

## NOTE FOR WEDNESDAY MEETING

MARKETS: 10 MARCH TO 16 MARCH 1982

## MONEY

Very tight conditions continued in the market this week; only Thursday showed a shortage of less than £500 mn and twice the daily shortage exceeded £800 mn. The unwinding of earlier assistance, chiefly in the form of maturing bills, accounted for nearly two-thirds of the week's shortage, the other main factor being an adverse Exchequer position. Movements in the note circulation had their customary effect around the weekend and other notable factors affecting the market's cash position were the redemption of 14% Treasury 1982 and the call on 2 1/2% Index-Linked Treasury 2011 which largely offset each other on Tuesday.

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

The week began in the interbank market with strong expectations of an imminent cut in clearing banks' base rates but no announcement was made on Wednesday. Reflecting market rates, the Bank lowered its dealing rates in all bands by between 3/8 and 7/8, with the larger reductions occurring in the longer bands. On Thursday the anticipated announcements were made of cuts in base rates of 1/2, to 13% but as this had already been discounted, market rates moved very little. From Friday a distinct firming was evident in all interbank rates, partly a reflection of a rising trend in eurodollar rates but the prospect of continuing large cash shortages and their effect on banks' liquidity was also a factor. The three month rate rose 1/4 over the week to close at 13 5/8%.

Eurosterling rates were quite steady over most of the week although a firm tone developed at the end. The three month rate closed at 13 11/16%, up about 7/16 over the week.

At the Treasury bill tender on Friday the average rate of discount fell 0.0322 to 12.4650%.

#### LOCAL AUTHORITY BORROWING

The rate for one year bonds rose by 1/8% to 13 3/8%. Issues amounted to £11.35 mn (£14.55 mn last week) against maturities of £11.2 mn.

#### GILTS

The market gave an enthusiastic reception to the Budget although it has since eased back from the best levels. The main feature has been the very sharp rise in the price of the indexed stocks following derestriction.

The market spent Wednesday adjusting to the announcements about indexed stocks in the Budget and to the other Budget news. The existing indexed stocks opened up to 10 points higher and closed with net gains of 7-9 points, having traded actively. Among conventional stocks, long-dated maturities quickly established rises of 2 - 2 1/4 and after further improvement closed slightly off the best; shorts ended 7/8 - 1 1/4 better. Against the general trend, low coupon stocks suffered from the announcement of the 1988 indexed stock and lost up to 1 1/2. At the close, the issue of £100 mn tranches of each of five existing stocks (ranging in maturity from 1992 to 1996) was announced.

The market opened slightly easier on Thursday, but the long end improved during the morning, helped by the cuts in base rate, to show gains of 3/4 on balance. Continued support for the indexed stocks saw the prices rise by a further 1 1/2 - 2 1/2 points. This demand continued on Friday with further gains of 1 1/2 - 3 1/2 points, although conventional stocks turned easier on profit-taking and apprehension about the US money figures.

In the event, the conventional market made a firm showing on Monday despite the latest rise in US M1. Indexed stocks also started firm, but then ran into scattered selling and closed showing little change on the day.

Yesterday prices eased back in quiet trading. The indexed stocks continued to see some selling and closed up to 1 point lower.

Over the week as a whole, prices of shorts rose by  $1/2 - 1\ 1/4$  (to yield around 14% on five-year maturities), while those on longs rose by  $2\ 1/2 - 3$  (to yield around  $13\ 3/4$  on 20-year maturities).

Prices of the three IGs rose by 10-12 points (net) over the week to give yields ranging from 2.50% (IG 1996) to 2.42% (IG 2011).

#### EQUITIES

Reaction to the Budget has been muted and apart from a burst of interest on Thursday, trading has been dull and prices have drifted lower.

The initial better tone following the Budget speech was not maintained on Wednesday and prices reacted to leave the FT 30-Share Index slightly lower on the day. Building, brewery and tobacco shares reacted favourably to the Budget measures, while clearing bank shares fell back.

On the following day, the market was encouraged by the cuts in base rate and the Index ended 8.4 points higher. But Friday saw no follow-through and prices drifted lower on the final day of the account.

Trading remained dull after the weekend reflecting the mood on Wall Street on Friday, diminishing hopes of a further early cut in interest rates and the placing of large lines of stock by an investment trust. The main feature was BP's results which, though down 25% to £1.1 bn, were within the market's range of expectations.

Yesterday, the market continued to drift lower and the 30-Share Index ended 3.4 lower at 562.4, a rise of 1.6 over the week as a whole. The more broadly based 500-Share Index ended at 342.55 (0.02 up over the week).

## NEW ISSUES

## Queue

Two new rights issues were added to the queue this week. These included an £80 mn rights issue which was previously in the queue and dropped out at the beginning of March. The queue now totals £1,380 mn against £1,286 mn last week.

In the euro-sterling market, the Province of Quebec is making a £30 mn five-year issue with a coupon of 15 1/2%. A French state agency, Credit d'Equipement des Petites et Moyennes Entreprises is to make a placing of £50 mn of ten-year notes with two UK banks. The coupon will be 16%.

