

NOTE FOR WEDNESDAY MEETING

MARKETS: 19 MAY TO 25 MAY 1982

MONEY

Money market shortages persisted throughout this week although on no occasion was the position severe and the week ended quite comfortably. Maturing bills almost completely accounted for the shortage over the week as a whole and were particularly sizeable on Wednesday and Monday. The Exchequer position was mildly adverse on Thursday but favourable on Friday and Monday which helped to offset the impact of adverse factors.

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

Period interbank rates continued their firmer trend over the first two days of the week as sterling came under pressure following the stalemate in diplomatic negotiations over the Falklands and the increasing inevitability of a military landing. As sterling showed some resilience on Friday, however, rates eased slightly and this easier trend continued after the weekend following news of the successful landing. Rumours of an easing in US monetary policy and a 1/2 point cut in one major US bank's prime rate (to 16%) gave slight reinforcement to the fragile optimism but during the whole week the markets have been very nervous and trading has been extremely light. The three month rate showed no net change over the week as a whole, closing at 13 7/16%. Short interbank rates showed more movement day by day but without a clear trend. The seven day rate closed at 13 3/8%, a net fall of 1/8 over the week.

Eurosterling rates maintained their approximate parity with domestic rates over the week. The three month rate also closed again at 13 7/16%.

At the Treasury bill tender of Friday the average rate of discount rose 0.24 to 12.7458%.

LOCAL AUTHORITY BORROWING

The rate for one year bonds was unchanged at 13 3/8%. Issues amounted to £14.8mn (£16.65mn last week) against maturities of £17.3mn.

GILTS

Sentiment continued to be dominated by the Falklands situation: after sizeable losses prior to the weekend the market moved quite sharply higher on Monday following the British landing.

Increased nervousness about the Falklands crisis coupled with the weakness of sterling and the upward pressure on money market rates led to falls of up to 3/8 in shorts and 3/4 in longs on Wednesday; the indexed stocks, however, continued to hold their ground and there were small official sales of IG 2011.

Further sizeable losses were incurred on Thursday though the following day saw a modest improvement in quiet trading, helped by the recovery in sterling.

Sentiment improved markedly on Monday following the British landing in the Falklands over the weekend. Aided by the continued firmness in sterling, prices rose sharply, albeit in thin trading, to close up to 5/8 higher in shorts and 1 1/8 higher in longs; and it was possible to sell a moderate amount of conventional stock.

Yesterday investors marked time awaiting further developments in the Falklands and prices closed little changed. The 1/2% cut in Citibank prime rate, to 16%, had little effect.

Over the week, yields on shorts generally fell by about 1/16% (to about 13 3/4-14% on five-year maturities) while those on longs rose slightly (to about 13 3/4-14% on up to 20-year maturities). After Wednesday the indexed stocks saw little demand: yields were little changed, ranging from 2.71% (IG 1988) to 3.08% (IG 1996).

EQUITIES

The shake out continued prior to the weekend leaving the FT Index some 30 points below its mid-May peak. On Monday, however, the market rebounded sharply and consolidated these gains yesterday.

Uncertainties about the Falklands led to a decline on Wednesday and Thursday which left the FT 30-Share Index at 554.4 (a fall of 36.5 points from its most recent peak on 14 May). Bear closing helped produce a modest rally on Friday, though the underlying tone remained nervous.

As with gilts, the mood was improved by developments in the Falklands over the weekend and the Index regained 15.2 points on Monday (its biggest one-day rise since last September).

Yesterday conditions were more subdued but the tone remained firm enough to shrug off a £125mn rights issue by Grand Metropolitan. Defence stocks continued to be in demand. The 30-Share Index ended at 580.8, up 5 points on the day and 8.8 higher over the week. The 500-Share Index closed at 363.35, up 4.34 over the week.

NEW ISSUES

No new issues were added to the queue and with the announcement of the Grand Met rights issue and the cancellation of a £50mn rights issue, the queue now totals £1,147mn against £1,308mn last week.

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

	19. 5.82 <u>-25. 5.82</u>	Cal Qtr and Fin Year <u>to date</u>	17. 2.82 <u>to date</u>
Issue Department			
Purchases/sales			
Next Maturities	-	- 127	- 314
Other short-dated	- 14	<u>+ 18</u>	<u>+ 376</u>
	- 14	- 109	+ 62
Mediums	+ 27	+ 540	+ 1,049
Longs and undated	<u>+ 14</u>	<u>+ 38</u>	<u>+ 298</u>
Total Issue			
Department trans-			
actions	+ 27	+ 469	+ 1,409
CRND	- 5	+ 59	+ 164
Redemptions	-	-	- 353
	<u>+</u>	<u>+</u>	<u>+</u>
	<u>22</u>	<u>528</u>	<u>1,210</u>

