

## NOTE FOR WEDNESDAY MEETING

MARKETS: 2 JUNE TO 8 JUNE 1982

## MONEY

After an easier start to the week a sizeable shortage emerged in the money market on Friday and tighter conditions then persisted until Tuesday. The main factors draining cash from the market were the unwinding of earlier assistance by the Bank, official sales of gilt-edged stock and an increase in the note circulation before the weekend. The Exchequer position was on the whole favourable to the market.

On Thursday the Bank mopped up surplus funds by selling Treasury bills. Assistance was given to the market on every other day by the purchase of bank and Local Authority bills. In addition, on Friday, bank bills were purchased for resale to the market at a future date.

Interbank rates began the week on an easy note in response to continuing market optimism about the outcome of the Falklands crisis and the relative strength of sterling. Some firming was seen in short term rates in the tight money conditions ahead of the weekend but this was shortlived and the easier trend continued over the weekend amid hopes of a cut in the clearing banks' base lending rates. On Friday, responding to the market, the Bank reduced slightly its lowest dealing rate for longer bills and on Monday accepted offers of all but very short term bills at lower rates. Following the announcement on Tuesday morning of 1/2% reductions to 12 1/2% in the main clearing banks' base rates, interbank rates eased further, especially at the longer end. The Bank responded by lowering its dealing rate for band 1 bills by 1/2% to 12 5/8% and made further reductions in its rates for longer bills, to 12 1/2% in band 2, 12 3/8% in band 3 and 12 1/4% in band 4: these rates are 1/2% lower than a week ago. The seven day interbank rate closed 1/4% down on the week at 13% and the three month rate finished 7/16% lower at 12 3/4%.



Eurosterling rates too eased this week. Shorter rates reached lower levels early in the week and then steadied while long-term rates declined gradually, perhaps reflecting the market's uncertainty about the future path of US rates. The three month rate finished 5/16% lower at 13%.

At the Treasury bill tender on Friday the average rate of discount fell about 0.5% to 12.2195%.

#### LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by 1/2% to 12 3/4%. Issues amounted to £20.4mn (£15.25mn last week) against maturities of £12.15mn.

#### GILTS

The market extended its recent gains, encouraged by the presumption of military victory in the Falklands, hopes of lower interest rates and the firmness of sterling. All three of the recently issued tranches were exhausted and a new issue of convertible stock was announced. Yesterday, however, prices eased back slightly on disappointment at the June banking figures.

Prices were slightly easier at Wednesday's opening in response to lower US bonds and renewed pessimism about US interest rates. The underlying tone remained firm, however, and prices recovered in quiet trading to end the day marginally higher on balance.

The following day saw the market regain its upward momentum and it was possible to sell sizeable amounts of the recently issued tranches, exhausting supplies of 12% Exchequer 1987. Shorts and longs ended up to 5/8 and 3/4 higher respectively.

Conditions remained firm on Friday with hopes of lower interest rates further strengthened by the result of the Treasury bill tender. More stock was sold - exhausting supplies of the 12% Treasury 1995 tranche - and prices closed with gains of 1/8-3/8. At the close a new issue of £750 million of 12 1/4% Treasury



Convertible 1986 was announced, convertible into 13% Treasury 2000. The market reacted well to the announcement and prices moved up in after-hours trading.

After the weekend, the market opened lower on Monday on concern about the Middle East conflict. However, little selling materialised and with developing expectations of base rate cuts, prices at the long end revived to close about 1/2-5/8 up on the day with shorts little changed. The March trade figures had little impact.

Yesterday, the market was initially encouraged by the announcement of 1/2% base rate cuts: and it was possible to exhaust the remaining supplies of the 1991 tranche. But prices quickly fell away from the best levels and eased further after publication of the June banking figures and the indicated rise in  $\text{EM}_3$  (which cancelled out the impact of the favourable May wholesale price figures). Shorts and longs ended the day with losses of up to 1/4.

