

## NOTE FOR WEDNESDAY MEETING

MARKETS: 11 NOVEMBER TO 17 NOVEMBER 1981

## MONEY

The week opened with only a small shortage in the market but thereafter conditions tightened and all subsequent days saw substantial shortages with Friday's shortage reaching nearly £800mn. Maturing commercial bills were significant factors draining funds from the market on Thursday and Monday but heavy official sales of gilt-edged stock were also important. Friday's extremely large shortage stemmed from the call on the recently exhausted tap stock, 15% Exchequer 1997, although an increase in the note circulation also contributed. On Tuesday the unwinding of earlier repurchase agreements and repayment of market advances (see below) outweighed funds flowing to the market from the redemption of Variable Rate Treasury 1981.

The Bank provided assistance by the outright purchase of bills every day and also by buying bills on a repurchase basis on Friday and lending overnight to the discount market on Monday.

Inter-bank rates began the week steady but falling US rates and a strong pound soon led to reductions in period rates. The decline was particularly sharp on Friday which led to suggestions of imminent cuts in base rates. Short rates, in contrast, were dominated by the continuing shortages in the market and the Bank's unchanged dealing rates. The seven-day rate rose on Thursday in anticipation of Friday's shortage and, while falling with period rates on Friday and opening lower on Monday, firmed later on Monday and again on Tuesday when the Bank indicated its unwillingness to accept such a rapid fall in market rates by not buying the bills offered but instead lending overnight to the discount market. After opening lower on Monday period rates responded to this firmness in the short-end with rises of about 1/2% before Tuesday's close. The seven-day rate rose 7/16% over the week to finish at 15 3/4% while the three-month rate fell a similar amount, closing at 14 11/16%.

Euro-sterling rates also followed US rates before the weekend but firmed with inter-bank rates on Monday and Tuesday. The three-month rate closed  $3/8\%$  down at  $14\ 11/16\%$ .

At the Treasury bill tender on Friday applications rose but the large fall in the average rate of discount (down 1.0567 to 13.8390) was due more to movements in market rates since the last tender than to increased competition.

#### LOCAL AUTHORITY BORROWING

The rate for one-year bonds fell by  $1/8\%$  to  $14\ 1/4\%$ . Issues amounted to £15.75mn (£15.3mn last week) against maturities of £14mn.

#### GILTS

The strength of sterling and falling interest rates at home and abroad encouraged the market to move ahead strongly over the first four days; a new short tap was announced on Friday. Yesterday, however, the market hesitated as the immediate prospects for interest rates were re-assessed in the light of Monday's money market intervention.

With most of the recently exhausted 1997 tap now more firmly placed, the market was able to resume its rise on Wednesday; by the close prices were up to  $5/8$  higher and moderate official sales had been made (mainly of low coupon stock). The continuing recovery in sterling after its setback on Tuesday encouraged further strong demand on Thursday and although the market checked on news that the miners had rejected the latest pay offer, it regained its impetus after further US prime rate cuts of  $1/2\%$  (to  $16\ 1/2\%$ ). Shorts (where official sales were again largely concentrated) closed with gains of  $1/2$  with longs about  $7/8$  higher. The market remained quietly firm on Friday with further significant official sales. At close of business, a new short tap stock was announced - 14% Exchequer Stock 1986 - priced to yield 15.27%. Subsequently, shorts traded slightly lower, but longs moved  $1/4$  higher.

After the weekend, the untapped long end continued to move sharply higher on Monday before falling back slightly on news of the Bank's lending to the discount houses to close up to  $1\ 5/8$  higher; prices

continued to ease in after-hours trading. Shorts, which were held back by the forthcoming new issue, made small losses on the day. Yesterday, with interest rate hopes dampened, sterling sharply weaker and US bonds opening lower, prices eased back to close about 1/8-3/16 down in shorts and about 1/2 lower in mediums and longs.

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

#### EQUITIES

Market conditions continued to be volatile, but prices held on to modest gains over the week as a whole.

