

NOTE FOR WEDNESDAY MEETING

MARKETS: 2 DECEMBER TO 8 DECEMBER 1981

MONEY

Conditions remained tight in the money market this week until Tuesday, when the shortage was much smaller than on recent days. Large maturities of bills in official hands were the main contributory factor with the addition on Friday, when the shortage was very large, of a sizeable excess of Exchequer revenue receipts over disbursements.

The Bank gave assistance every day by the purchase of a combination of bank, Local Authority and Treasury bills.

Inter-bank rates were easy at the start of the week especially at the short end. The clearing banks lowered their base rates 1/2% on Thursday morning, possibly on seeing shorter rates fall below 15%. Rates steadied on Friday with a slight firming at some maturities following the Bank's under-provision of assistance to the market the previous day. A further slight easing took place on Monday but rates had steadied by the end of the week. The seven-day rate closed 3/4% down on the week at 14 5/8% and the three-month rate finished 1/4% down at 14 7/8%.

Euro-sterling rates eased before the weekend in sympathy with domestic rates. Some further easing was evident on Monday but by the end of the week these rates had come back to Friday's levels. The three-month rate closed 1/2% down on the week at 14 7/8%.

At the Treasury bill tender on Friday the average rate of discount was almost unchanged at 13.7583.

LOCAL AUTHORITY BORROWING

The rate for one-year bonds was unchanged at 14 5/8%. Issues amounted to £11.5mn (£16mn last week) against maturities of £17.95mn.

GILTS

The market ran out of steam this week. It was not inspired by the Chancellor's statement on Wednesday and disappointed by yesterday's money figures: but the main factor is concern that the decline in US rates has levelled off - despite last Thursday's cut in the Federal Reserve's discount rate.

The market was quietly steady on Wednesday ahead of the Chancellor's statement. This produced little reaction in after-hours' trading or on the following day when the market took its lead from the overnight weakness in US bonds amid concern that the decline in US rates might have levelled off. With the cut in base rates having been largely discounted, longs closed Thursday with losses of up to 1/2. Following the reduction in the Federal Reserve's discount rate from 13% to 12%, prices rallied strongly on Friday and by the close shorts were about 3/8 higher while longs were showing net rises of up to 3/4. Although further sales were made of the recently issued 1990 and 1995 tranches, and of the low coupon 1985 tranche (which was exhausted), these sales were matched by purchases, mainly of the next maturity.

After the weekend the main feature has been heavy official buying-in of the January maturity which goes ex final dividend today. Conditions were very quiet on Monday ahead of the November banking statistics and with no fresh inspiration from the US, prices eased back. This trend continued yesterday after the overnight fall in US bonds and though some of the early losses were recovered, further sellers appeared after the announcement of the banking figures. Shorts closed with losses of up to 1/2 and longs of about 5/8.

Over the week as a whole, prices of shorts rose by about 1/4 (yields of 15 3/8-15 1/2% on five-year maturities), while those on longs fell by about 1/2-5/8 (yields of 15 1/2-15 5/8% on twenty-year maturities). The two IGs showed sharper falls (3/4 in both cases), giving yields of 3.11% (IG I) and 2.87% (IG II). With the exhaustion of official supplies low coupon shorts held on to gains of up to 3/4 over the week.

EQUITIES

The market continued to move erratically, but in contrast to recent weeks prices declined on balance over the week as a whole.

The underlying tone remained quietly firm on Wednesday despite a statement about heavy losses by John Brown and poor interim figures from Pilkington. Initial reaction to the Chancellor's statement was moderately favourable. But the following day saw prices fall back with disappointing third quarter results from BP coming on top of the adverse company news of the previous day. As with gilts, the market took little encouragement from the base rate cuts and the FT Index closed 11.1 lower at 519.9. On Friday most of these losses were recovered in the wake of the cut in the Federal Reserve discount rate. Plessey and GEC rallied after further comment on their interim results.

After the weekend, the market made further progress on Monday but opened easier yesterday in sympathy with Wall Street. Prices drifted lower throughout the day in very subdued trading with sentiment further depressed by the result of the miners' election; the Index closed 11.8 lower at 521.7, a fall of 9.1 over the week as a whole (the first net decline over a week since the last week of October).

NEW ISSUES

Queue

Two bulldog issues were added to the queue: £100mn for the IBRD (its second such issue) in January and £100mn for the EIB in March (postponed from November). The queue now totals £963mn against £784mn last week.

