

NOTE FOR WEDNESDAY MEETING

MARKETS: 20 JANUARY TO 26 JANUARY 1982

MONEY

Daily shortages in the money markets continued, totalling over £2.5 bn this week. Maturing commercial bills and generally unfavourable Exchequer positions as tax was collected were recurrent factors in the shortages but payments for heavy official sales of gilts also contributed on Wednesday and Monday. An increase in the note circulation on Friday drained additional funds as the normal weekly pattern of changes became re-established after the Christmas period.

The Bank provided assistance every day by the outright purchase of bills and also by buying bills on a repurchase basis on Wednesday and Friday.

Encouraged by a gradual lowering of the Bank's dealing rates and falls in interest rates elsewhere in Europe, period sterling interbank rates fell in the three days before the weekend, despite strong increases in eurodollar rates. Short rates, however continued to firm as tight money conditions persisted. On Friday morning, the lower period rates led National Westminster to cut its base rate from 14 1/2% to 14%, a move which was followed by all the other clearing banks and which brought a sharp drop in very short rates. After the weekend the market saw some reaction as sterling began to look vulnerable and rates moved up slightly on Monday. As sterling held up on Tuesday a steadier tone emerged and rates showed little change on the day. Over the week as a whole the three month interbank rate fell about 3/8 to close at 14 5/8% and the seven day rate fell 9/16, closing at 14 3/8% having been above 15% on Thursday.

Eurosterling rates also showed sharp falls prior to the weekend but firmed afterwards and the three month rate ended at 14 5/8%, having fallen about 9/16 over the week.

At the Treasury bill tender on Friday there was a rise of 24 1/2p in the pro rata price to £96.625 and the average rate of discount fell over 1 point to 13.5169%.

LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by 1/2% to 14 3/4%. Issues amounted to £18.3 mn (£15.25 mn last week) against maturities of £20.3 mn.

GILTS

Interest rate optimism enabled the market to make further significant gains prior to the weekend and further official sales of stock to be made. A new index-linked stock was announced on Friday afternoon, leading to a sharp downward adjustment in the prices of the existing IGs. The market generally weakened on Monday after the poor US money figures, but stabilised yesterday.

The market opened more cautiously on Wednesday reflecting the reaction in US bonds to the higher Federal Funds rate. But with a further fall in sterling money rates, prices were able to extend their advance, though on a more modest scale. Stronger demand was apparent on Thursday and Friday, encouraged by the continued decline in domestic rates (culminating in the cuts in base rate to 14% on Friday) and by the result of the miners' ballot. Further sizeable official sales of stock were made, leading to the exhaustion of the 1990 tranchette (issued on 20 November 1981). At the close of business on Friday, an issue of £750 mn of 2 1/2% Index-Linked Treasury Stock 2011 was announced. In after-hours trading, prices of conventional stocks improved by up to 1/2 while the prices of the two existing IGs reacted sharply downwards.

Sentiment changed abruptly after the weekend as the market absorbed the news of the latest rise in US money supply. Prices of conventional stocks were up to 1 5/8 lower than their Friday evening peak by Monday's official close, while the two IGs continued their downward adjustment, ending with losses of 2 1/2-3 points compared with Friday's official close. In after-hours trading,

however, the tone of conventional longs was improved by the stronger than expected opening of US bonds and by the good December trade figures. The market was able to extend these gains slightly in official trading yesterday, longs closing up to 5/8 higher with shorts up about 1/8-1/4. IG I was unchanged at 93 1/2 (yield of 3.29% with IG II down a further 3/8 at 87 7/8 (3.07%). In after-hours trading, the conventional market rallied more strongly following the Federal Reserve chairman's statement that there were no immediate plans to raise discount rate.

Over the week as a whole, prices of shorts rose by up to 3/4 (to yield 15 5/8-15 3/4% on five-year maturities) and those on longs by around 7/8 (to yield 15 1/4-15 1/2% on 20-year maturities).

EQUITIES

The market's strong advance prior to the weekend was interrupted by reaction to the US money figures. But as with gilts, yesterday saw a revival of demand.