On Wednesday the market was inhibited by the sluggish performance of Wall Street but moved ahead tentatively in line with gilts. Early gains on Thursday were lost following the news of the miners' pay claim, but the market took renewed heart from the latest prime rate cuts and the FT Index closed 10 points higher. Exco's £20 million offer for sale was vastly oversubscribed (in the event 62 1/2 times). On Friday investors were deterred by increasing fears of a Ford strike and the October RPI, but hopes of further base rate cuts enabled the day's losses to be recovered in late trading.

After the weekend, however, the market was unsettled on Monday by renewed concern about the economic outlook and with Wall Street also continuing to decline in the face of mounting evidence of recession, the Index lost 15.5 points on the day. Yesterday, the market made a modest recovery and the Index closed 4.6 up at 508.3, a rise of 5.6 over the week as a whole.

#### NEW ISSUES

##### Queue

Three new issues of £10mn or more were added to the queue. Ultramer is to make a rights issue of £100mn while Caisse Nationale des Autoroutes, the French public sector entity, is planning a bulldog issue of £50mn. The queue now totals £934mn against £798mn last week.

(Init EAJG)

18 November 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases - )

1. Transactions (cash value)

	11.11.81 <u>-17.11.81</u>	Cal Qtr to date	Fin Year to date	18.2.81 to date
Issue Department				
Purchases/sales				
Next Maturities	- 24	- 373	- 1,802	- 2,221
Other short-dated	<u>+ 210</u>	<u>+ 1,038</u>	<u>+ 1,956</u>	<u>+ 2,445</u>
	+ 186	+ 665	+ 154	+ 224
Mediums	+ 12	+ 516	+ 2,356	+ 3,090
Longs and undated	<u>+ 730*</u>	<u>+ 1,223</u>	<u>+ 3,028</u>	<u>+ 4,066</u>
Total Issue				
Department trans- actions	+ 928	+ 2,404	+ 5,538	+ 7,380
CRND	+ 18	+ 98	+ 275	+ 326
Redemptions	- 134	- 134	- 977	- 1,072
	<u>+</u>	<u>+</u>	<u>+</u>	<u>+</u>
	<u>812</u>	<u>2,368</u>	<u>4,836</u>	<u>6,634</u>

\*Includes +609 from call on 15% Exchequer 1997

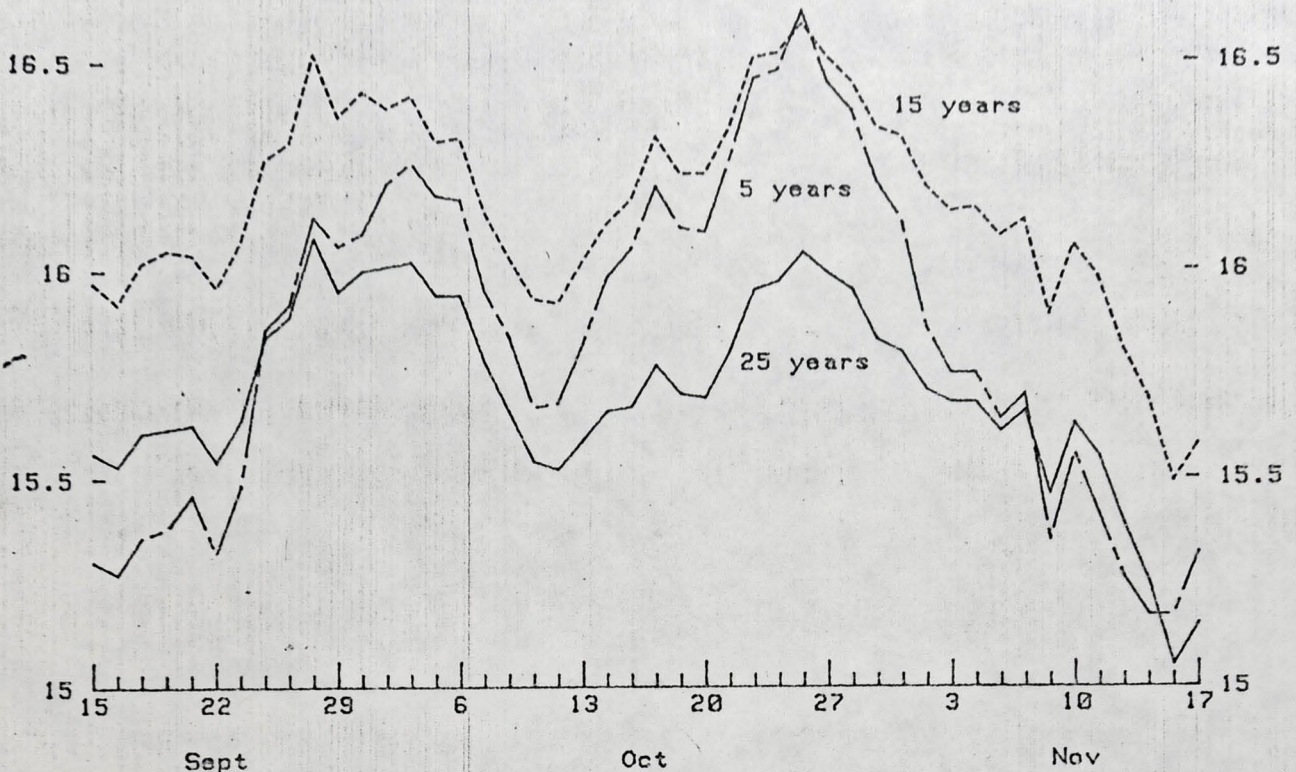
2. Redemption Yields (tax ignored)

