SECRET 24. 2.82

NOTE FOR WEDNESDAY MEETING

MARKETS: 17 FEBRUARY - 23 FEBRUARY 1982

MONEY

The markets were extremely short this week but over half of the shortage (about £1.5 bn) resulted from the payover of funds from the offer for sale of Amersham International on Thursday, which was heavily oversubscribed. Most of these funds will return to the market on Thursday 25 February as unsuccessful applicants are repaid.

The week began on an easy note with only a small shortage in the market but on Thursday over £800 mn of Amersham funds were paid over to the Exchequer causing the shortage that day to top £1.1 bn. Funds received from this source on subsequent days were less although still quite sizeable, particularly on Monday. Apart from Amersham, commercial bill maturities were the other most common feature draining funds from the market but payment for heavy gilt sales also contributed after the weekend. The underlying Exchequer position was usually only mildly adverse and on Monday was strongly favourable so that the overall shortage on that day was smaller, at £450 mn, than on any day except Wednesday.

The Bank provided assistance every day by the outright purchase of bills. In addition funds were lent to the discount market on Thursday and Monday and on Tuesday bills were bought on a repurchase basis. Both the lending and the repurchase agreement are due to mature on 25 February. To help banks cope with the short-term liquidity drain due to Amersham the Bank announced on Thursday that it was reducing for a week the minimum level of secured deposits which eligible banks are required to hold with the discount market, from 4% to 3% of eligible liabilities.

Period interbank rates were steady on Wednesday and Thursday although very short rates firmed on Thursday in response to the extreme shortage. On Friday a much more bullish tone emerged and all rates eased as eurodollar rates moved downwards. Following

Following the announcement of a large fall in the weekly statistics of US money supply the downward movement continued on Monday in period interbank rates, which fell about 1/4, although short rates remained firm. The Bank reduced its dealing rates on Monday by up to 1/4 in the longer bands but only 1/16 in bands 1 and 2. On Tuesday period rates eased a little further and the Bank reduced its dealing rate in band 2 by another 1/16. Over the week as a whole the 7 day rate rose 5/16 to close at 14 5/8% while the 3 month rate fell 9/16 to 14 1/8%.

Eurosterling rates followed other interest rates in falling over the week as a whole with the main falls occuring after the weekend. The 3 month rate ended 1/2 down at 14 3/16%.

At the Treasury bill tender on Friday the houses bid competitively and two houses received all the bills on offer. The average rate of discount reflected the more bullish sentiment in the market on Friday and the competitive bidding by falling 0.17 to 13.6173%.

LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by 1/2% to 14%. Issues amounted to £11.75 (£13 mn last week) against maturities of 11.25.

GILTS

Conditions became very firm after the weekend following the reduction in US money supply. Substantial amounts of stock were sold, leading to the exhaustion of two taps. Yesterday, however, saw the market run out of steam.

Encouraged by Wall Street's overnight recovery the market was able to shrug off a further rise in US prime rates (to 17%) on Wednesday. With stock at the long end in short supply, prices in that section ended up to 1 1/8 higher. Further gains were made on Thursday, though trading remained thin. More substantial demand emerged on Friday in the wake of a firm US bond market: a large amount of the short tap, 13 1/4% Exchequer 1987 "A" was sold at 20 1/8-1/4 (20-paid) along with various other stocks including some of the low coupon tap, 3% Treasury 1987, and a small amount of IG3. By the close, shorts were up to 7/16 higher with longs showing gains of up to 1.

Further enthusiasm was generated after the weekend by the fall in US M_1 and by the cut in the Bank's bill rates on Monday. After earlier bids had been refused, the short tap was exhausted at 21; and further large amounts of the low coupon tap were sold at 64 7/8. Shorts ended generally up to 1 higher, while longs, which remained in short supply, recorded gains of up to 2. The FT Government Securities Index rose by 0.95 to 67.14, the largest one day rise since 15 June 1981. Yesterday, the market as a whole failed to maintain this momentum although it was possible to exhaust the remaining supplies of the low coupon tap (at a price of 65) and to sell a further small amount of IG3; prices generally tended to drift lower and ended about 3/16-3/8 down in all sections.

Over the week as a whole, prices of shorts rose by about 1 3/4-2 1/4 (to yield 14 5/8-14 7/8% on five year maturities) and those on longs by about 4 (to yield 14 1/4-14 1/2% on 20-year maturities).

EQUITIES

The market lagged behind gilts partly reflecting the drain of cash caused by the Amersham oversubscription, but also the restraining influence of US equities.