Over the week as a whole, yields generally fell by about 3/16%, to about 13 1/8% on five-year maturities and 13 1/4-13 1/2% on 20-year maturities. There was only small demand for the index-linked stocks during the period and yields were little changed, ranging from 2.83% (IG 1988) to 3.06% (IG 1996).

#### EQUITIES

The market continued to edge higher over the week taking the broader FT Indices to new all-time peaks.

Conditions were extremely quiet on Wednesday and prices eased back slightly on selective profit-taking. These losses were mostly regained the following day although buying interest remained very modest. Further small gains were seen on Friday, the last day of the three-week trading account.

After the weekend, prices were initially marked down on Monday, but recovered on hopes of base rate cuts to leave the 30-Share Index 4.8 higher at 592.6, a new 1982 peak; the other FT Indices reached new all-time highs.



The market opened on a firm note yesterday following the anticipated cuts in base rate and the 30-Share Index rose to within a point of its all-time peak of 597.3 (April 1981). There was, however, insufficient impetus for the psychologically important 600-barrier to be breached and prices eased back so that at the close the Index was a net 1.4 higher at 594.0, a rise of 6.7 over the week. The 500-Share Index closed at 373.84, up 4.08 over the week.

#### NEW ISSUES

##### Queue

Two new issues of £10mn or more were added to the queue this week, but one of these is the return of Australia's bulldog of £100mn, which dropped out last week because of the Falklands crisis. The queue now totals £982mn against £1,095mn last week.

A £30mn 5-year euro-sterling issue has been launched by Banque Francaise du Commerce Exterieur, the first such issue since March. The coupon is 14 1/2% with issue price of par.

Yesterday, Midland Bank announced its £100mn placing of unsecured loan stock. The issue carries a coupon of 14% and has been priced to yield 14.22% (0.9% above a basket of three gilts). Maturity is 2002-07. In February Barclays launched a similar issue at a cost of 16%.

Init EAJG

9 June 1982



Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases - )

1. Transactions (cash value)

	2. 6.82 - 8. 6.82	Cal Qtr and Fin Year to date	17. 2.82 to date
Issue Department			
Purchases/sales			
Next Maturities	-	- 253	- 440
Other short-dated	+ 3	+ 82	+ 441
	+ 3	- 171	+ 1
Mediums	+ 359	+ 1,047	+ 1,555
Longs and undated	- 14	+ 24	+ 284
Total Issue			
Department trans-			
actions	+ 348	+ 900	+ 1,840
CRND	- 3	+ 244*	+ 160
Redemptions	-	-	- 353
	+ 345	+ 1,144	+ 1,647

