

NOTE FOR WEDNESDAY MEETING

MARKETS: 6 JANUARY TO 12 JANUARY 1982

MONEY

After seeing a small surplus on Wednesday the market experienced shortages for the rest of the week, those on Friday and Monday being quite severe. Commercial bill maturities in official hands were again a recurrent factor draining funds from the market whilst movements in the note circulation continued to be mostly favourable. The Exchequer position was adverse each day except Monday but on this day the balance payable on the short tap stock 14% Treasury 1986 depleted the market substantially.

The Bank provided assistance through the outright purchase of bills each day except Wednesday.

Period interbank rates showed some easing before the weekend amid mixed indications from the US and a softer trend in European rates. After the weekend, however, eurodollar rates hardened and the exchange rate was seen to be under pressure so sterling interbank rates responded with rises. The three month rate closed down $1/8$ over the week, at $15 \frac{1}{2}\%$.

Short rates tended to show some downward movement within each day but continuing daily shortages kept the undertone firm. The seven day rate closed up $1/16$ at $14 \frac{13}{16}\%$.

Eurosterling rates mirrored the movements in domestic rates by easing generally before the weekend and showing some firming after it. The three month rate ended the week at about $15 \frac{9}{16}\%$, the rate at which it had opened on Wednesday.

At the Treasury bill tender on Friday the pro rata price was unchanged but the average rate of discount fell 0.1112 to 14.6701% in slightly increased competition.

LOCAL AUTHORITY BORROWING

The rate for one year bonds was unchanged at 15 1/2%. Issues amounted to £14.75 mn (£12.1 mn last week) against maturities of £17.75 mn.

GILTS

After firming slightly on balance prior to the weekend, prices subsequently drifted lower, as concern about the outlook for US interest rates re-emerged, sterling weakened, and domestic industrial troubles bloomed larger.

With more encouraging news from the US bond market and with press comment on the December banking figures not discouraging, prices opened about 1/4 better on Wednesday. The higher levels attracted some sellers of longs, but with US bonds again coming in better in the afternoon, the market made further small gains. The following day the market opened cautiously after US bonds had fallen back again overnight. Prices eased slightly further after news of Smith St Aubyn's losses in the gilts market, but subsequently recovered to close unchanged in longs and about 3/16 down in shorts. Tenders for 3% Treasury 1987 were predictably small. With money market rates slightly easier, the market was more relaxed on Friday and prices made modest gains.

After the weekend, sterling weakened sharply on Monday and dollar interest rates firmed following the smaller than expected fall in US money supply. However, the gilt-edged market was quiet and prices fell back only slightly. Yesterday saw further falls of about 1/8 - 1/4 in shorts and 1/4 - 3/8 in longs with trading at a very low ebb.

Over the week as a whole, prices of shorts were slightly higher on balance (yields on five-year maturities of about 16 5/16%) while those of longs were little changed (yields on 20-year maturities of about 16 1/16 - 16 1/4%). Prices of the two index-linked Stocks fell by 1/4 (IG I) and 3/8 (IG II) to yield 3.28% and 3% respectively.

EQUITIES

The lifting of the threatened Ford strike helped sustain the market prior to the weekend, but the otherwise adverse industrial relations situation dampened sentiment thereafter.

The market opened in an uncertain mood on Wednesday after the sharp overnight fall on Wall Street, but leading shares moved up strongly in later trading, partly encouraged by reports of the Ford plant voting. This firmer tendency continued on Thursday, though Discount Houses sustained losses ranging to nearly 40p after the news of Smith St Aubyn (whose own shares collapsed from 132p to only 35p). Selective investment interest was maintained on Friday, while Discount Houses recovered some of their composure.

After the weekend, demand was blunted on Monday by the threatened rail strike and the miners' forthcoming strike ballot, though prices fell back only slightly. The main feature was in the banking sector where shares fell back sharply on reports that the Monopolies Commission had rejected both bids for RBS. The latter's shares dropped from 192p to 143p. Yesterday, prices eased back further with the sharp overnight fall on Wall Street an additional adverse influence. The FT Index ended 6.0 down at 524.6, net rise of 6.5 over the week as a whole.