The market rallied on Wednesday on the back of Wall Street, but trading was dull the following day reflecting the weight of funds reserved for the Amersham issue. In the event, around £1.75 bn was received for the £71 mn on offer, making the issue about 24 times oversubscribed. The market generally remained dull on Friday, though one bright spot was provided by the good results from Lloyds, the first of the clearers to report; the shares rose by 16p on the day with the other clearers also moving up in sympathy.

After the weekend, the mood remained restrained although some encouragement was taken from the buoyancy of gilts on Monday and from Wall Street's early recovery from its previous three days of dull trading. However, following the overnight reversal in US equities which had taken the Dow Jones Index to its lowest since May 1980 and with the market cautious ahead of ICI's preliminary results due tomorrow, prices fell back yesterday and the FT 30-Share Index ended 9.2 lower at 559.0, a rise of 1.8 over the week as a whole. The more broadly based 500-Share Index (including industrials and oils) rose by 0.96 to 342.75. Better than expected results from Nat West enabled the shares to stage a partial recovery yesterday after earlier profit-taking.

NEW ISSUES

Queue

Only one issue was added to the queue this week: a £40 mn rights issue for Redland Ltd. The queue now totals £1,003 mn against £1,049 last week.

Trans Canada Pipelines yesterday announced a £25 mn 25-year bulldog issue, which will be priced to yield 2.5 points over 13 1/2% Treasury 2004/08. There are some signs of a revival of interest in the market by some major overseas borrowers. Apart from EIB which has been a long standing candidate for an issue of £100 mn, possible candidates include the IBRD (which has already made one issue), Australia and New Zealand. Among domestic borrowers, Midland may wish to follow Barclays with an issue of loan stock.

24 February 1982

(Init EAJG)

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

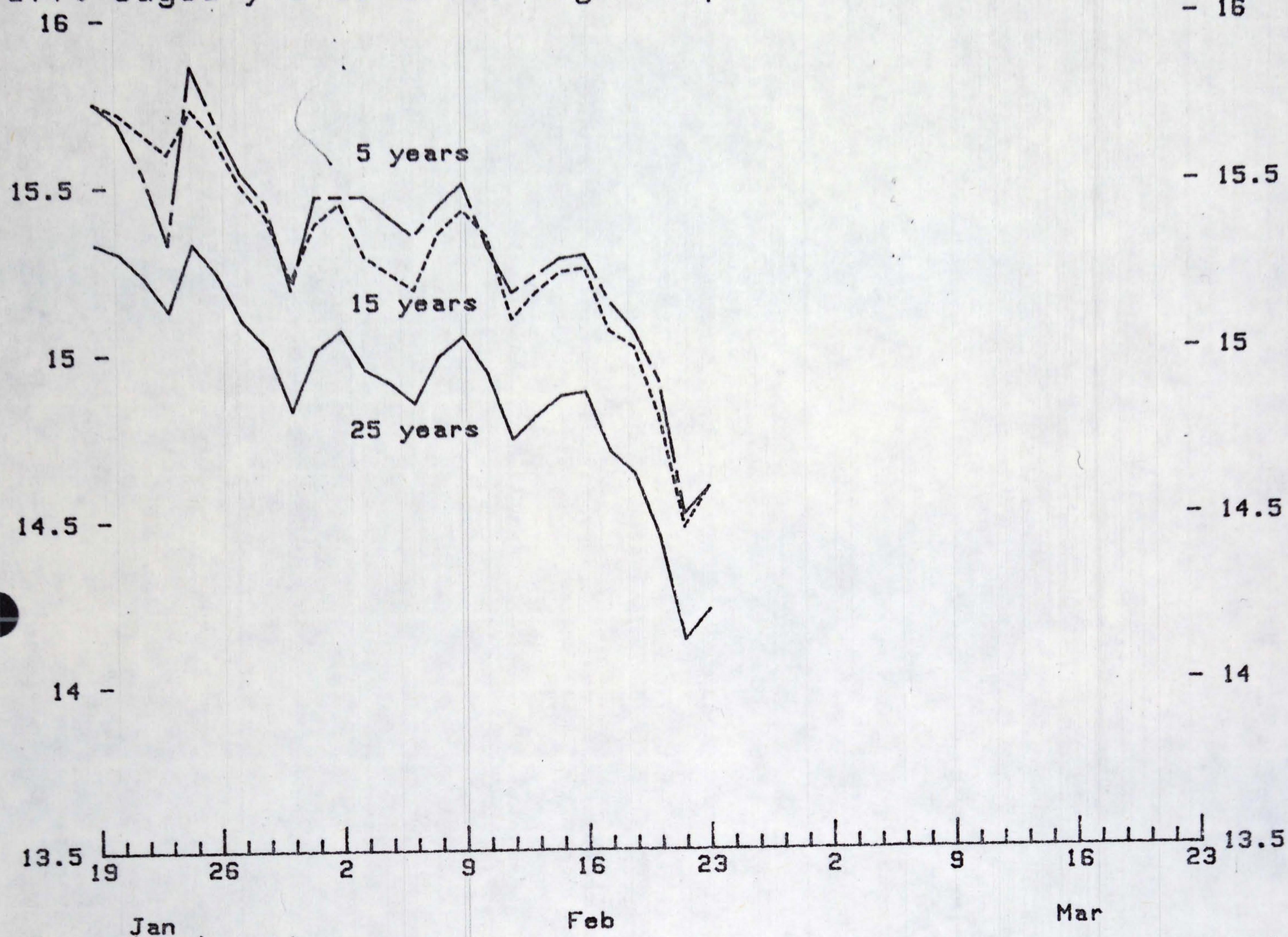
1. Transactions (cash value)

