an average rate of discount of 14.3393, below that at Friday's Treasury bill tender.

GILTS

The market made only modest progress before the weekend, but interest rate optimism prompted by developments in the US and the 1/2% cut in base rates encouraged strong demand on Monday, leading to the exhaustion of the 1997 tap. Yesterday, however, the market fell back on profit-taking.

The market paused on Wednesday after its uninterrupted rise of the previous six days and prices were little changed. On Thursday encouragement was taken first from the sharp overnight rise in US bonds and then from Chemical Bank's 1/2% cut in prime rate to 17%: further small official sales of shorts were made and prices finished with modest gains. Conditions were unsettled on Friday morning amid doubts that the downward trend in US rates could be maintained following reports of a sharp upward revision in the US budget deficit for fiscal 1982. However, prices improved during the afternoon to close little changed, and moved up quite sharply in very late unofficial trading.

After the weekend, the market opened sharply higher on Monday morning following the renewed rise in US bonds on Friday and the fall in US money supply. The firm trend was strengthened by the continued rise in sterling and the 1/2% reduction in the clearing banks' base rates (to 15%). Further large sales were made of the long tap, 15% Exchequer 1997, at prices of 23-23 1/2 (25-paid),

leading to its exhaustion in the afternoon. By the close prices of shorts had risen by up to 1 1/4 and those of mediums/longs by up to 1 3/8-1 1/2; and the FT Government Securities Index had recorded its biggest rise since 15 June. Yesterday, however, the rally lost momentum and some speculative buyers of the 1997 stock liquidated their holdings ahead of Friday's call. With the market generally affected by profit-taking and with no comfort being taken from the October banking figures, prices closed about 3/4 down.

Over the week as a whole prices of shorts rose by about 3/4-7/8 (yields of about 14 7/8-15 5/8%) and those on longs by 5/8 (yields of 15 1/2-16%).

EQUITIES

The market fluctuated during the week but ended higher on balance.

The market initially made further progress on Wednesday in the wake of the BL settlement but subsequently faltered to close only slightly higher. The momentum was regained on Thursday, however, and the FT Index rose by 9.8 to 504.3, crossing the 500-mark for the first time since 22 September. Profit-taking reversed this rise on Friday, but Cable and Wireless made a successful trading debut with the shares opening at 35p premium on the issue price of 168p before falling to 29p premium.

After the weekend, the market was subject to the same favourable influences as gilts and the Index rose by 16.4 on Monday, its biggest one-day gain since end-September. Yesterday, however, the market succumbed to renewed profit-taking and the Index closed 8.2 down at 502.7, a rise of 10.5 over the week as a whole. A rights issue of £43mn was announced by Northern Foods, the first sizeable rights issue since mid-September.

NEW ISSUES

Queue

Only one new issue was added to the queue: the offer for sale of £50mn of British Transport Docks Board due for the early summer of next year. The queue now totals £798mn against £814mn last week.

(Init EAJG)

11 November 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

	4.11.81 <u>-10.11.81</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	- 349	- 1,778	- 2,197
Other short-dated	<u>+ 169</u>	<u>+ 828</u>	<u>+ 1,746</u>	<u>+ 2,235</u>
	+ 159	+ 479	- 32	+ 38
Mediums	- 11	+ 504	+ 2,344	+ 3,078
Longs and undated	<u>+ 147</u>	<u>+ 493</u>	<u>+ 2,298</u>	<u>+ 3,336</u>
Total Issue				
Department trans-				
actions	+ 295	+ 1,476	+ 4,610	+ 6,452
CRND	-	+ 81	+ 257	+ 308
Redemptions	-	-	- 843	- 938
	<u>+</u>	<u>+</u>	<u>+</u>	<u>+</u>
	<u>295</u>	<u>1,557</u>	<u>4,024</u>	<u>5,822</u>