2. Redemption Yields (tax ignored)

	<u>18 May</u>	<u>25 May</u>	<u>Change</u>
12% Treasury 1983	13.26	13.37	+0.11
15% Treasury 1985	13.56	13.44	-0.12
12% Treasury 1987	13.82	13.96	+0.14
11 3/4% Treasury 1991	14.14	14.25	+0.11
13 1/2% Treasury 1994	14.19	14.25	+0.06
2% Index-Linked			
Treasury 1996	3.08	3.05	-0.03
12 1/4% Exchequer 1999	13.75	13.77	+0.02
14% Treasury 1998/01	13.85	13.89	+0.04
12% Exchequer 2013/17	12.86	12.89	+0.03
3 1/2% War Loan (Flat Yield)	12.23	12.31	+0.08

SECRET

£ millions

NEW ISSUES

Other loan stock*

	Equities	Convertible loan stock	Domestic borrowers	Foreign borrowers
TOTAL QUEUE ^Ø	<u>832</u>	=	<u>115</u>	<u>200</u>
Of which issues of 10 or more:				
Current week (26/5-28/5)				
Week 2 (1-4/6)				Australia (offer for sale) (1/6) 100
Week 3 (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 4 (14/6-18/6)	Allied Suppliers Ltd (offer for sale) (17/6) 100			
Week 5 (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
Week 6 (28/6-2/7)				
Week 7 (5/7-9/7)	Gas & Oil Acreage Ltd (rights) (8/7) 12 Superdrug Stores Ltd (offer for sale) (9/7) 30			

SECRET

Forthcoming			
	Bowater Corp Ltd (rights) (13/7)	80	The South Staffordshire Waterworks Co (Offer for sale) (13/10)
	Anglian Windows Ltd (rights) (22/7)	10	10
	Lloyds Bank Ltd (rights) (27/7)	100	
	Breville Europe plc (offer for sale) (28/7)	10	
	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

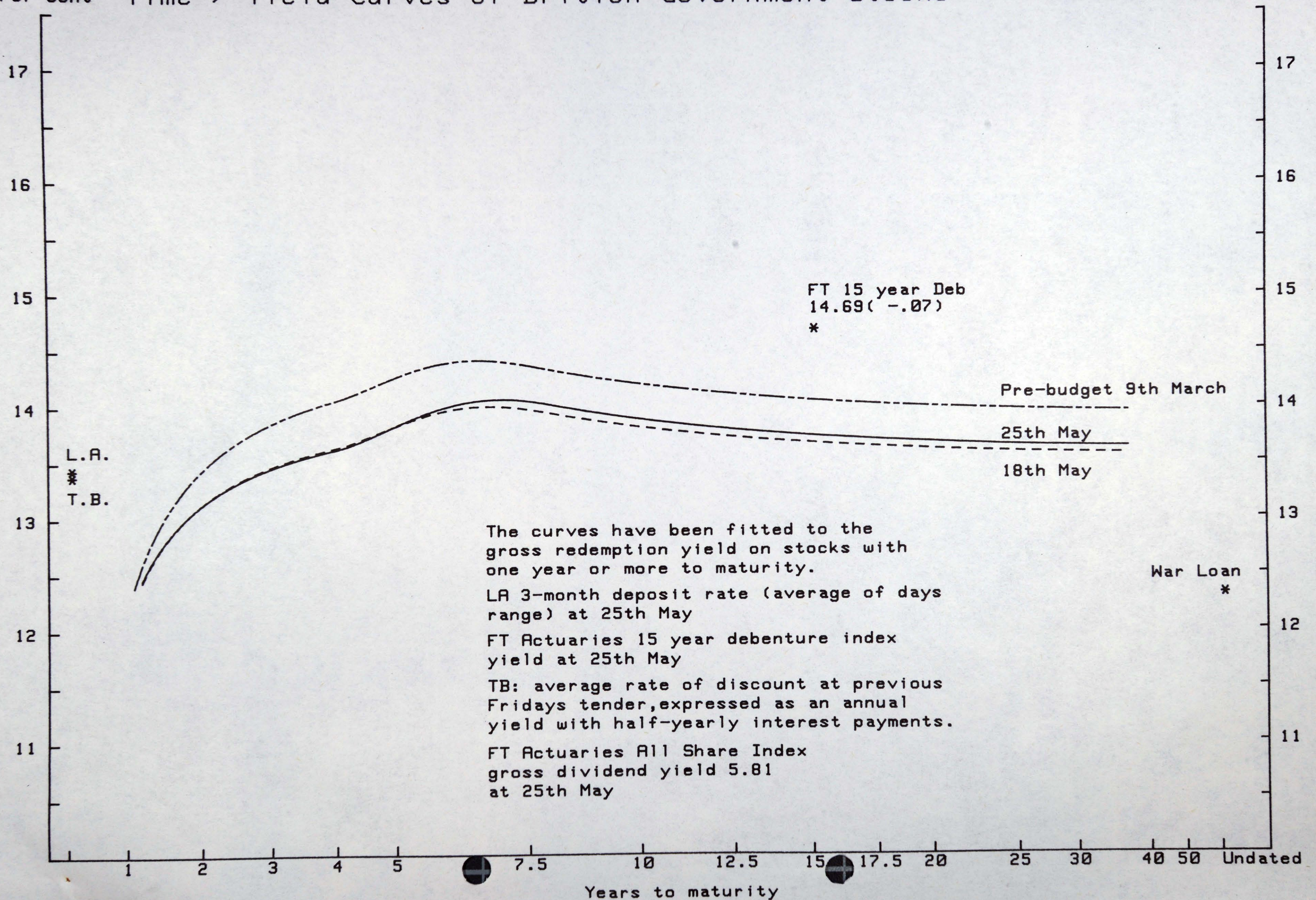
		<u>Equities</u>	<u>Loan Stock*</u>
Issues announced: †	1979	946	162
	1980	1,066	364
	1981	1,835	626
	1982 to date	388	193
Issues completed: †	1979	979	150
(gross amounts	1980	945	358
of cash raised)	1981	1,720	561
	1982 to date	348	220

