

## NOTE FOR WEDNESDAY MEETING

MARKETS: 5 MAY TO 11 MAY 1982

## MONEY

Daily money conditions this week continued to show a general improvement although the shortages on the days around the weekend were still quite sizeable. The Exchequer position, which had been favourable to the market prior to the weekend, became adverse as quarterly VAT payments were made. The volume of bills maturing in official hands continued to decline but remained the major regular factor against the market.

The appearance of a surplus on Wednesday led the Bank to sell a small amount of Treasury bills. Outright purchases of bills were made on the other days and bills were also bought on Tuesday for later resale.

Period interbank rates showed falls this week (most marked on Thursday) as optimism about a speedy outcome to the Falklands conflict prevailed and with sterling firmer on the foreign exchanges. The three months rate closed at 13 1/16%, 7/16 down over the week. Shorter interbank rates saw quite sharp movements in both directions on Wednesday but were steady to slightly firmer thereafter. The seven day rate, which had been as low as 12 5/8% early on Wednesday, closed at 12 7/8%, a net fall of 1/8 over the week as a whole.

Eurosterling rates continued to follow domestic rates and the three month rate ended the week about 11/16 lower, at 13 1/16%.

At the Treasury bill tender on Friday the average rate of discount fell about 0.4 to 12.6180%.

## LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by 1/2% to 13 1/8%. Issues amounted to £21.25mn (£22.4mn last week) against maturities of £18.75mn.

## GILTS

Although trading remained generally thin, hopes of lower interest rates at home and in the US and the resilience of sterling helped to counteract the continuing uncertainties caused by the Falklands crisis.

The market traded nervously on Wednesday following the news of the British losses in the South Atlantic but the fall in prices was restricted to about  $3/8$  in shorts and  $1/2$  in longs.

The following day saw a sharp revival, however, on hopes of an early diplomatic settlement to the dispute and despite some profit-taking shorts and longs retained gains of up to  $3/4$  and  $1\ 1/4$  respectively at the close. Modest official sales of stock were made.

On Friday the overnight firmness of the US bond market following the budget compromise with the Senate, the result of the local elections and the easing of domestic interest rates helped counter disappointment at the lack of progress in the Falklands negotiations; prices edged higher in extremely quiet trading.

After the weekend, the market opened better on Monday with hopes of lower US interest rates further encouraged by the fall in the latest US  $M_1$  figure. In the continuing thin conditions there was sufficient buying to send prices up to 1 point higher at the long end; and it was possible to make further official sales of stock. The FT Government Securities Index ended at 69.01, not far short of its 1982 peak (69.55) on 23 March.

Yesterday, prices eased back slightly in quiet trading with the April banking figures having little impact. The indexed stocks (apart from IG 1988) saw some selling with IG 1996 showing the largest fall of  $7/8$ .

Over the week as a whole, yields on shorts fell by  $1/4$ - $5/16\%$  (to about  $13\ 3/4\%$  on 5-year maturities) and those on longs by  $3/16$ - $1/4\%$  (to about  $13\ 1/2$ - $13\ 7/8\%$  on 20-year maturities). Yields on the indexed stocks (other than IG 1988) rose slightly and now range from 2.76% (IG 1988) to 3.18% (IG 1996).

## EQUITIES

As with gilts, market fundamentals (in particular hopes of lower interest rates) encouraged continued improvement despite the Falklands crisis, although prices eased back yesterday.

Prices were marked down sharply on Wednesday following the latest news from the Falklands. Hopes of a settlement more than reversed these losses at Thursday's opening when the FT 30-Share Index regained 12.9 points. Thereafter prices drifted lower in extremely thin conditions to leave the 30-Share Index only 1.5 higher, but the more broadly-based 500-Share Index ended at 361.78, a new record high. Further improvement occurred on Friday with most trading interest concentrated in defence stocks (notably GEC, Plessey and Ferranti).

After the weekend, the more optimistic outlook for interest rates continued to encourage further progress and the 30-Share Index moved to a new 1982 high of 590.5 (only 6.8 off the record established at end-April 1981). Yesterday, however, the market ran out of steam and the 30-Share Index fell back by 5.4 to 585.1, a net rise of only 0.9 over the week as a whole. The 500-Share Index finished at 365.83 (up 4.77 over the week).