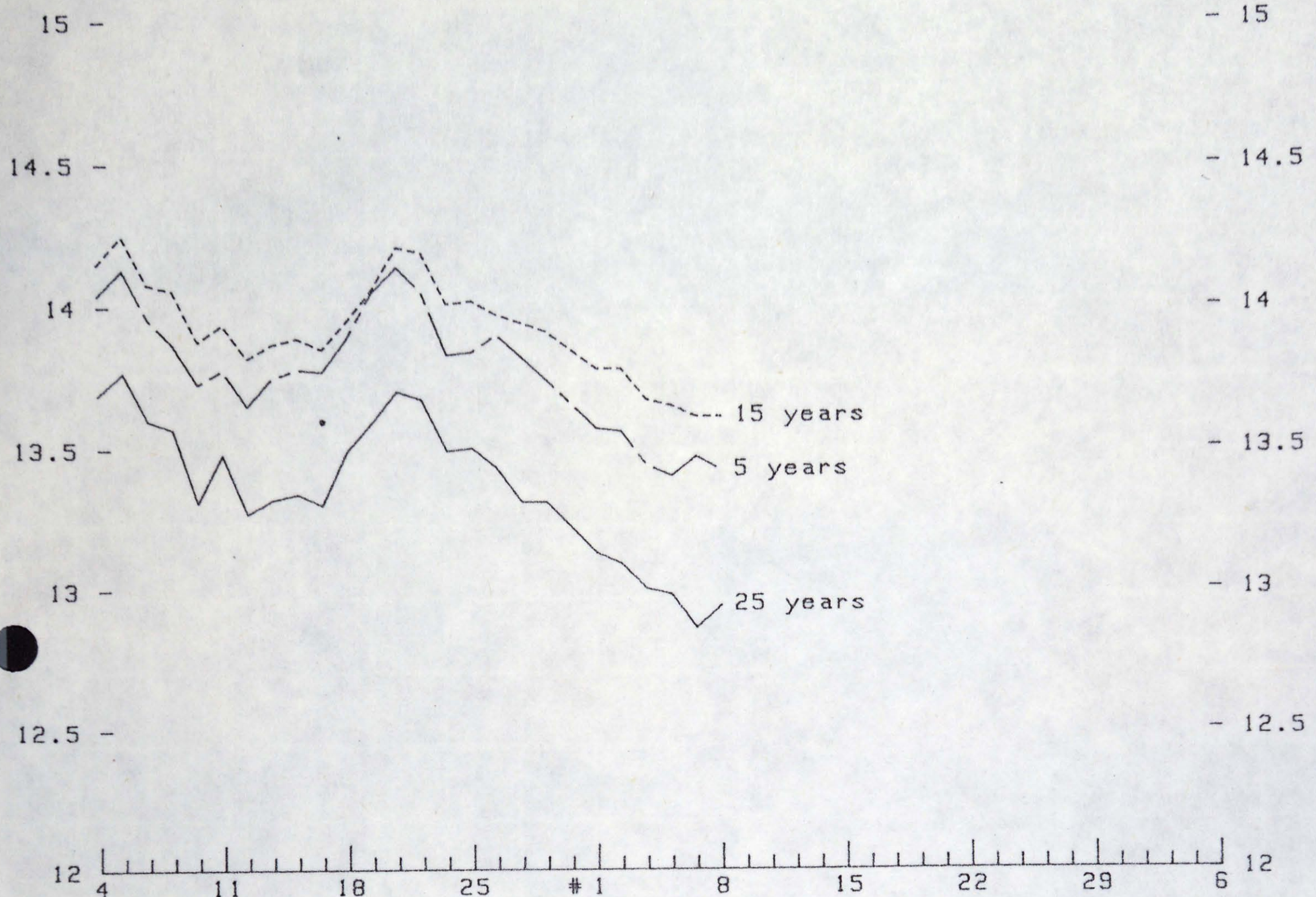
\*Includes +188 of CRND deals on behalf of Issue not previously included.