The market paused on Wednesday but advanced strongly the following day to record the biggest change in the FT Index (13.3) since early November. These gains were extended on Friday, but after the weekend the market reacted along with gilts to the fears of higher US interest rates; the Index fell back by 9.5 on Monday. Yesterday, the market was encouraged by Wall Street's overnight resilience, the December trade figures and optimistic remarks on the economic outlook by Professor Burns. As a result, the Index more than recovered the previous day's losses, closing 11.2 up at 568.9, a rise of 23.0 over the week as a whole.

NEW ISSUES

Two new rights issues of £10 mn or more were added to the queue: £13 mn for Gas & Oil Acreage Ltd and £50 mn for the Dowty Group Ltd. Lloyd Bank's proposed £100 mn rights issue has been postponed until late July. The queue now totals £919 mn against £911 mn last week.

(Init EAJG)

27 January 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

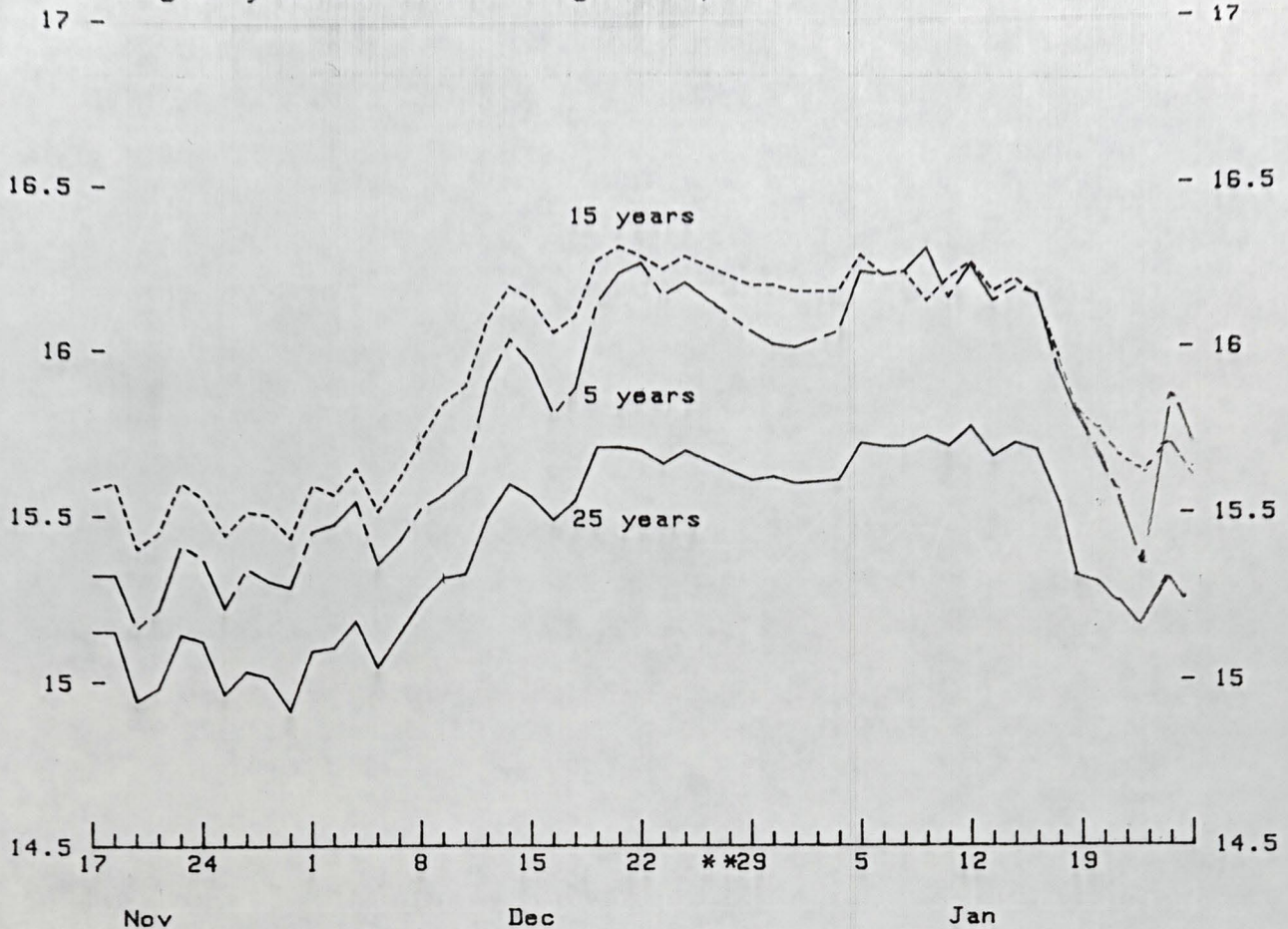
1. Transactions (cash value)

