

NOTE FOR WEDNESDAY MEETING

MARKETS: 25 NOVEMBER 1 DECEMBER 1981

MONEY

Tight conditions persisted in the money market this week with only Monday seeing some slight respite. The shortages, however, were not generally as sizeable as last week and resulted most frequently from maturing commercial bills. Other specific factors were the unwinding of an earlier repurchase agreement on Wednesday, payment on Thursday for gilt sales and the increase in the note circulation on Friday. The Exchequer position was favourable until Tuesday when it was the major factor against the market.

The Bank provided assistance by buying bills outright every day except Thursday when bills were bought on a repurchase basis.

Inter-bank rates showed very little change before the weekend although the undertone was firm, especially at the short end. After the weekend a positive firming in period rates developed, fuelled by the increases in market interest rates in the US responding to the unexpected rise in money supply there. On Tuesday a slight fall back was seen after the Bank had provided a more than adequate sum in assistance. The seven-day rate closed unchanged over the week as a whole at $15 \frac{3}{8}\%$ while the three-month rate rose about $\frac{1}{4}\%$ to $15 \frac{1}{16}\%$.

Euro-sterling rates were also very firm showing rises of about $\frac{3}{8}\%$ over the week. The three-month rate ended also at $15 \frac{1}{16}\%$.

At the Treasury bill tender on Friday, competition was little changed; the average rate of discount fell 0.05 to 13.7564.

LOCAL AUTHORITIES

The rate for one-year bonds was unchanged at $14 \frac{5}{8}\%$. Issues amounted to £16mn (£11.75mn last week) against maturities of £15mn.

GILTS

Interest rate optimism on Wednesday and again on Monday enabled further significant official sales of stock to be made. But with US bonds sharply lower and money market conditions tight, prices fell back yesterday.

The market opened very firm on Wednesday following the US prime rate cuts the previous day. Substantial sales were made of the short tap, 14% Exchequer 1986, at 40 1/8 and also of the 2004/08 tranchette. Although prices closed slightly below the best, longs retained gains of up to 1 with shorts showing smaller rises of up to 1/4; the FT Government Securities Index reached a new three-month high. The following day saw some reaction, but with sterling continuing to rise and US bonds opening firm, prices made further small gains on Friday.

After the weekend, renewed hopes of a cut in base rates encouraged prices of longs to advance strongly (gains of up to 3/4 at one stage), with the (tapped) short end again more subdued. Further official sales exhausted the 2004/08 tranchette before prices slipped back in the afternoon. Yesterday, the market opened easier following the sharp overnight fall in US bonds and reflecting gathering concern at the persistent shortage of liquidity in the domestic money market: prices slipped back further during the day to show losses of up to 1/2 in shorts and 7/8 in longs.

Over the week as a whole prices of shorts were generally slightly higher (yields on five-year maturities of about 15 3/8%), while those of longs rose by about 1/2 (yields on twenty-year maturities of about 15 1/4-15 1/2%).

EQUITIES

Although displaying some caution ahead of the Chancellor's statement today, the market made further net gains over the week as a whole.

The market opened sharply higher on Wednesday in line with gilts, although the rise was not sustained. Little change was seen on

Thursday, with the main feature being encouraging first-half results from Courtaulds which provoked demand for the shares on Friday (along with those of other depressed industrials such as Dunlop and Imperial Group). The FT Index rose by 7.3 on Friday.

After the weekend, trading was thin ahead of the Chancellor's statement today. Interest rate optimism encouraged some modest gains on Monday, but these were more than lost yesterday. The Index closed 7.0 lower at 530.8, a net gain of 10.8 over the week as a whole. Since the market's most recent low on 26 October, the Index has risen by 69 points (15%).

NEW ISSUES

Queue

Two new issues were added to the queue: a rights issue of £15mn by Kwik Save Discount and an offer for sale of £15mn by Coloroll. The queue now totals £784mn against £854mn last week.

Net Capital Issues

The net amount of new money raised in banking November fell to £67mn compared with £193mn in the previous month.

A 25-year £30mn bulldog issue for Caisse Nationale des Autoroutes, the French State motorway agency, was placed yesterday. The issue is thought to have met with some resistance from the jobbers in view of the margin over gilts (1.15%) which was considered to be inadequate for French paper.

