

NOTE FOR WEDNESDAY MEETING

MARKETS: 27 JANUARY TO 2 FEBRUARY 1982

MONEY

Conditions in the money market were easier this week although there was still a shortage each day, and those around the weekend were substantial. The Exchequer position was never very strongly adverse and, indeed, on Friday was markedly favourable, but commercial bill maturities, an unwinding repurchase agreement and the customary rise in the note circulation, all contributed to the largest shortage of the week. Monday, too, saw a large volume of bills maturing and on this day the Exchequer position was at its most unfavourable making the shortage again quite sizeable. The only other notable factor affecting the market's cash position in the week was payment on Thursday for the new issue of index-linked stock.

The Bank provided assistance each day by the outright purchase of bills.

In the interbank market the week began on a relaxed note with rates showing a marked easing. Thursday saw some reaction, however, and rates opened slightly firmer. A small reduction in one of the rates at which the Bank bought bills on Friday was reflected in longer interbank rates but the sharp rise in eurodollar rates following the disappointing US money supply figures prevented any further easing when the Bank's action (in 3 bands) was repeated on Monday. Increases in US prime rates overnight on Monday and on Tuesday substantiated the eurodollar rises but had only a small effect on interbank rates as sterling showed a strong performance on the foreign exchanges. The 3 month rate closed at 14 5/8%, showing no net change over the week as a whole.

Eurosterling rates eased on Wednesday and then remained at around these levels until Monday when they moved up by a similar amount to domestic rates. The 3 month rate also ended at 14 5/8%.

At the Treasury bill tender on Friday the pro rata price was unchanged but the average rate of discount fell fractionally to 13.5122%.

LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by 1/8%. Issues amounted to £14mn (£18.3mn last week) against maturities of £17.75mn.

GILTS

The market continued to move ahead strongly prior to the weekend amid optimism about US interest rates and satisfaction with the real yield established at the IG tender. The latest disappointing US money supply figures provoked a sharp setback on Monday, however, and prices continued to decline on Tuesday before stabilising later in the day.

The market continued to benefit on Wednesday from the Federal Reserve Chairman's statement that there were no immediate plans to raise discount rate. On Thursday conditions were quiet ahead of the result of the tender for 2 1/2% Index-Linked Treasury Stock 2011 (IGIII). The announcement in the afternoon that all tenders had been allotted in full at a price of 90 (real yield of 3.05%), coinciding with the news that US bonds had opened better, caused prices to rise throughout the list. On the following day, further amounts of IGIII were supplied at prices of 35 1/2 and 35 3/4 (35-paid) along with other official sales (including some of the low coupon tap at 64 5/8). By the close, shorts were about 1/2 higher, with longs showing gains of up to 1 1/4; the FT Government Securities Index stood at 65.15, its highest level since August 1981.

Sentiment was transformed after the weekend by the news that US M1 had fallen back by only \$0.6bn in the previous week. Prices of gilts dropped sharply, reflecting Friday's late reaction in US bonds and fears of higher US interest rates which outweighed the

influence of a further reduction in the Bank's money market dealing rates; shorts ended $3/8 - 1/2$ lower with longs down by about $5/8$. Yesterday, the market opened sharply easier on the news that two US banks had raised prime rate from $15 3/4\%$ to $16 1/2\%$. Later in the day prices improved somewhat as the market took heart from the Bank's unchanged dealing rates, the stability of the exchange rate and the US bond market's opening recovery; at the close shorts were showing net losses of up to $3/8$ and longs up to $5/8$.

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

EQUITIES

As measured by the All-Share Index, prices reached an all-time high on Friday, before falling back on US developments. As with gilts, however, the market rallied during yesterday's trading.

Prices marked time on Wednesday and initially on Thursday before moving ahead in late trading after Wall Street's early upsurge. Confirmation that the Dow Jones Index had recorded its biggest rise since March 1981 encouraged early buying on Friday and although business quickly faded and prices eased back the FT 30-share Index retained a gain of 6 points by the close; the more broadly based All-Share Index ended at a new all-time peak of 320.10.