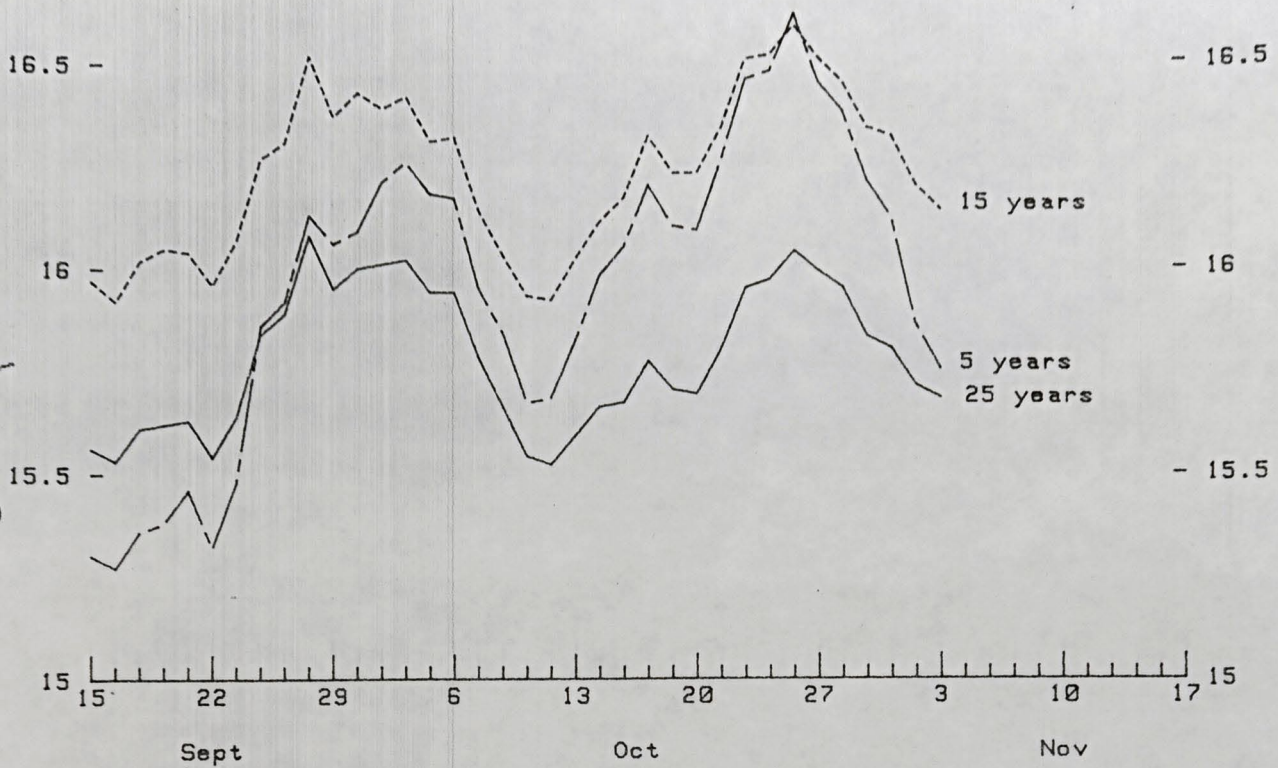
2. Redemption Yields (tax ignored)

	<u>3 November</u>	<u>10 November</u>	<u>Change</u>
12% Treasury 1983	14.73	14.71	-0.02
15% Treasury 1985	15.66	15.58	-0.08
12% Treasury 1987	16.10	15.84	-0.26
11 3/4% Treasury 1991	16.20	16.02	-0.18
13 1/2% Treasury 1994	16.31	16.21	-0.10
2% Index-Linked			
Treasury 1996	3.04	3.07	+0.03
12 1/4% Exchequer 1999	15.95	15.92	-0.03
14% Treasury 1998/01	16.03	15.96	-0.07
12% Exchequer 2013/17	15.04	14.86	-0.18
3 1/2% War Loan (Flat Yield)	13.79	13.56	-0.23

Gilt edged yields [F.T. High coupon]

17 -

- 17



Interbank rates

17 -

Yields
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