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

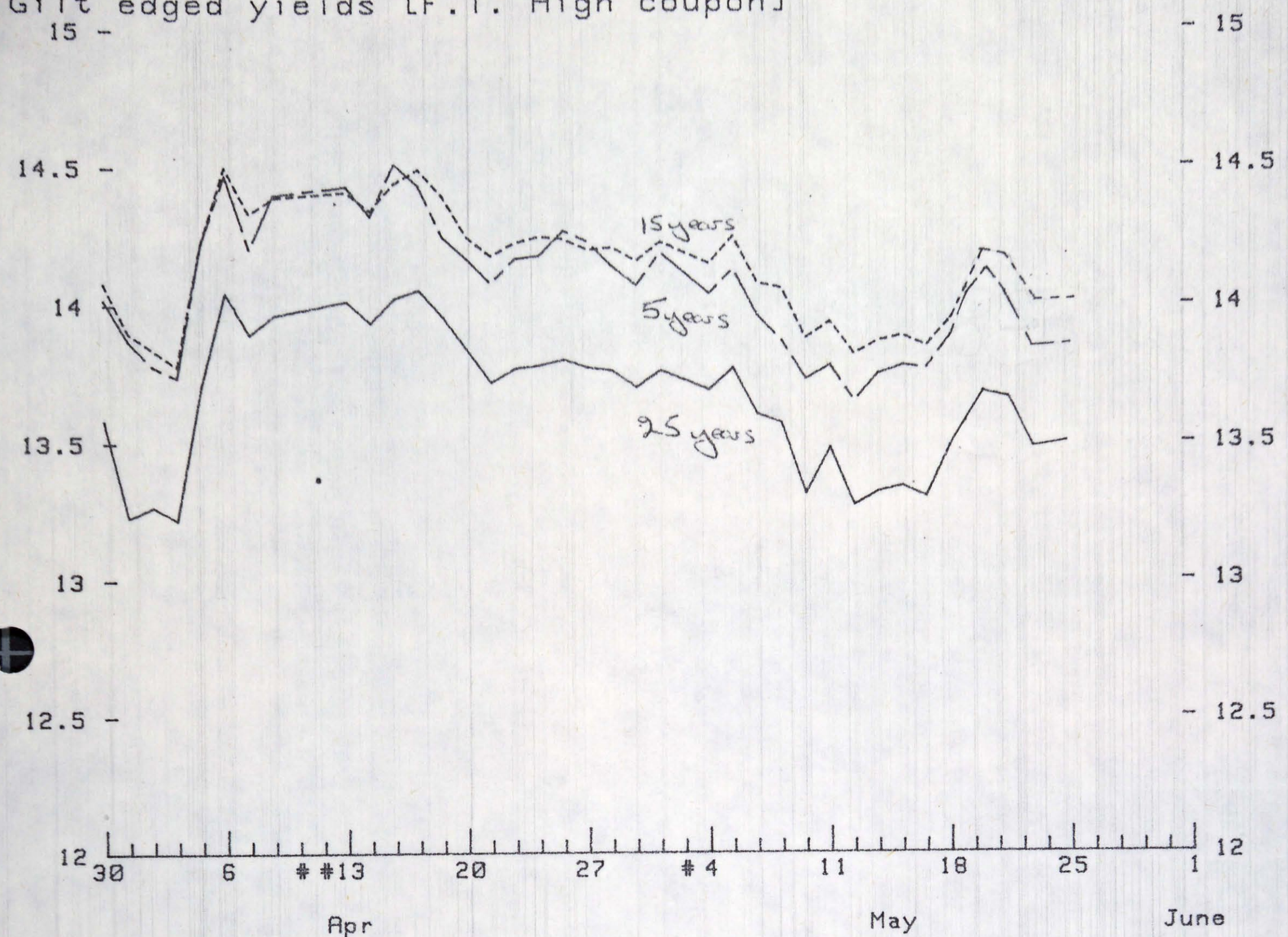
26 May 1982

Per cent Time / Yield Curves of British Government Stocks