	16. 2.82 -23. 2.82	Cal Qtr to date	Fin Year to date	18.2.81 to date
Issue Department Purchases/sales				
Next Maturities	- 4	- 252	- 2,467	- 2,887
Other short-dated	+ 83	+ 785	+ 3,033	+ 3,524
	+ 79	+ 533	+ 566	+ 637
Mediums	+ 235	+ 583	+ 3,003	+ 3,738
Longs and undated	- 12	+ 94	+ 3,342	+ 4,380
Total Issue Department transactions	+ 302	+ 1,210	+ 6,911	+ 8,755
CRND	+ 51	+ 303	+ 579	+ 629
Redemptions	- 64	- 482	- 1,710	- 1,805
	+ 289	+ 1,031	+ 5,780	+ 7,579

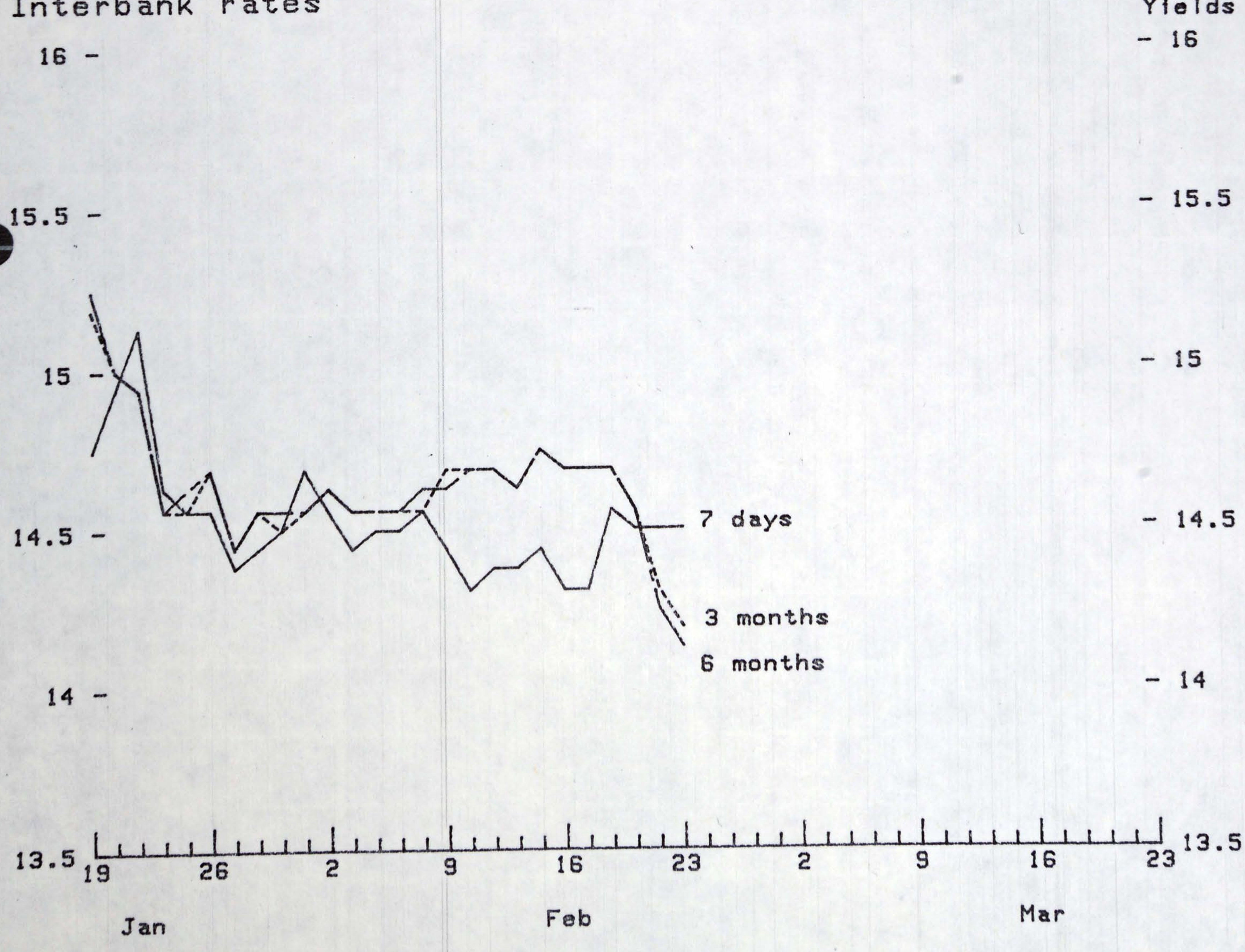
2. Redemption Yields (tax ignored)