NEW ISSUES

Queue

Three new issues of £10 mn or more were added to the queue: a rights issue of £20 mn by Burnett & Hallamshire Holdings Ltd, a bulldog issue of £50 mn by Trans-Canada and an issue of loan stock of £100 mn by Barclays Bank. The latter would be the first major issue of loan stock by a domestic corporate borrower since LASMO's £58 mn issue in February 1976 (which was itself the first large issue since 1972). The Barclays' issue comes just over two weeks before Lloyds Bank's scheduled £100 mn rights issue.

The queue now totals £1,080 mn, a net increase of £147 mn over the week as a whole. Two rights issues were cancelled during the week.

(Init EAJG)

13 January 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

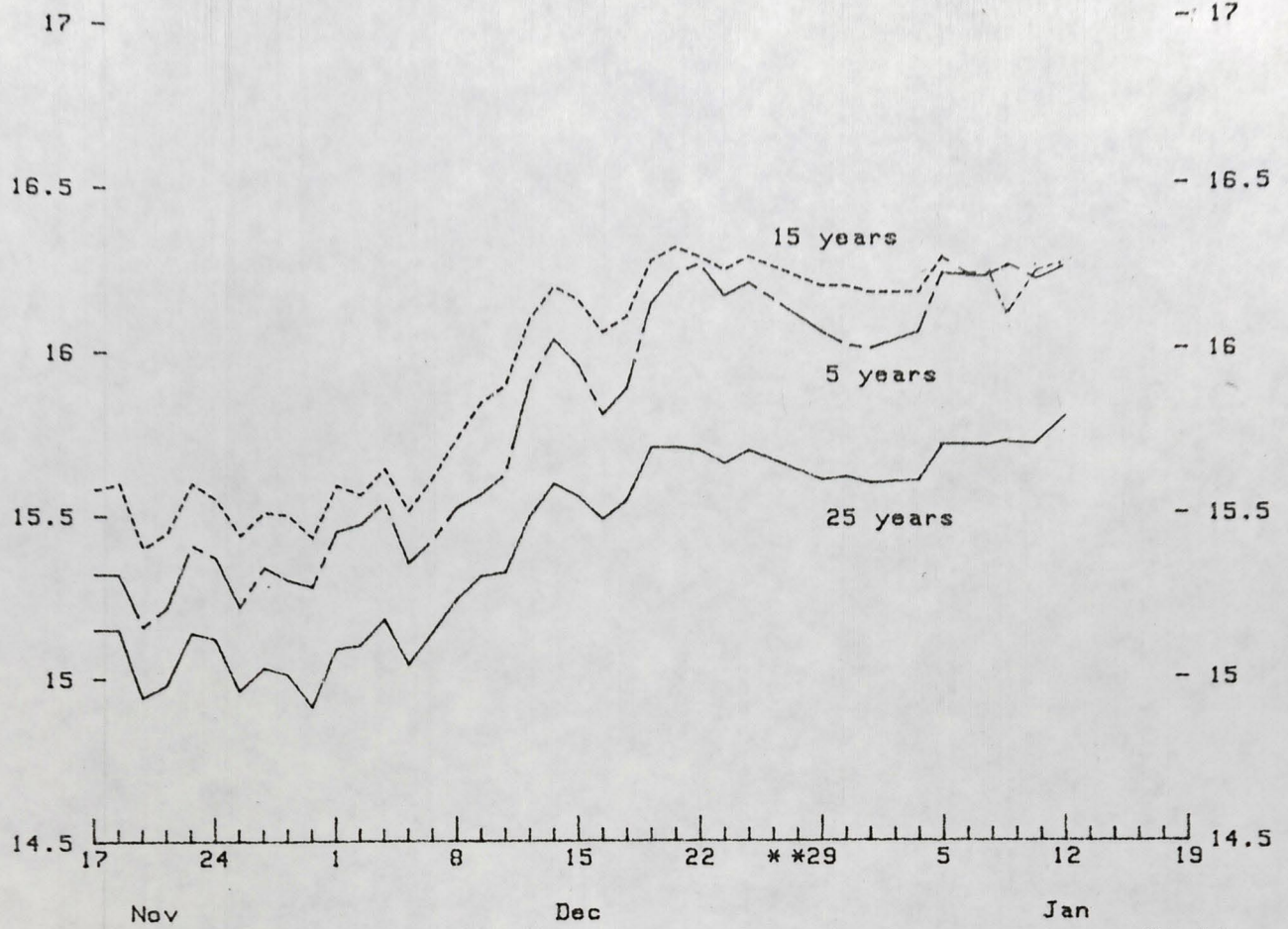
	6.12.81 <u>-12. 1.82</u>	Cal Qtr <u>to date</u>	Fin Year <u>to date</u>	18.2.81 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 64	- 144	- 2,359	- 2,779
Other short-dated	+ 425*	+ 403	+ 2,651	+ 3,142
	+ 361	+ 259	+ 292	+ 363
Mediums	+ 75	+ 103	+ 2,523	+ 3,256
Longs and undated	- 21	- 21	+ 3,227	+ 4,265
Total Issue				
Department trans-				
actions	+ 415	+ 341	+ 6,042	+ 7,884
CRND	- 7	- 8	+ 269	+ 320
Redemptions	-	-	- 1,228	- 1,324
	<u>+</u> 408	<u>+</u> 333	<u>+</u> 5,083	<u>+</u> 6,880