After the weekend, prices initially held up well on Monday in the face of the latest US money supply increase. But a downward tendency developed in the afternoon which gathered momentum when Wall Street opened sharply lower; by the close the 30-Share Index was down 7.8. Yesterday, the Index lost a further 11.8 points in early trading, but subsequent trading saw a steady recovery, given added impetus by Wall Street's early resilience, and the Index ended the day only 1.0 lower at 571.0, a rise of 2.1 over the week as a whole.

NEW ISSUES

Queue

No new issues of £10mn or more were added to the queue which now totals £927mn against £919mn last week.

(Init EAJG)
3 February 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

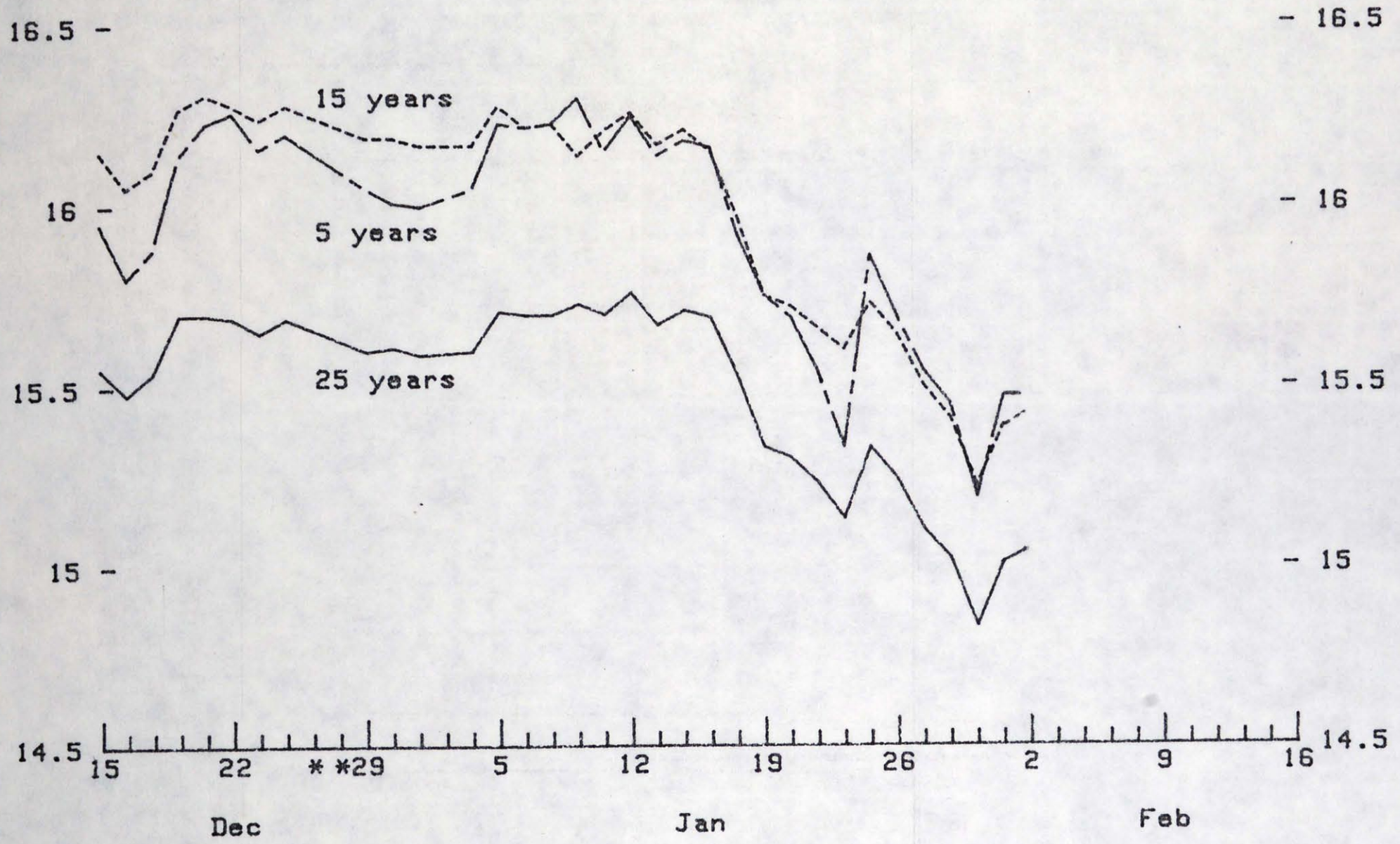
1. Transactions (cash value)