## NEW ISSUES

## Queue

Two equity issues of £10mn were added to the queue along with a bulldog issue of £100mn for New Zealand and the return of Midland Bank's £100mn placing of unsecured loan stock (previously cancelled). Partly offsetting these additions was the announcement of Argyll Foods' offer for sale of at least £80mn in connection with the Allied Suppliers takeover (an offer for sale of £100mn for Allied planned for mid-June is still in the queue - apparently this is a fall-back if the OFT turn down the merger).

The queue now totals £1,351 mn against £1,216mn last week.

(Init GMG)

12 May 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases - )

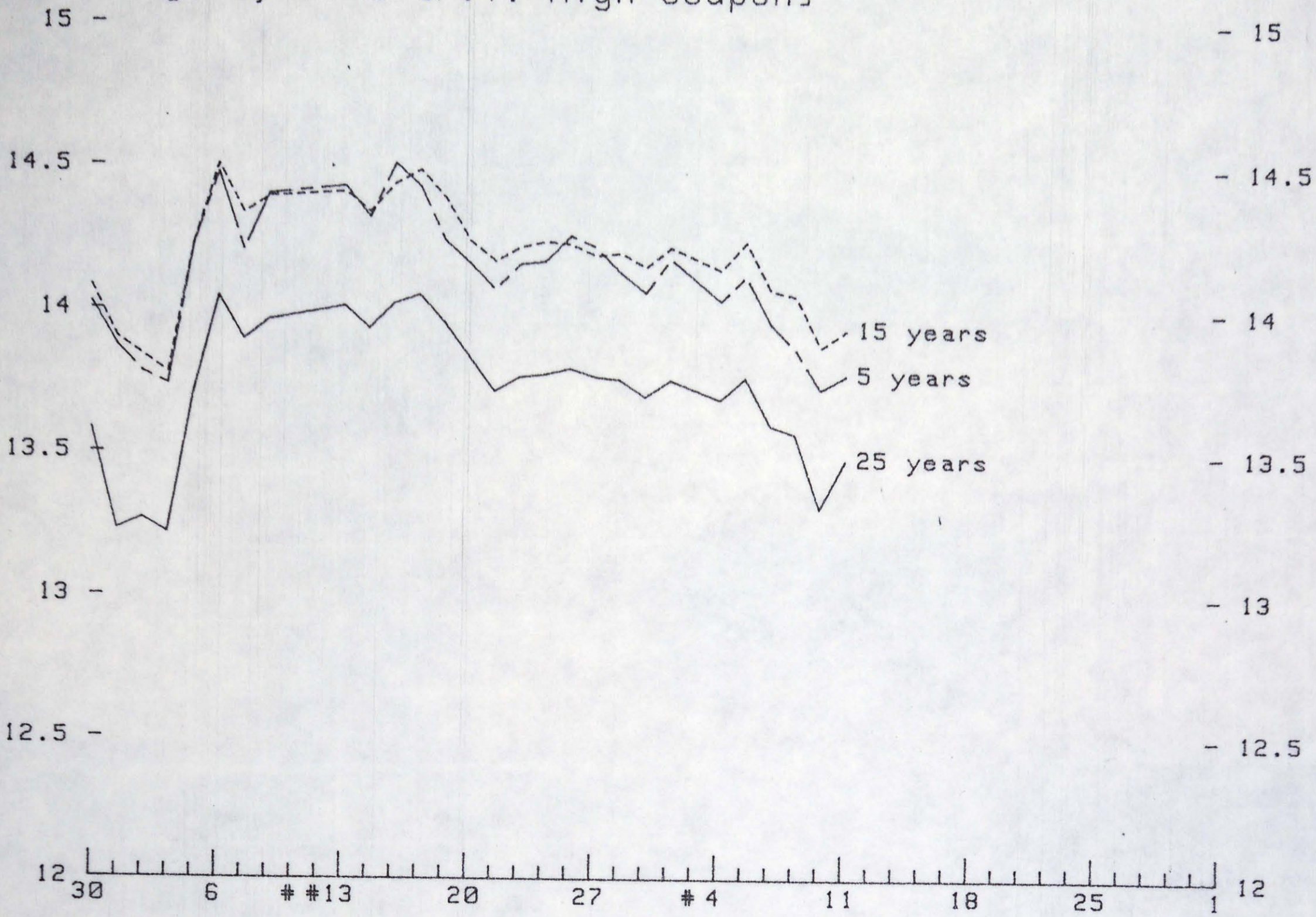
1. Transactions (cash value)