	20. 1.82 <u>-26. 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	- 24	- 169	- 2,383	- 2,803
Other short-dated	<u>+ 48</u>	<u>+ 685</u>	<u>+ 2,933</u>	<u>+ 3,424</u>
	+ 24	+ 516	+ 550	+ 621
Mediums	+ 84	+ 286	+ 2,705	+ 3,438
Longs and undated	<u>- 14</u>	<u>+ 7</u>	<u>+ 3,255</u>	<u>+ 4,293</u>
Total Issue				
Department trans- actions	+ 94	+ 809	+ 6,510	+ 8,352
CRND	+ 120	+ 184	+ 460	+ 511
Redemptions	<u>- 53</u>	<u>- 235</u>	<u>- 1,463</u>	<u>- 1,558</u>
	<u>+ 161</u>	<u>+ 758</u>	<u>+ 5,507</u>	<u>+ 7,305</u>

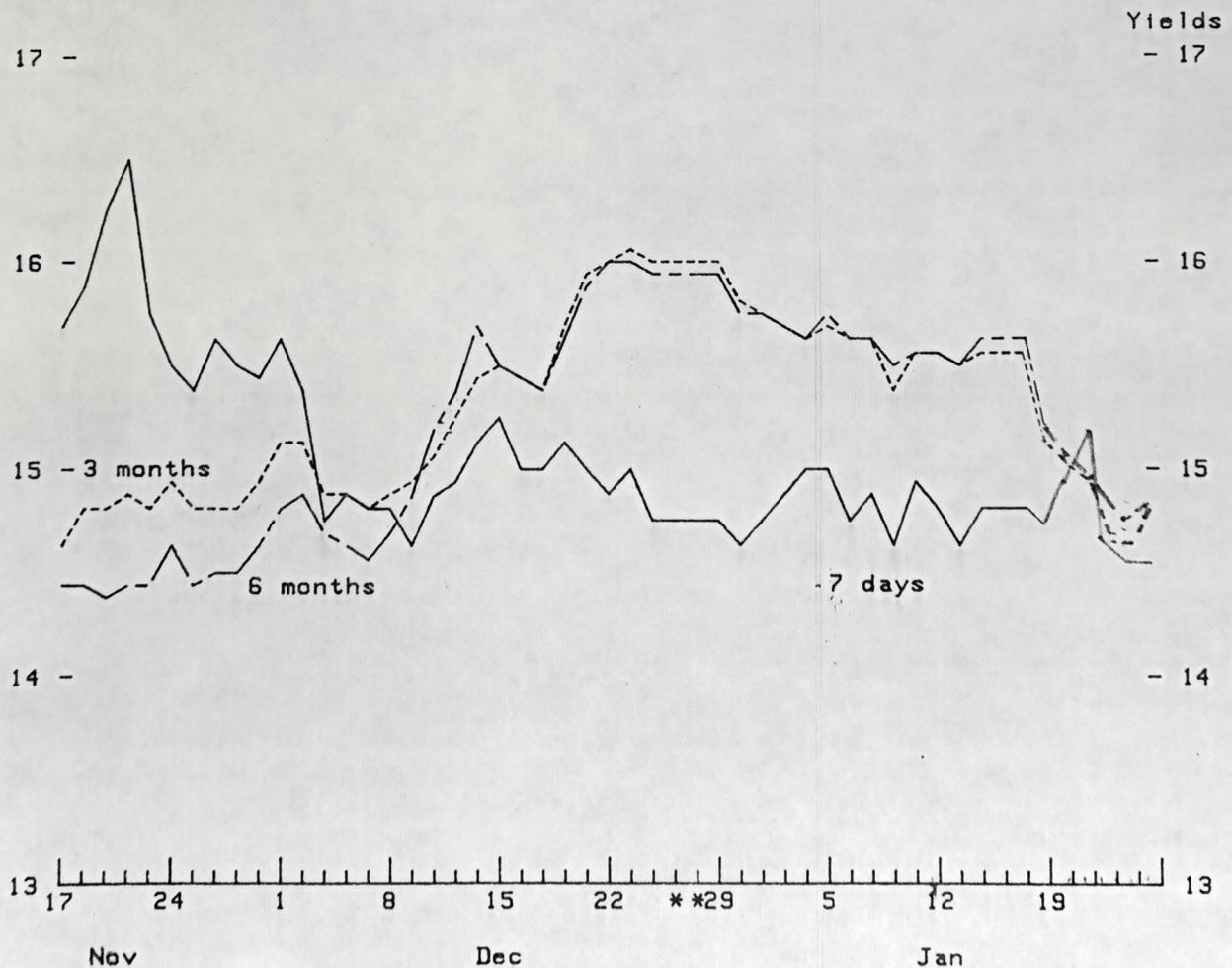
2. Redemption Yields (tax ignored)