		<u>10 November</u>	<u>17 November</u>	<u>Change</u>
12%	Treasury 1983	14.71	14.58	-0.13
15%	Treasury 1985	15.58	15.26	-0.32
12%	Treasury 1987	15.84	15.51	-0.33
11 3/4%	Treasury 1991	16.02	15.77	-0.25
13 1/2%	Treasury 1994	16.21	15.74	-0.47
2%	Index-Linked			
	Treasury 1996	3.07	2.91	-0.16
12 1/4%	Exchequer 1999	15.92	15.33	-0.59
14%	Treasury 1998/01	15.96	15.50	-0.46
12%	Exchequer 2013/17	14.86	14.41	-0.45
3 1/2%	War Loan (Flat Yield)	13.56	12.97	-0.59

Gilt edged yields [F.T. High coupon]

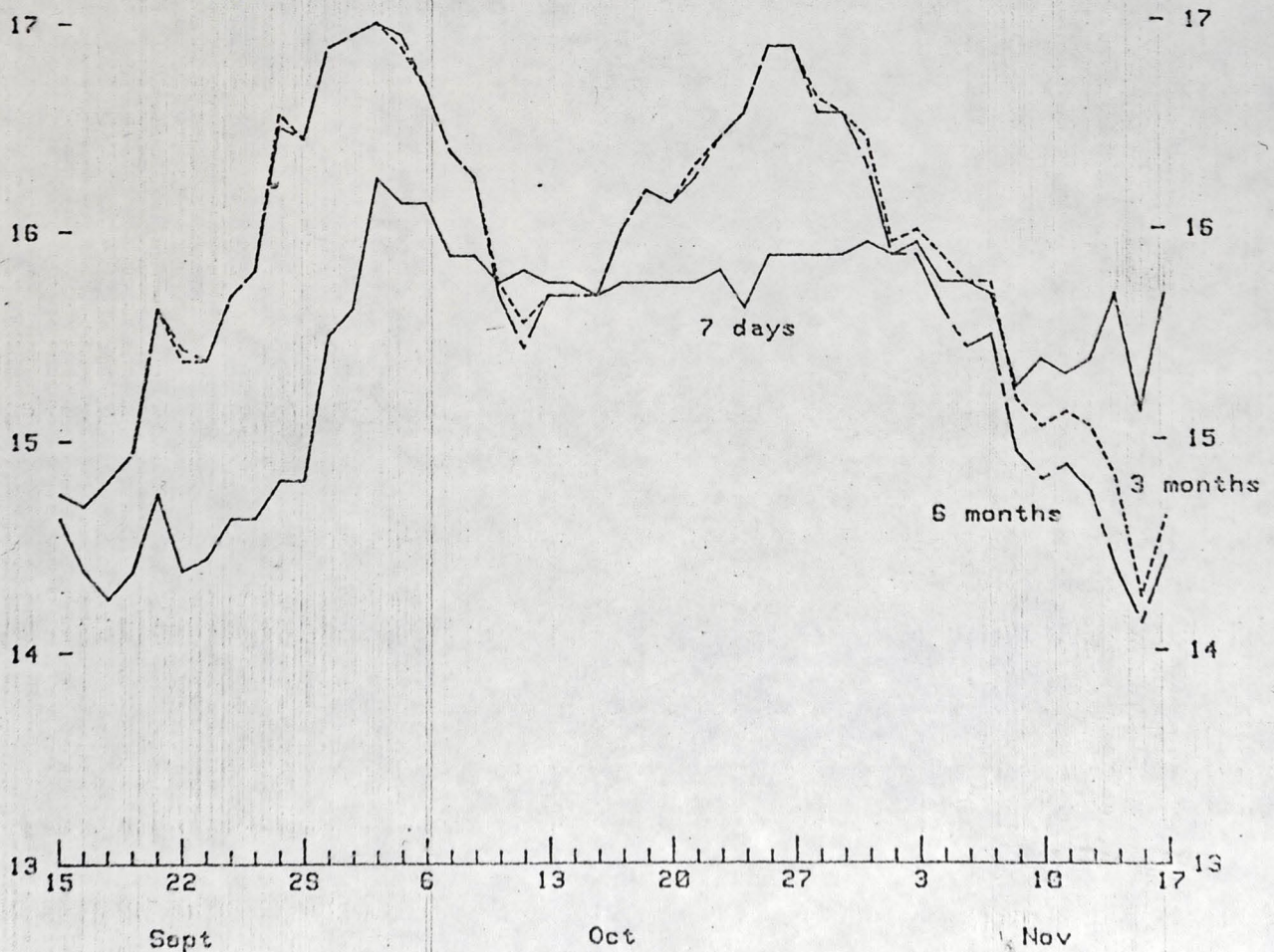
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Interbank rates