	27. 1.82 <u>- 2. 2.82</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	- 9	- 178	- 2,393	- 2,812
Other short-dated	<u>+ 7</u>	<u>+ 692</u>	<u>+ 2,940</u>	<u>+ 3,431</u>
	- 2	+ 514	+ 547	+ 619
Mediums	+ 53	+ 338	+ 2,758	+ 3,491
Longs and undated	<u>+ 95</u>	<u>+ 102</u>	<u>+ 3,350</u>	<u>+ 4,388</u>
Total Issue				
Department trans- actions	+ 146	+ 954	+ 6,655	+ 8,498
CRND	+ 39	+ 223	+ 499	+ 550
Redemptions	- 8	- 242	- 1,470	- 1,566
	<u>+</u>	<u>+</u>	<u>+</u>	<u>+</u>
	<u>177</u>	<u>935</u>	<u>5,684</u>	<u>7,482</u>

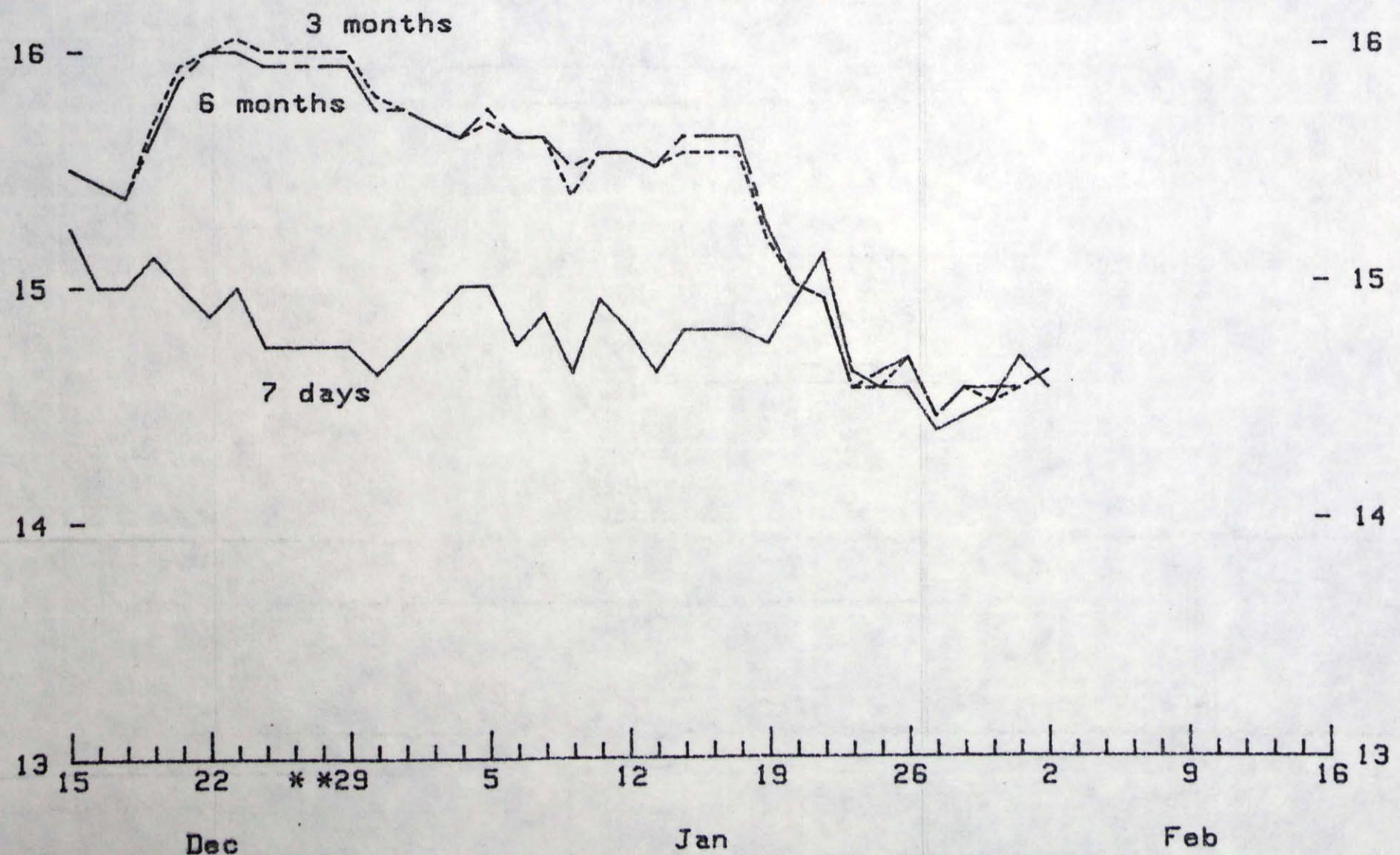
2. Redemption Yields (tax ignored)