(Init EAJG)

9 December 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

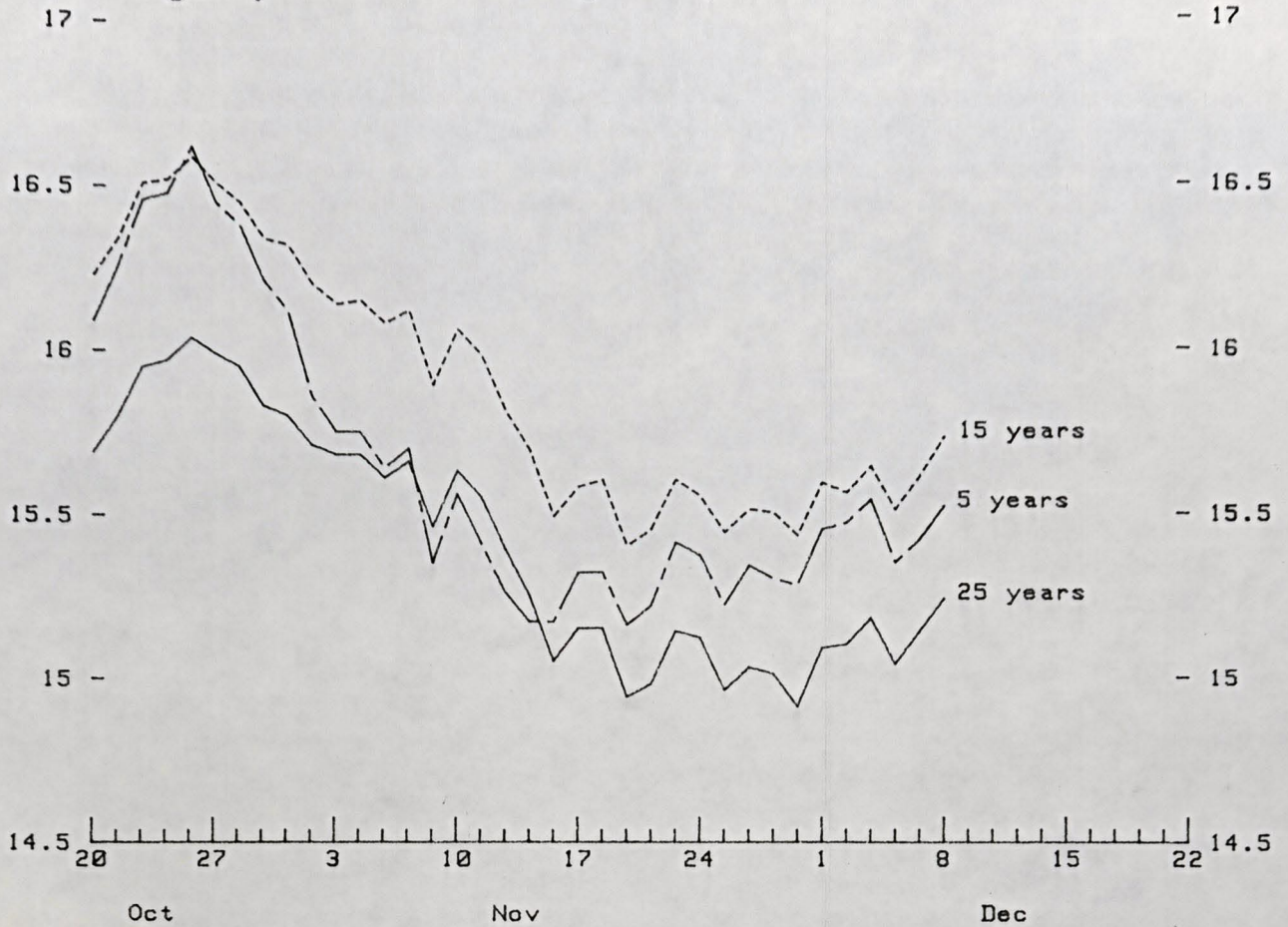
1. Transactions (cash value)

	<u>2.12.81</u> <u>- 8.12.81</u>	<u>Cal Qtr</u> <u>to date</u>	<u>Fin Year</u> <u>to date</u>	<u>18.2.81</u> <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 311	- 773	- 2,202	- 2,621
Other short-dated	+ 14	+ 1,347	+ 2,265	+ 2,754
	- 297	+ 574	+ 63	+ 133
Mediums	+ 38	+ 525	+ 2,366	+ 3,100
Longs and undated	+ 3	+ 1,444	+ 3,248	+ 4,286
Total Issue				
Department trans-				
actions	- 256	+ 2,543	+ 5,677	+ 7,519
CRND	-	+ 103	+ 280	+ 331
Redemptions	- 42	- 385	- 1,228	- 1,324
	<u>- 298</u>	<u>+ 2,261</u>	<u>+ 4,729</u>	<u>+ 6,526</u>

2. Redemption Yields (tax ignored)

	<u>1 December</u>	<u>8 December</u>	<u>Change</u>
12% Treasury 1983	14.59	14.51	-0.08
15% Treasury 1985	15.39	15.26	-0.13
12% Treasury 1987	15.55	15.84	+0.29
11 3/4% Treasury 1991	15.86	15.88	+0.02
13 1/2% Treasury 1994	15.82	16.00	+0.18
2% Index-Linked			
Treasury 1996	3.02	3.11	+0.09
12 1/4% Exchequer 1999	15.37	15.52	+0.15
14% Treasury 1998/01	15.48	15.64	+0.16
12% Exchequer 2013/17	14.38	14.50	+0.12
3 1/2% War Loan (Flat Yield)	12.74	12.83	+0.09

Gilt edged yields [F.T. High coupon]



Interbank rates