Yields  
- 17



NEW ISSUESFixed interest  
(excl convertibles)

	<u>Domestic borrowers</u>	<u>Foreign borrowers</u>	<u>Convertibles</u>	<u>Equities</u>
TOTAL QUEUE*	<u>9</u>	<u>150</u>	<u>24</u>	<u>751</u>
Of which issues of 10 or more:				
Current week (18/11-20/11)				
Week 2 (23/11-27/11)				
Week 3 (30/11-4/12)		<u>Caisse Nationale des Autoroutes</u> (2/12?) 50		Great Portland Estates PLC (rights) (1/12) 40 J P M Machines Ltd (offer for sale) (3/12) 10
Week 4 (7/12-11/12)				Japanese Investment Trust (offer for sale) (7/12) 10
Week 5 (14/12-18/12)		EIB (offer for sale) (14/12?) 100	Haslemere Estates Ltd (rights) (14/12) 20	ICL PLC (rights) (15/12) 33
Week 6 (21/12-24/12)				
Week 7 (28/12-31/12)				
Forthcoming				Split Level Investment Trust (offer for sale) (11/1) 20 <u>Candecca Resources</u> <u>Ltd (rights)</u> (12/1) 10 United Engineering Ltd (rights) (13/1) 10 Associated Biscuit Manufacturers Ltd (rights) (14/1) 10

Forthcoming

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) (17/2)	10
Lloyds Bank Ltd (rights) (19/2)	100
Amersham International (offer for sale by Atomic Energy Authority) (25/2)	50
Ultramar Company Ltd (rights) (3/3)	100
The Bowater Corporation Ltd (rights) (10/3)	80
Vickers Ltd (rights) (24/3)	35
British Transport Docks Board (offer for sale) (24/5-4/6?)	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	589	1,567
/Issues completed	1978	63	910
	1979	150	979
	1980	358	945
	1981 to date	515	1,318