(init EAJG)  
17 March 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases - )

1. Transactions (cash value)

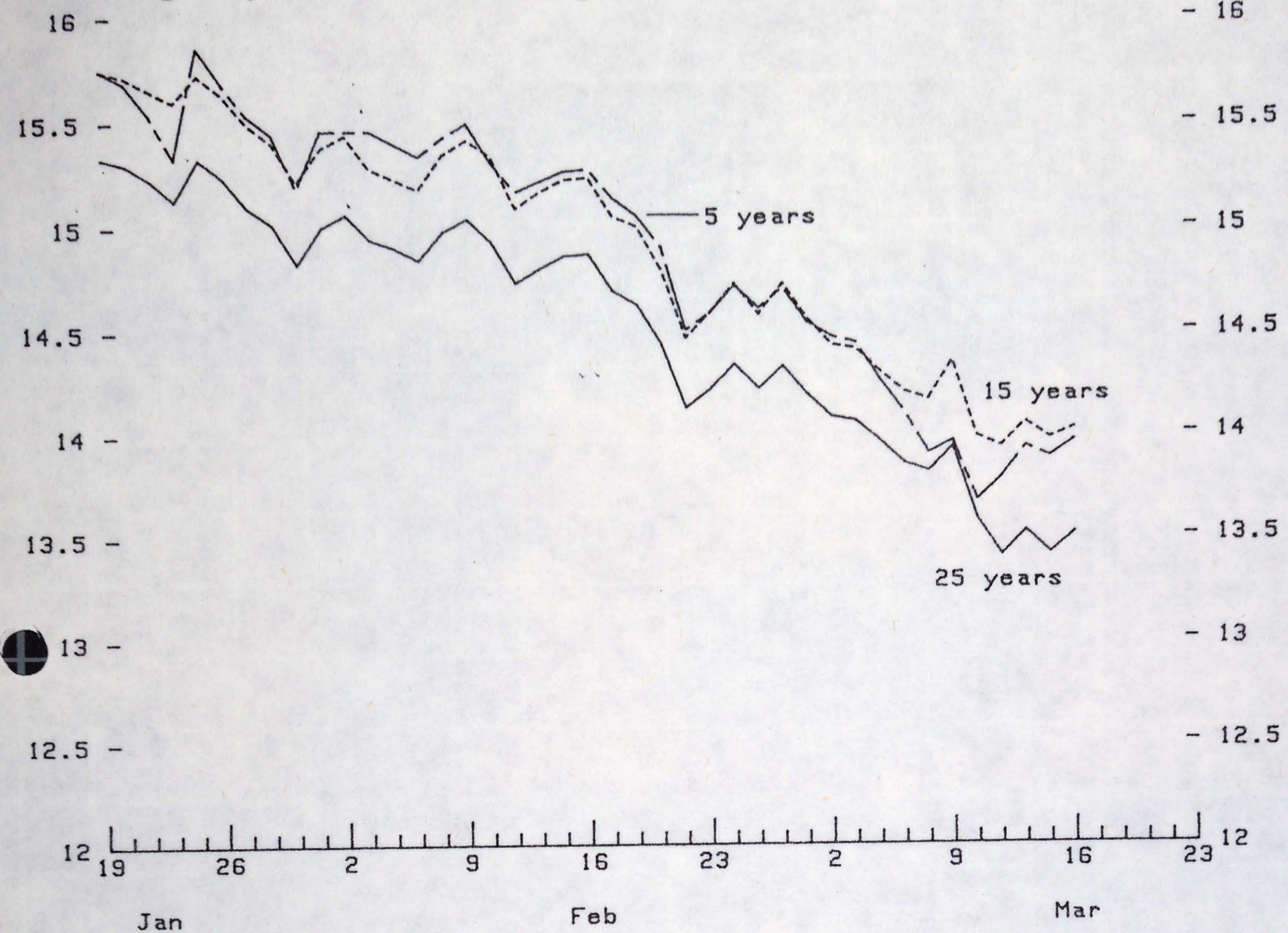
	10. 3.82 <u>-16. 3.82</u>	Cal Qtr to date	Fin Year to date	18.2.81 to date
Issue Department				
Purchases/sales				
Next Maturities	- 2	- 254	- 2,469	- 2,889
Other short-dated	- 28	+ 1,041	+ 3,290	+ 3,790
	- 30	+ 787	+ 821	+ 901
Mediums	- 18	+ 580	+ 2,999	+ 3,734
Longs and undated	+ 224*	+ 385	+ 3,633	+ 4,671
Total Issue				
Department trans- actions	+ 176	+ 1,752	+ 7,453	+ 9,297
CRND	-	+ 349	+ 626	+ 676
Redemptions	- 239Ø	- 768	- 1,997	- 2,092
	- 63	+ 1,333	+ 6,082	+ 7,881