2. Redemption Yields (tax ignored)

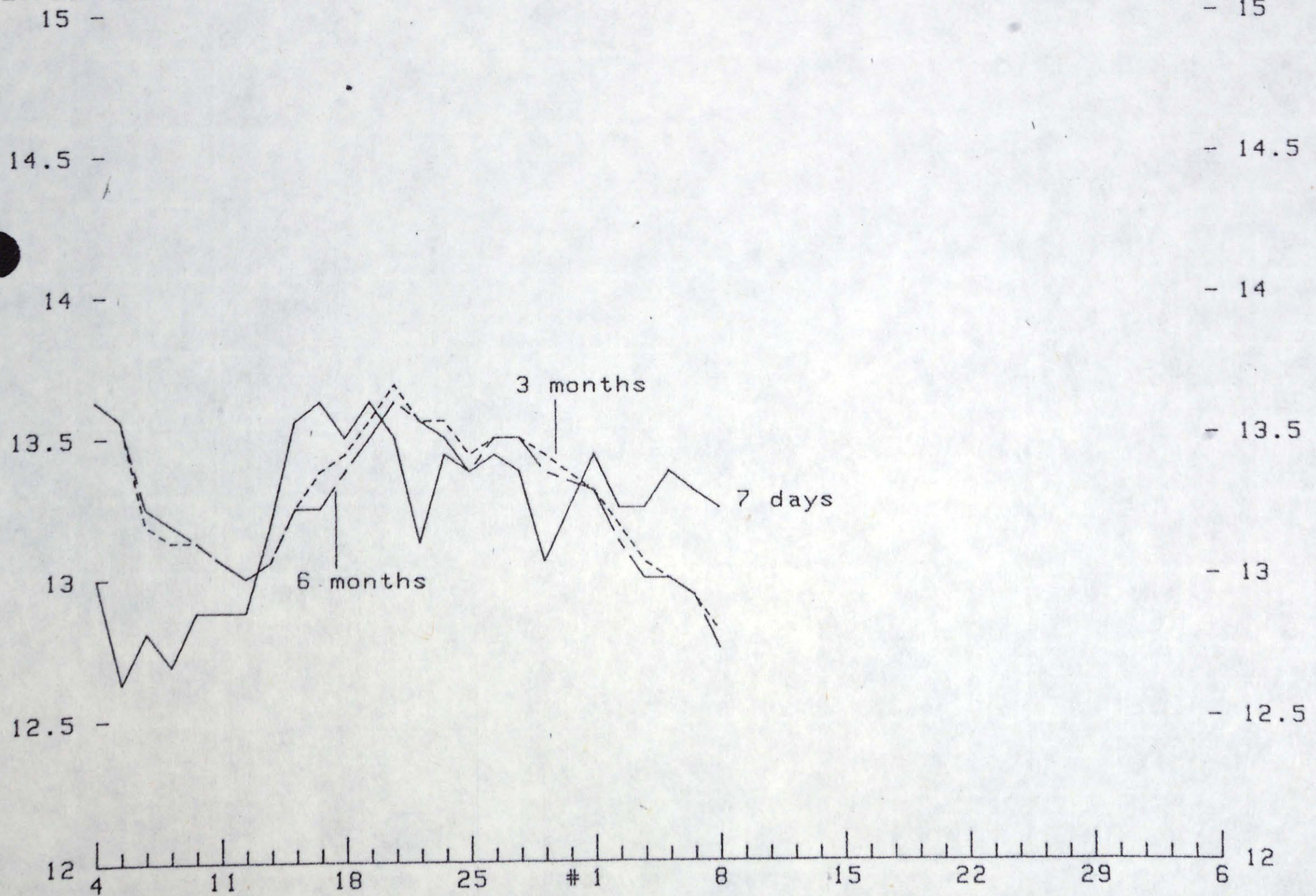
	<u>1 June</u>	<u>8 June</u>	<u>Change</u>
12% Treasury 1983	13.05	12.64	-0.41
15% Treasury 1985	13.24	13.07	-0.17
12% Treasury 1987	13.64	13.43	-0.21
11 3/4% Treasury 1991	14.00	13.85	-0.15
13 1/2% Treasury 1994	14.03	13.86	-0.17
2% Index-Linked			
Treasury 1996	3.06	3.06	-
12 1/4% Exchequer 1999	13.54	13.38	-0.16
14% Treasury 1998/01	13.67	13.51	-0.16
12% Exchequer 2013/17	12.70	12.56	-0.14
3 1/2% War Loan (Flat Yield)	12.13	12.21	+0.08



Gilt edged yields [F.T. High coupon]



Interbank rates



#Bank Holiday May

June

July



Per cent

# Time / Yield Curves of British Government Stocks

9th June 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 8th June

FT Actuaries 15 year debenture index yield at 8th June

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 5.73 at 8th June

FT 15 year Deb  
14.45 (-.12)

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\*

Pre-budget 9th March

1st June

8th June

War Loan  
\*

T.B.  
\*  
\*  
L.A.

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13  
12  
11

17  
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13  
12  
11

1 2 3 4 5 7.5 10 12.5 15 17.5 20 25 30 40 50 Undated

Years to maturity