	<u>26 January</u>	<u>2 February</u>	<u>Change</u>
12% Treasury 1983	14.99	15.04	+0.05
15% Treasury 1985	15.42	15.21	-0.21
12% Treasury 1987	15.78	15.79	+0.01
11 3/4% Treasury 1991	15.92	15.70	-0.22
13 1/2% Treasury 1994	15.89	15.69	-0.20
2% Index-Linked			
Treasury 1996	3.29	3.25	-0.04
12 1/4% Exchequer 1999	15.41	15.23	-0.18
14% Treasury 1998/01	15.59	15.40	-0.19
12% Exchequer 2013/17	14.45	14.25	-0.20
3 1/2% War Loan (Flat Yield)	13.17	13.02	-0.15

Gilt edged yields [F.T. High coupon]
17 -



Interbank rates
17 -



* Bank Holiday

NEW ISSUESOther loan stock*

	<u>Equities</u>	<u>Convertible loan stock</u>	<u>Domestic borrowers</u>	<u>Foreign borrowers</u>
TOTAL QUEUE ^o	<u>658</u>	=	<u>119</u>	<u>150</u>
Of which issues of 10 or more:				
Current week (3/2-5/2)			Barclays Bank Ltd (placing) (3/2?) 100	
Week 2 (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 3 (15/2-19/2)				
Week 4 (22/2-26/2)				Trans-Canada Pipeline (22/2) 50
Week 5 (1/3-5/3)	The Throgmorton Finsbury Trust PLC (offer for sale) (1/3) 13 Ultramar Company Ltd (rights) (3/3) 100			
Week 6 (8/3-12/3)	The Bowater Corporation Ltd (rights) (10/3) 80			

SECRET

Week 7 (15/3-19-3)	Cement-Roadstone Holdings Ltd (rights) (15/3) 30		EIB (offer for sale) (late March) 100
	Norsk Data AS** (offer for sale) (17/3) 10		
Forthcoming	Drayton Montagu Japan Trust (offer for sale) (23/3) 15		
	Vickers Ltd (rights) (24/3) 35		
	Burnett & Hallamshire Holdings Ltd (rights) (31/3) 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