\*Includes 264 in respect of call on 2 1/2% Index-Linked Treasury 2011  
ØRedemption of 14% Treasury 1982

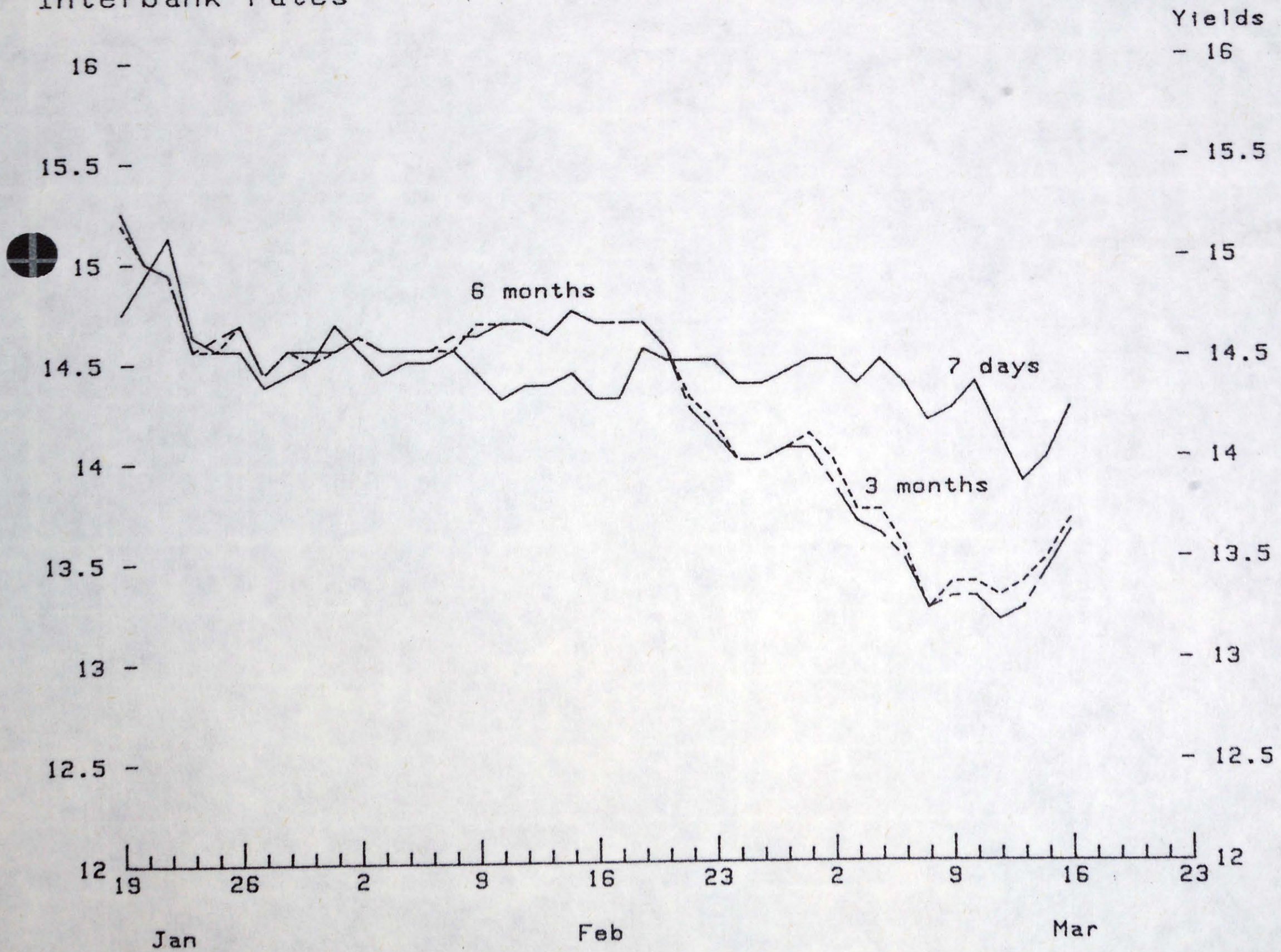
2. Redemption Yields (tax ignored)

	9 March	16 March	Change
12% Treasury 1983	13.02	13.38	+0.36
15% Treasury 1985	13.71	13.70	-0.01
12% Treasury 1987	14.28	14.00	-0.28
11 3/4% Treasury 1991	14.36	14.25	-0.11
13 1/2% Treasury 1994	14.46	14.24	-0.22
2% Index-Linked			
Treasury 1996	3.32	2.50	-0.82
12 1/4% Exchequer 1999	14.17	13.80	-0.37
14% Treasury 1998/01	14.33	13.95	-0.38
12% Exchequer 2013/17	13.29	12.96	-0.33
3 1/2% War Loan (Flat Yield)	12.16	12.13	-0.03

Gilt edged yields [F.T. High coupon]



Interbank rates



# Per cent Time / Yield Curves of British Government Stocks

17th March 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 16th March  
 FT Actuaries 15 year debenture index yield at 16th March  
 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 5.89 at 16th March