	5. 5.82 <u>-11. 5.82</u>	Cal Qtr and Fin Year to date	17. 2.82 <u>to date</u>
Issue Department			
Purchases/sales			
Next Maturities	- 14	- 127	- 314
Other short-dated	+ 37	+ 19	+ 377
	+ 23	- 108	+ 63
Mediums	+ 10	+ 481	+ 990
Longs and undated	+ 1	+ 15	+ 275
Total Issue			
Department trans- actions	+ 34	+ 388	+ 1,328
CRND	+ 41	+ 35	+ 130
Redemptions	-	-	- 353
	<u>+</u> 75	<u>+</u> 423	<u>+</u> 1,105

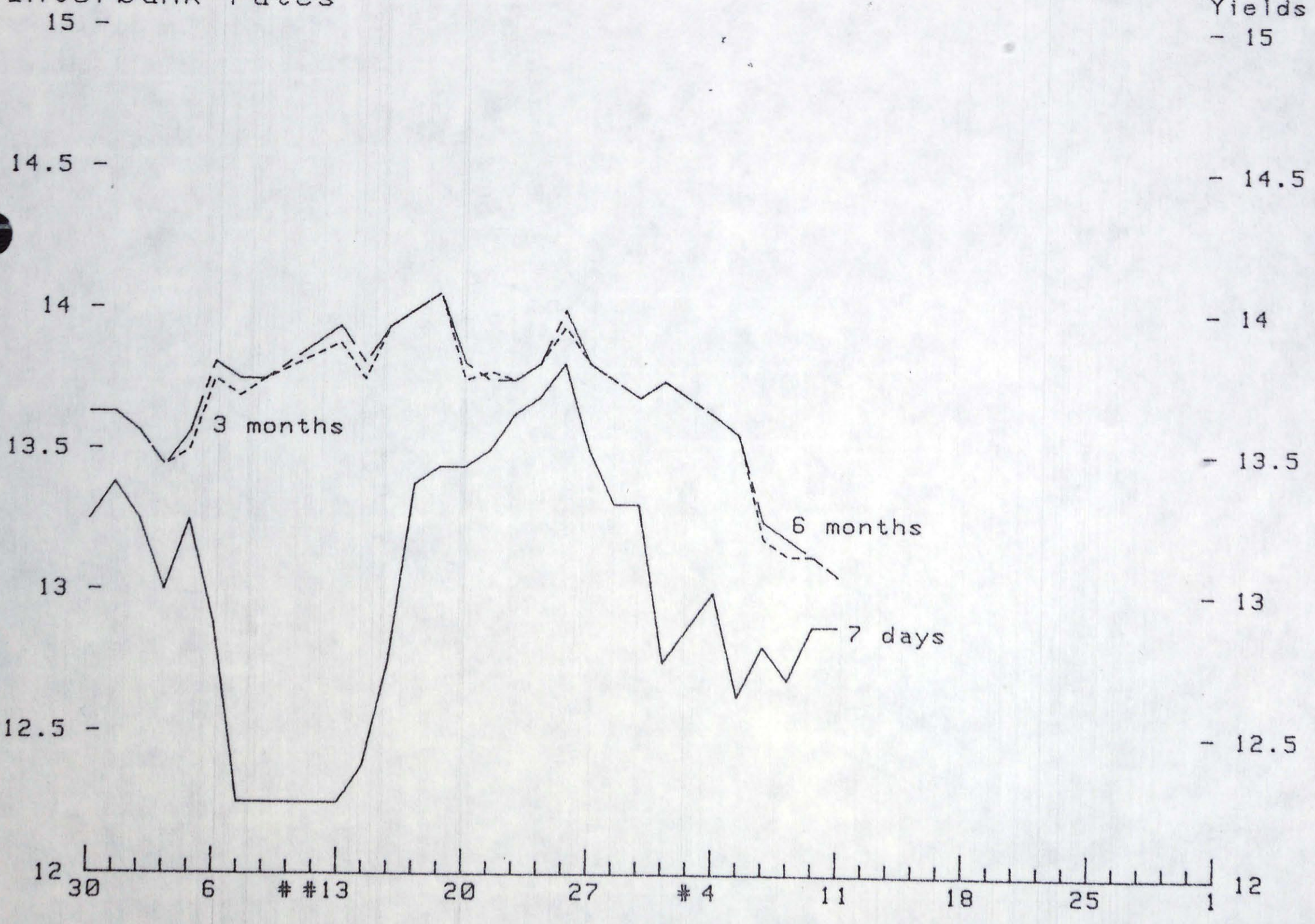
2. Redemption Yields (tax ignored)