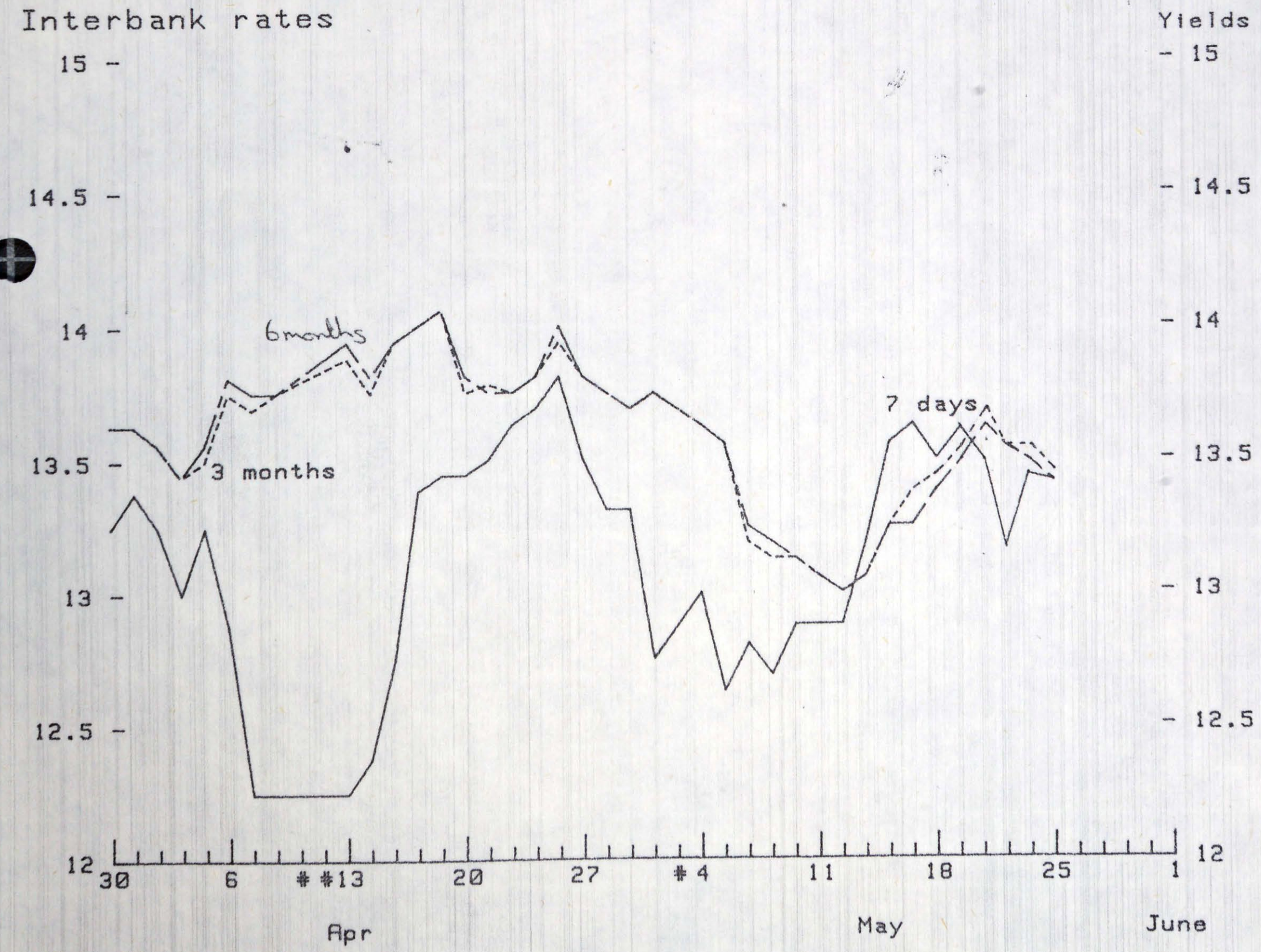
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Gilt edged yields [F.T. High coupon]



Interbank rates



*Bank Holiday