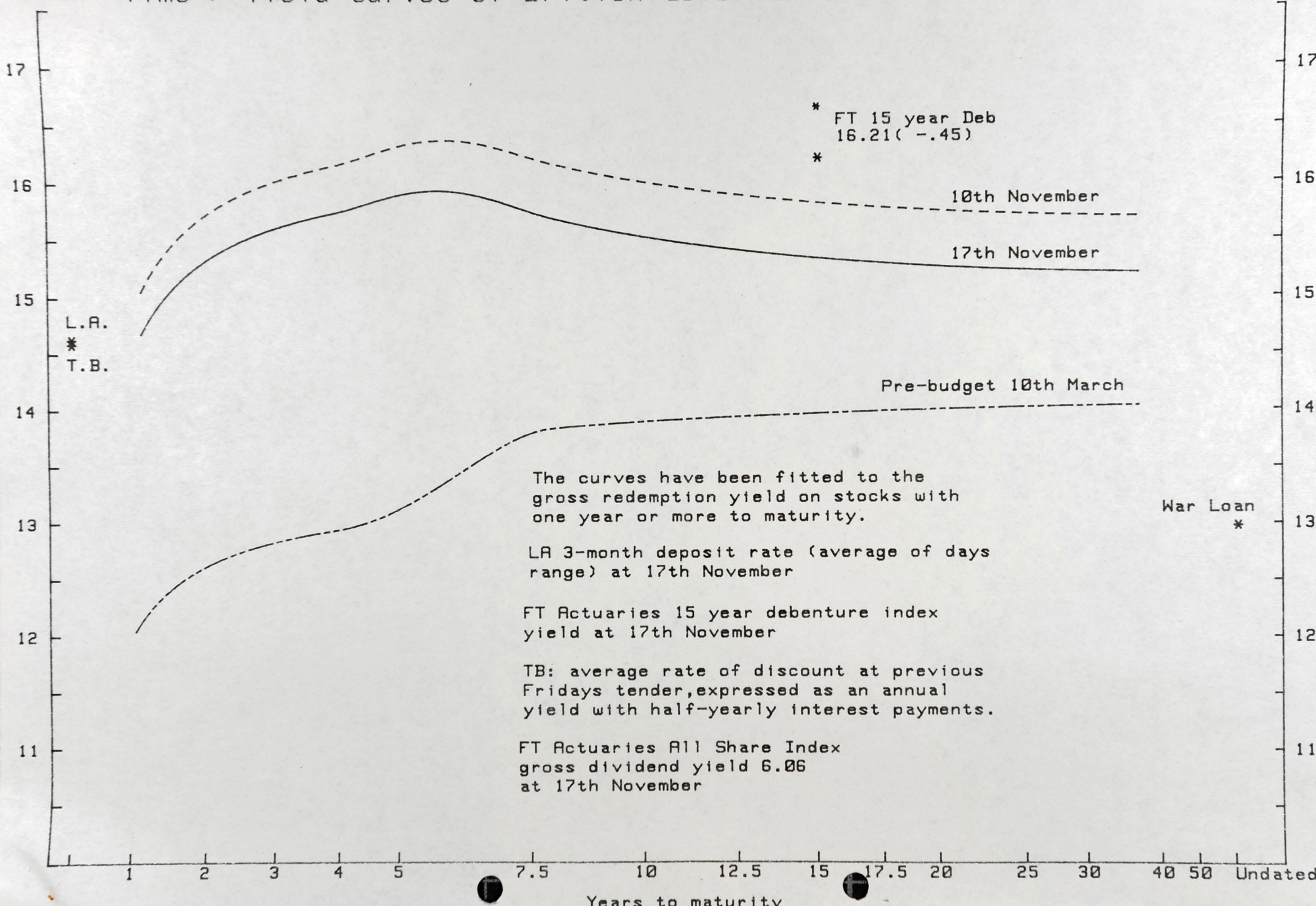
\*Includes issues of 3 or more

/Includes issues of less than 3

øForeign borrower

# Per cent Time / Yield Curves of British Government Stocks

18th November 1981



L.R.  
\*  
T.B.

\* FT 15 year Deb  
16.21 (-.45)  
\*

10th November

17th November

Pre-budget 10th March

War Loan  
\*

The curves have been fitted to the gross redemption yield on stocks with one year or more to maturity.

LA 3-month deposit rate (average of days range) at 17th November

FT Actuaries 15 year debenture index yield at 17th November

TB: average rate of discount at previous Fridays tender, expressed as an annual yield with half-yearly interest payments.

FT Actuaries All Share Index gross dividend yield 6.06 at 17th November

Years to maturity