	<u>4 May</u>	<u>11 May</u>	<u>Change</u>
12% Treasury 1983	13.53	12.99	-0.54
15% Treasury 1985	13.74	13.49	-0.25
12% Treasury 1987	14.08	13.79	-0.29
11 3/4% Treasury 1991	14.34	14.15	-0.19
13 1/2% Treasury 1994	14.39	14.17	-0.22
2% Index-Linked			
Treasury 1996	3.10	3.18	+0.08
12 1/4% Exchequer 1999	13.93	13.76	-0.17
14% Treasury 1998/01	14.06	13.85	-0.21
12% Exchequer 2013/17	13.12	12.88	-0.24
3 1/2% War Loan (Flat Yield)	12.44	12.34	-0.10

Gilt edged yields [F.T. High coupon]



Interbank rates



\*Bank Holiday

SECRET

£ millions

NEW ISSUESOther loan stock\*

	<u>Equities</u>	<u>Convertible loan stock</u>	<u>Domestic borrowers</u>	<u>Foreign borrowers</u>
TOTAL QUEUE <sup>o</sup>	<u>1,036</u>	=	<u>115</u>	<u>200</u>
Of which issues of 10 or more:				
Current week (12/5-14/5)	Saatchi & Saatchi Company Ltd (rights) (12/5) 25			
Week 2 (15-21/5)	Wolseley-Hughes plc (placing) (18/5) 11			
Week 3 (24/5-28/5)	Grand Metropolitan Ltd (rights) (25/5) 100			Australia (offer for sale) (24/5) 100
Week 4 (1/6-4/6)				
Week 5 (7/6-11/6)	Sketchley plc (rights) (8/6) 10 Hill Samuel Group Ltd (rights) (10/6) 15		Midland Bank (placing) (8/6?) 100	
Week 6 (14/6-18/6)	Allied Suppliers Ltd (offer for sale) (17/6) 100			
Week 7 (21/6-25/6)	BSR Ltd (rights) (21/6) 20 Powell Duffryn Ltd (rights) (23/6) 20 Aberdeen American Petroleum Co Ltd (offer for sale) (24/6) 20			New Zealand (21/6) 100

SECRET

Forthcoming			The South Staffordshire Waterworks Co (Offer for sale) (13/10) 10
	Gas & Oil Acreage Ltd (rights) (8/7)	12	
	Superdrug Stores Ltd (offer for sale) (9/7)	30	
	Bowater Corp Ltd (rights) (13/7)	80	
	Dowty Group Ltd (rights) (20/7)	50	
	Anglian Windows Ltd (rights) (22/7)	10	
	Lloyds Bank Ltd (rights) (27/7)	100	
	<u>Breville Europe plc</u> <u>(offer for sale)</u> (28/7)	<u>10</u>	
	Hadson Petroleum International plc (offer for sale) (3/8)	10	
	Ultramar plc (rights) (12/8)	100	
	The Caledonian Aviation Group plc (placing) (6/9 or 15/9)	20	
	Midland Bank plc (rights) (11/10)	150	
	Granada Group plc (rights) (14/12)	75	

Memorandum

		<u>Equities</u>	<u>Loan Stock*</u>
Issues announced: †	1979	946	162
	1980	1,066	364
	1981	1,835	626
	1982 to date	338	190
Issues completed: † (ie gross amounts of cash raised)	1979	979	150
	1980	945	358
	1981	1,720	561
	1982 to date	263	200

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

12 May 1982

Per cent Time / Yield Curves of British Government Stocks

12th May 1982