Init (EAJG)

2 December 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

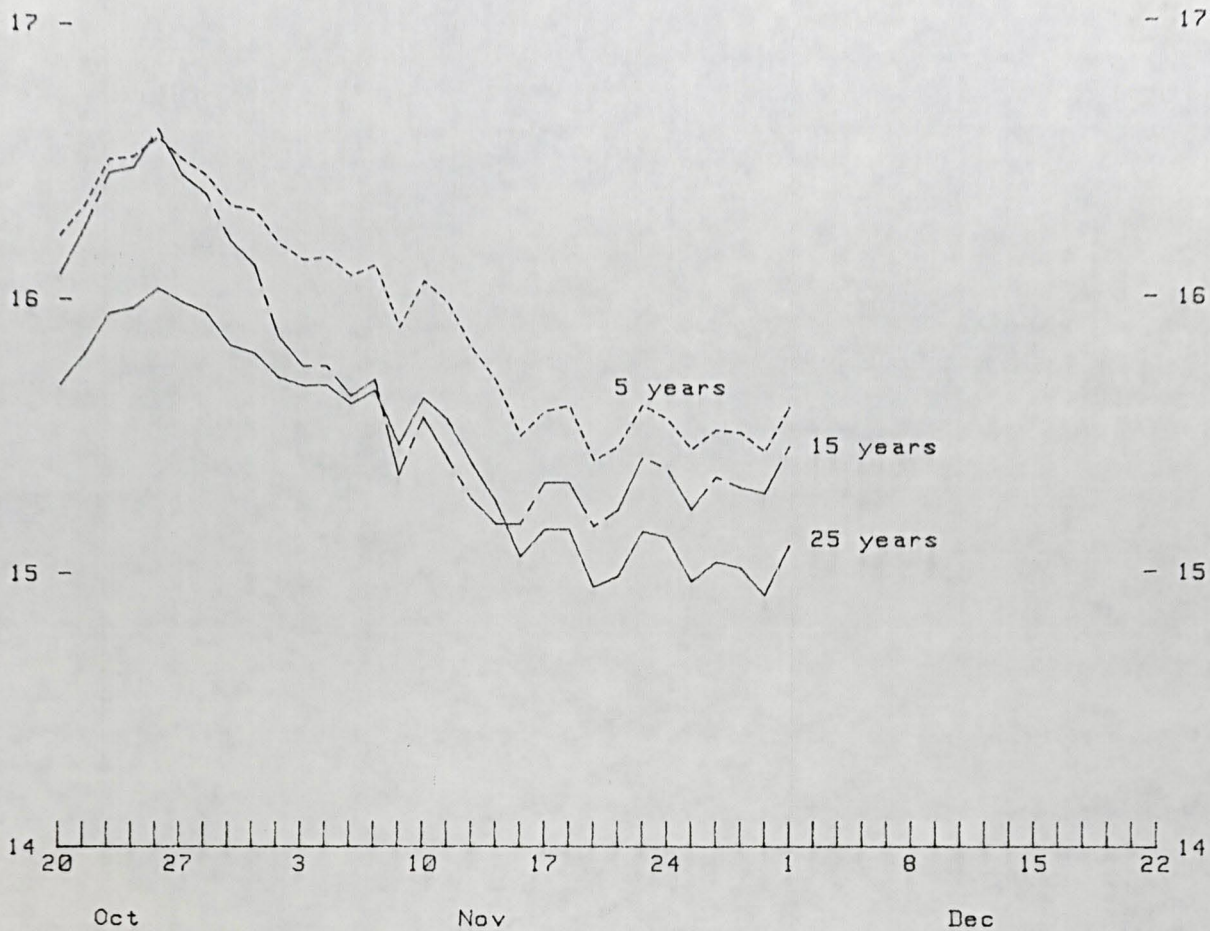
1. Transactions (cash value)

	25.11.81 <u>- 1.12.81</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	- 58	- 462	- 1,891	- 2,310
Other short-dated	+ 92	+ 1,333	+ 2,251	+ 2,740
	+ 34	+ 871	+ 360	+ 430
Mediums	- 41	+ 487	+ 2,328	+ 3,062
Longs and undated	+ 205	+ 1,441	+ 3,245	+ 4,283
Total Issue				
Department trans- actions	+ 198	+ 2,799	+ 5,933	+ 7,775
CRND	-	+ 103	+ 280	+ 331
Redemptions	- 10	- 343	- 1,186	- 1,282
	<u>+</u> 188	<u>+</u> 2,559	<u>+</u> 5,027	<u>+</u> 6,824

2. Redemption Yields (tax ignored)

		<u>24 November</u>	<u>1 December</u>	<u>Change</u>
12%	Treasury 1983	14.55	14.59	+0.04
15%	Treasury 1985	15.38	15.39	+0.01
12%	Treasury 1987	15.55	15.55	-
11 3/4%	Treasury 1991	15.77	15.86	+0.09
13 1/2%	Treasury 1994	15.76	15.82	+0.06
2%	Index-Linked			
	Treasury 1996	2.97	3.02	+0.05
12 1/4%	Exchequer 1999	15.33	15.37	+0.04
14%	Treasury 1998/01	15.50	15.48	-0.02
12%	Exchequer 2013/17	14.41	14.38	-0.03
3 1/2%	War Loan (Flat Yield)	12.94	12.74	-0.20

Gilt edged yields [F.T. High coupon]



Interbank rates