		<u>19 January</u>	<u>26 January</u>	Change
12%	Treasury 1983	15.12	14.99	-0.13
15%	Treasury 1985	15.53	15.42	-0.11
12%	Treasury 1987	15.93	15.78	-0.15
11 3/4%	Treasury 1991	15.98	15.92	-0.06
13 1/2%	Treasury 1994	16.02	15.89	-0.13
2%	Index-Linked			
	Treasury 1996	3.12	3.29	+0.17
12 1/4%	Exchequer 1999	15.53	15.41	-0.12
14%	Treasury 1998/01	15.73	15.59	-0.14
12%	Exchequer 2013/17	14.54	14.45	-0.09
3 1/2%	War Loan (Flat Yield)	13.14	13.17	+0.03

Gilt edged yields [F.T. High coupon]



Interbank rates



* Bank Holiday

SECRET

£ millions

NEW ISSUES

	Equities	Convertible loan stock	Other loan stock*	
			Domestic borrowers	Foreign borrowers
TOTAL QUEUE ⁶	657	=	112	150
Of which issues of 10 or more:				
Current week (27/1-29/1)				
Week 2 (1/2-5/2)			Barclays Bank Ltd (offer for sale) (2/2) 100	
Week 3 (8/2-12/2)	Hunting Petroleum Services plc (rights) (9/2) 13 Amersham International (offer for sale by Atomic Energy Authority) (11/2) 50			
Week 4 (15/2-19/2)				
Week 5 (22/2-26/2)				Trans-Canada Pipeline (22/2) 50
Week 6 (1/3-5/3)	The Throgmorton Finsbury Trust PLC (offer for sale) (1/3) 13 Ultramar Company Ltd (rights) (3/3) 100			EIB (offer for sale) (8/3?) 100
Week 7 (8/3-12/3)	The Bowater Corporation Ltd (rights) (10/3) 80			

Forthcoming

Cement-Roadstone Holdings Ltd (rights)	
(15/3)	30
Norsk Data AS** (offer for sale)	
(17/3)	10
Drayton Montagu Japan Trust (offer for sale)	
(23/3)	15
Vickers Ltd (rights)	
(24/3)	35
Burnett & Hallamshire Holdings Ltd (rights)	
(13/4)	20
Coloroll Ltd (offer for sale)	
(14/4)	15
British Transport Docks Board (offer for sale)	
(24/5-4/6?)	50
Gas & Oil Acreage Ltd (rights)	
(9/6)	13
Powell Duffryn Ltd (rights)	
(23/6)	20
Superdrug Stores Ltd (offer for sale)	
(9/7)	10
Dowty Group Ltd (rights)	
(20/7)	50
Lloyds Bank Ltd (rights)	
(27/7)	100

Memorandum

		Equities	Loan Stock*
Issues announced:†	1979	946	162
	1980	1,066	364
	1981	1,835	626
	1982 to date	81	3
Issues completed:†	1979	979	150
(ie gross amounts	1980	945	358
of cash raised)	1981	1,720	561
	1982 to date	10	1

*Includes preference shares

†Includes issues of 3 or more

/Includes issues of less than 3

**Foreign borrower

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