		16 February	23 February	Change
12%	Treasury 1983	14.10	13.60	-0.50
15%	Treasury 1985	14.88	14.17	-0.71
12%	Treasury 1987	15.46	14.88	-0.58
11 3/4%	Treasury 1991	15.48	14.77	-0.71
13 1/2%	Treasury 1994	15.49	14.83	-0.66
2%	Index-Linked Treasury 1996	3.30	3.30	-
12 1/4%	Exchequer 1999	15.05	14.35	-0.70
14%	Treasury 1998/01	15.21	14.56	-0.65
12%	Exchequer 2013/17	14.06	13.48	-0.58
3 1/2%	War Loan (Flat Yield)	12.91	12.42	-0.49

Gilt edged yields [F.T. High coupon]



Interbank rates



SECRET

£ millions

NEW ISSUES

	Equities	Convertible loan stock	Other loan stock* Domestic borrowers	Other loan stock* Foreign borrowers
TOTAL QUEUE∅	889	-	14	100
Of which issues of 10 or more:				
Current week (24/2-26/2)				
Week 2 (1/3-5/3)	Ultramar Company Ltd (rights) (3/3) 100			
Week 3 (8/3-12/3)	The Bowater Corporation Ltd (rights) (11/3) 80			
Week 4 (15/3-19/3)	Cement-Roadstone Holdings Ltd (rights) (15/3) 30 Norsk Data AS** (offer for sale) (17/3) 10			EIB (offer for sale) (late March) 100
Week 5 (22/3-26/3)	Queens Moat Houses Ltd (rights) (22/3) 20 Vickers Ltd (rights) (24/3) 35 American Oil Field Systems (offer for sale?) (25/3) 12			
Week 6 (29/3-2/4)	Redland Ltd (rights) (30/3) 40 Burnett & Hallamshire Holdings Ltd (rights) (31/3) 20			
Week 7 (5/4-8/4)	The Hammerson Property & Investment Trust Ltd (rights) (6/4) 70			

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Forthcoming	Coloroll Ltd (offer for sale) (14/4) 15		The South Staffordshire Waterworks Co (offer for sale) (14/7) 10
	Carless Capel & Leonard Ltd (rights) (21/4) 15		
	Argyll Foods Ltd (offer for sale?) (6/5) 80		
	Marinex Petroleum (rights) (18/5) 15		
	BSR Ltd (rights) (19/5) 20		
	Hill Samuel Group Ltd (rights) (10/6) 15		
	Powell Duffryn Ltd (rights) (23/6) 20		
	Aberdeen American Petroleum Co Ltd (offer for sale) (24/6) 20		
	British Transport Docks Board (offer for sale) (28/6-7/7?) 50		
	Gas & Oil Acreage Ltd (rights) (8/7) 12		
	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	157	116
Issues completed:≠ (ie gross amounts of cash raised)	1979	979	150
	1980	945	358
	1981	1,720	561
	1982 to date	162	26

*Includes preference shares
ØIncludes issues of 3 or more
≠Includes issues of less than 3
**Foreign borrower

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Time / Yield Curves of British Government Stocks

24th February 1982