* Including +399 from call on 14% Exchequer 1986

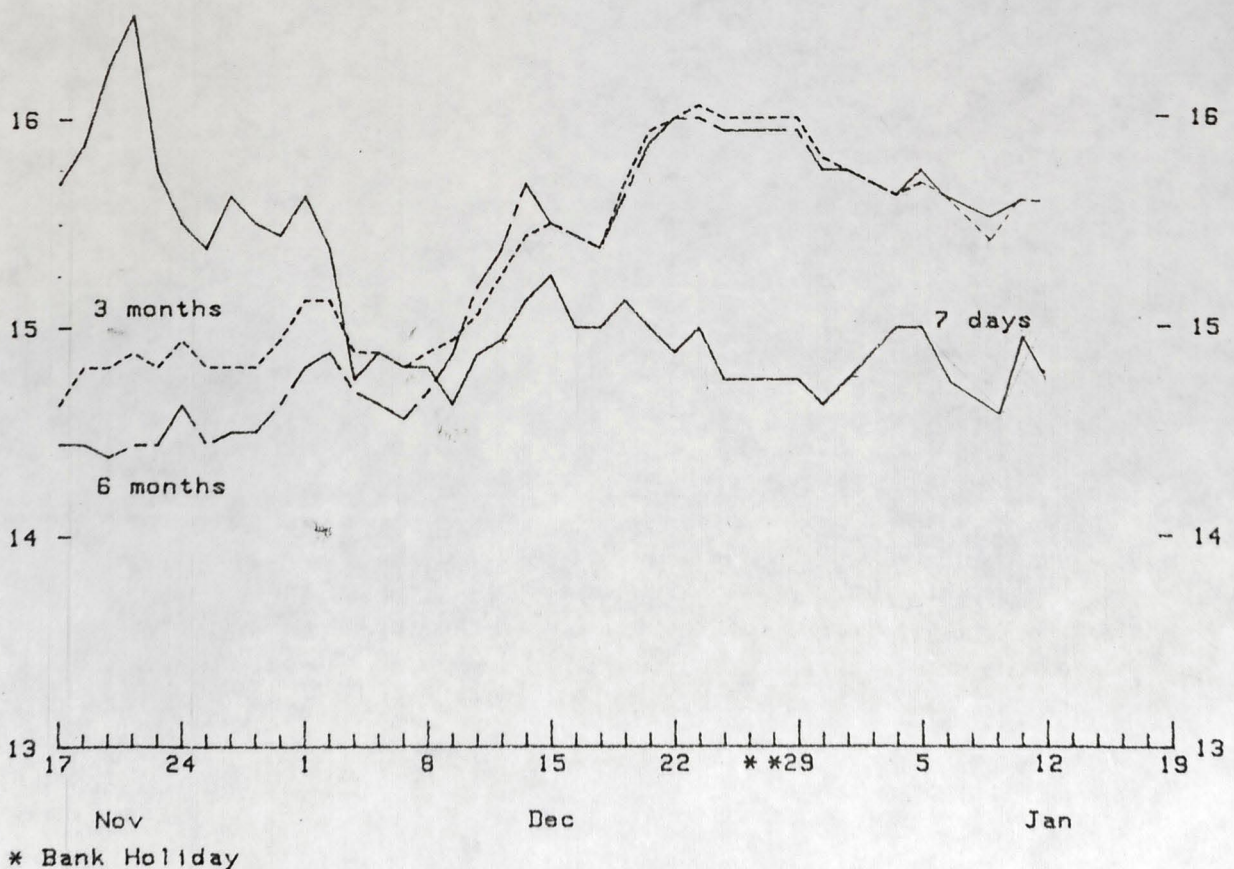
2. Redemption Yields (tax ignored)

