

NOTE FOR WEDNESDAY MEETING

MARKETS: 9 JUNE TO 15 JUNE 1982

MONEY

The market faced moderate shortages for three days this week; Friday's shortage was more severe but Monday's position much easier. Bill maturities continued to be the largest single influence over the week. The Exchequer position was almost in balance except on Friday and Monday when it was an important factor in the market's cash position. Other sizeable influences during the week were payments on Wednesday for official gilt sales (including the new convertible issue), movements in the note circulation around the weekend and an unwinding repurchase agreement on Monday.

The Bank provided assistance every day by the outright purchase of Treasury, local authority and bank bills at rates unchanged from Tuesday 8th.

The interbank market showed some reaction to last Tuesday's base rate cuts with period rates opening slightly firmer on Wednesday although short rates maintained their new lower levels. Period rates remained fairly steady for most of the rest of the week with a little firming early on Monday as US rates hardened. The reaction on Tuesday to news of the Argentinian surrender in the Falklands was muted and rates eased only slightly, partly because success had been expected but also because of the influence of very firm US rates. The 3 month interbank rate closed at 12 13/16%, 1/16 up over the week as a whole while the 7 day rate showed a net fall of 1/8, closing at 12 7/8%.

Eurosterling rates followed much the same pattern as domestic rates, firming slightly in response to dollar rates but showing some easing on Tuesday. The 3 month rate also ended the week at 12 13/16%.

At the Treasury bill tender of Friday the average rate of discount fell about 0.04 to 12.1777%.

LOCAL AUTHORITY BORROWING

The rate for one year bonds was unchanged at 12 3/4%. Issues amounted to £11.25mn (£20.4mn last week) against maturities of £9.75mn.

GILTS

The volatile international situation and growing concern about the prospects for US interest rates made for a generally uneasy atmosphere during the week. However, a significant amount of the new convertible stock was sold at Wednesday's tender and subsequently on Monday, and there was persistent small demand for the indexed stocks. The successful outcome in the Falklands had already been discounted by the market and had only a transitory impact yesterday.

On Wednesday, prices continued to drift lower in quiet trading, closing up to 1/4 down in shorts and 3/8-1/2 down in longs. Nevertheless, the tender for 12 1/4% Treasury Convertible 1986 attracted a significant volume of applications. There was also some modest renewed demand for the index-linked stocks.

On Thursday the worsening situation in the Middle East and fears about British casualties in the Falklands caused a further worsening in sentiment and prices eased to close up to a further 1/4 down in shorts and 3/4 down in longs; but there was a continuing small demand for the index-linked stocks.

News of a Middle East ceasefire and progress on a US budget compromise encouraged a recovery on Friday which left prices up to 1/2-3/4 higher by the close, although turnover remained relatively low. Further small amounts of the index-linked stocks were sold.

After the weekend, the market opened easier following the fresh hostilities in the Middle East and amid renewed concern about the outlook for US interest rates. After the initial fall, prices steadied and it was possible to sell a significant amount of the 1986 tap at a price of 30 1/8 (30-paid). However, with US bonds opening easier in the afternoon and with Citibank moving its prime rate back up to 16 1/2%, prices drifted lower again, ending with losses of up to 1/4 in shorts and 1/2 in longs.

Yesterday, relief at the successful outcome of the Falklands fighting had to contend with continued unease about US interest rates. The latter gained the upper hand during the day and prices tended to ease back after initial gains to close up to 1/4 down in shorts and 5/8 down in longs. There was again some demand for the longer index-linked stocks.

Over the week as a whole, yields on shorts rose by about 3/16% (to yield about 13 1/4% on five-year maturities) and longs by about 1/4% (to yield 13 3/8%-13 5/8% on 20-year maturities). Yields on the index-linked stocks were little changed, ranging from 2.83% (IG 1988) to 3.06% (IG 1996).

EQUITIES

The market was affected by the same adverse factors as gilts and fell back from the 1982 peak reached the previous week.

Prices drifted lower on Wednesday with buyers reluctant to commit themselves in the face of Middle East and Falklands uncertainties.

An uneasy atmosphere prevailed on Thursday, with the threat of a national rail strike and the weakness of Wall Street further adverse influences; the FT 30-Share Index ended 8.8 lower. But the news of a Middle East ceasefire enable part of these losses to be regained on Friday.

After the weekend, sentiment was affected on Monday by the breakdown of the Middle East ceasefire and by the concern about US interest rates, and prices again drifted lower.

This trend continued yesterday after an initial mark-up following the resolution of the Falklands crisis and with labour disputes looming larger, the 30-Share Index lost a further 7.9 to close at 570.9, a fall of 23.1 over the week as a whole. The 500-Share Index closed at 363.54, a fall of 10.3 over the week.

NEW ISSUES

Queue

The only issue of £10mn or more to be added to the queue was the privatisation of British Transport Docks Board (£40mn) due for early next year. The queue now totals £1,001mn against £982mn last week.