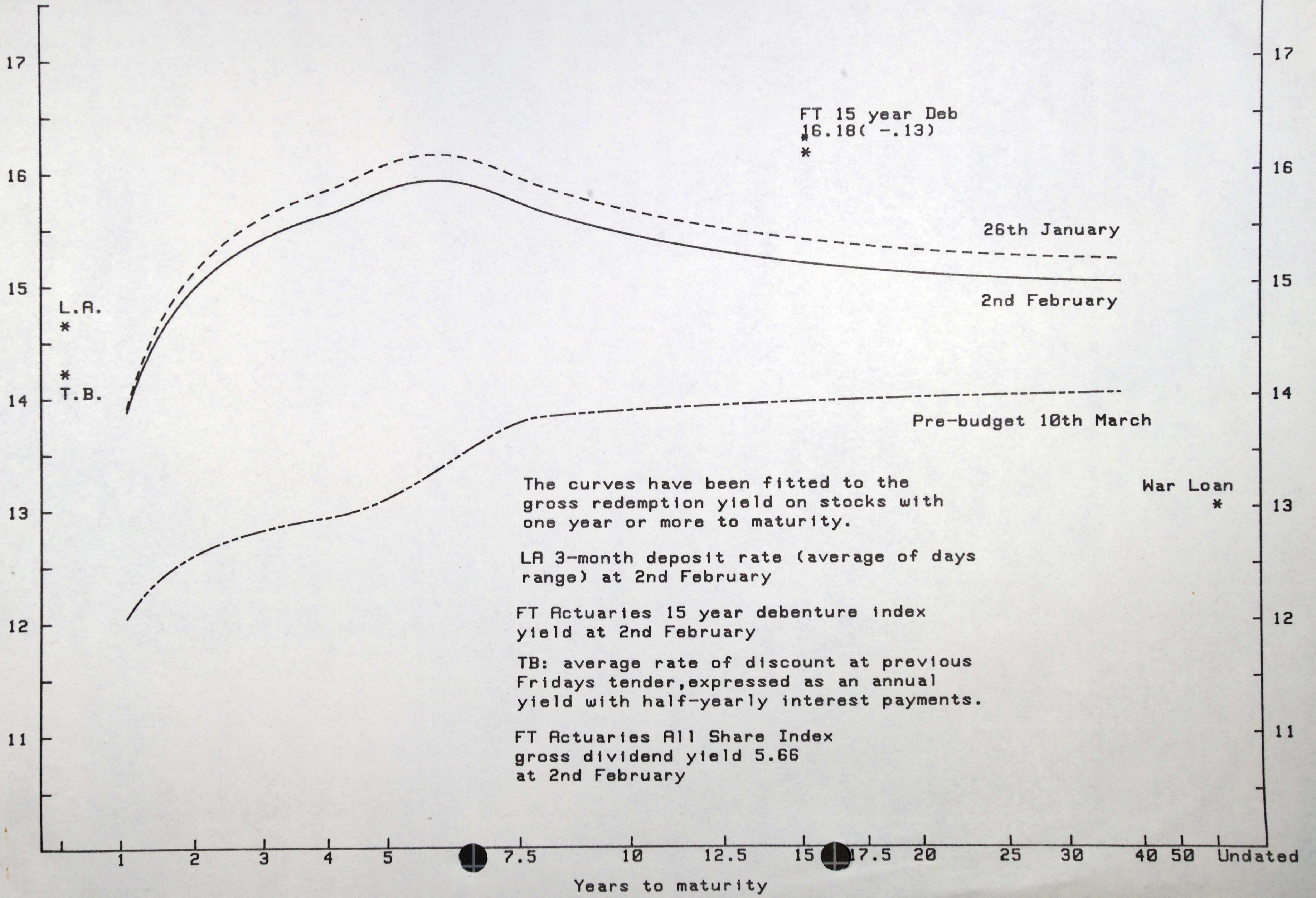
		<u>Equities</u>	<u>Loan Stock*</u>
Issues announced: †	1979	946	162
	1980	1,066	364
	1981	1,835	626
	1982 to date	136	3
Issues completed: † (ie gross amounts of cash raised)	1979	979	150
	1980	945	358
	1981	1,720	561
	1982 to date	57	1

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

3 February 1982

Per cent Time / Yield Curves of British Government Stocks

3rd February 1982



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 2nd February

FT Actuaries 15 year debenture index yield at 2nd February

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 5.66 at 2nd February