		<u>5 January</u>	<u>12 January</u>	Change
12%	Treasury 1983	15.88	15.69	-0.17
15%	Treasury 1985	16.35	16.28	-0.07
12%	Treasury 1987	16.49	16.61	+0.12
11 3/4%	Treasury 1991	16.50	16.49	-0.01
13 1/2%	Treasury 1994	16.55	16.53	-0.02
2%	Index-Linked			
	Treasury 1996	3.24	3.28	+0.04
12 1/4%	Exchequer 1999	16.08	16.08	-
14%	Treasury 1998/01	16.16	16.22	+0.06
12%	Exchequer 2013/17	14.96	15.00	+0.04
3 1/2%	War Loan (Flat Yield)	13.39	13.49	+0.10

Gilt edged yields [F.T. High coupon]



Interbank rates



NEW ISSUESOther loan stock*

	<u>Equities</u>	<u>Convertible loan stock</u>	<u>Domestic borrowers</u>	<u>Foreign borrowers</u>
TOTAL QUEUE ^o	<u>714</u>	<u>-</u>	<u>116</u>	<u>250</u>
Of which issues of 10 or more:				
Current week (13/1-15/1)				
Week 2 (18/1-22/1)	MEPC Ltd (rights) (19/1) 70			
Week 3 (25/1-29/1)	Clyde Petroleum PLC (rights) (26/1) 25 Drayton Montagu Japan Trust (offer for sale) (27/1) 15 Davy Corp Ltd (rights) (28/1) 30			IBRD (offer for sale) (25/1) 100
Week 4 (1/2-5/2)			Barclays Bank Ltd (offer for sale) (3/2) 100	
Week 5 (8/2-12/2)	Amersham International (offer for sale by Atomic Energy Authority) (11/2) 50			
Week 6 (15/2-19/2)	Hunting Petroleum Services plc (rights) (15/2) 13 Lloyds Bank Ltd (rights) (19/2) 100			
Week 7 (22/2-26/2)				Trans-Canada Pipeline 22/2 50

SECRET

Forthcoming

The Throgmorton Finsbury Trust PLC (offer for sale) (1/3)	13
Ultramar Company Ltd (rights) (3/3)	100
The Bowater Corporation Ltd (rights) (10/3)	80
Cement-Roadstone Holdings Ltd (rights) (15/3)	30
Norsk Data AS (offer for sale) (17/3)	10
Vickers Ltd (rights) (24/3)	35
<u>Burnett & Hallamshire Holdings Ltd (rights)</u> (13/4)	20
Coloroll Ltd (offer for sale) (14/4)	15
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

EIB
(offer for sale)
(8/3?) 100

Memorandum

		<u>Equities</u>	<u>Loan Stock*</u>
Issues announced: [†]	1979	946	162
	1980	1,066	364
	1981	1,835	626
	1982 to date	17	-
Issues completed: [†] (ie gross amounts of cash raised)	1979	979	150
	1980	945	358
	1981	1,720	561
	1982 to date	4	-

- *Includes preference shares.
- ∅Includes issues of 3 or more
- †Includes issues of less than 3
- **Foreign borrower