A further sterling euro-bond issue was launched last week: a five-year issue of £30mn by Norsk Hydro, carrying a 14 1/2% coupon and an issue price of par.

Init EAJG

16 June 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

	9. 6.82 <u>-15. 6.82</u>	Cal Qtr and Fin Year to date	17. 2.82 <u>to date</u>
Issue Department			
Purchases/sales			
Next Maturities	-	- 253	- 440
Other short-dated	+ 49*	+ 131	+ 490
	+ 49	- 122	+ 50
Mediums	- 19	+ 1,028	+ 1,537
Longs and undated	+ 24	+ 48	+ 307
Total Issue			
Department trans-			
actions	+ 54	+ 954	+ 1,894
CRND	- 3	+ 241	+ 157
Redemptions	- 53 [†]	- 53	- 406
	<u>- 2</u>	<u>+ 1,142</u>	<u>+ 1,645</u>

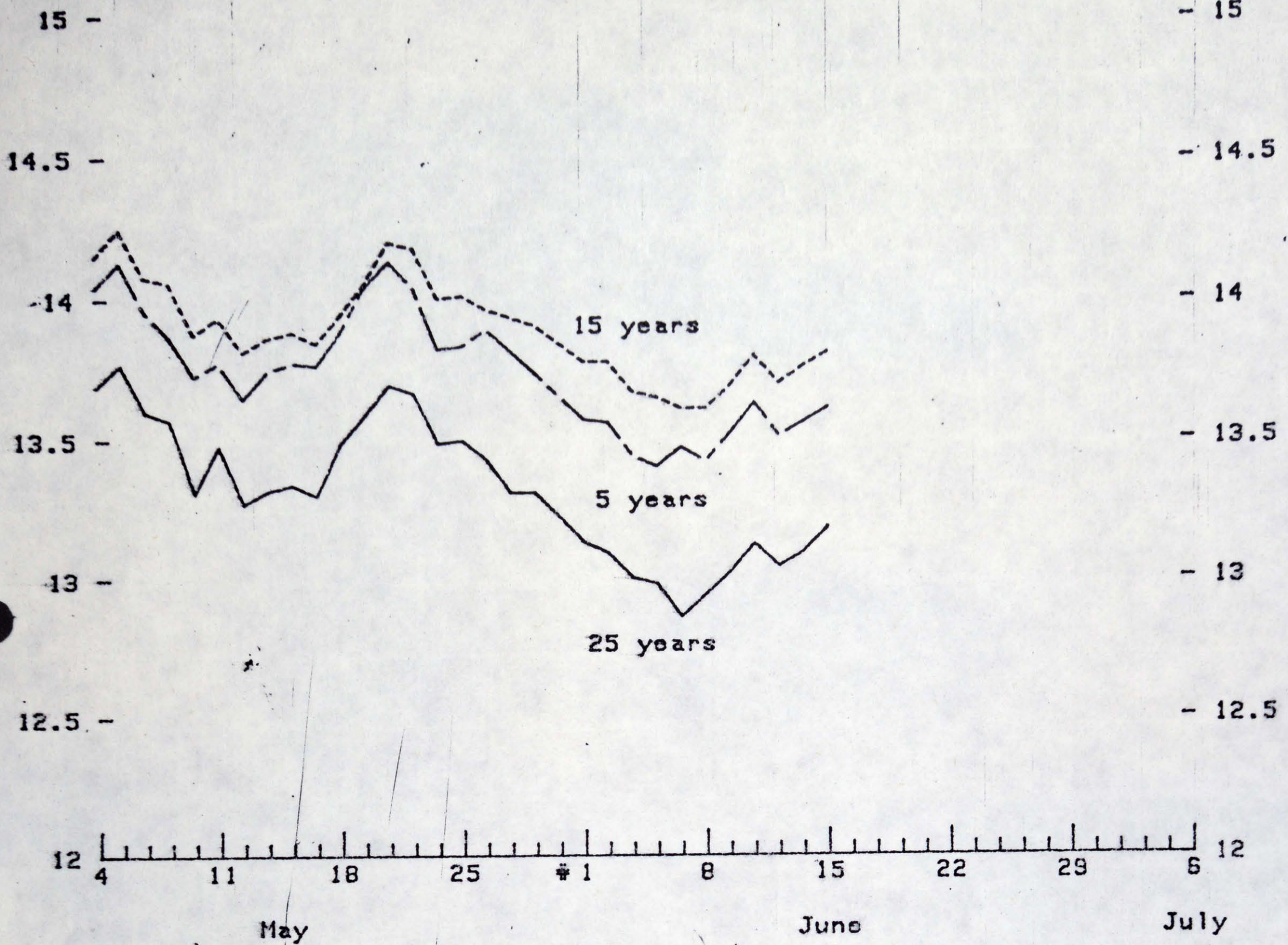
* includes 68.5 in respect of £30% deposits on 12 1/4 Treasury Convertible 1986

[†] Variable Treasury 1982

2. Redemption Yields (tax ignored)

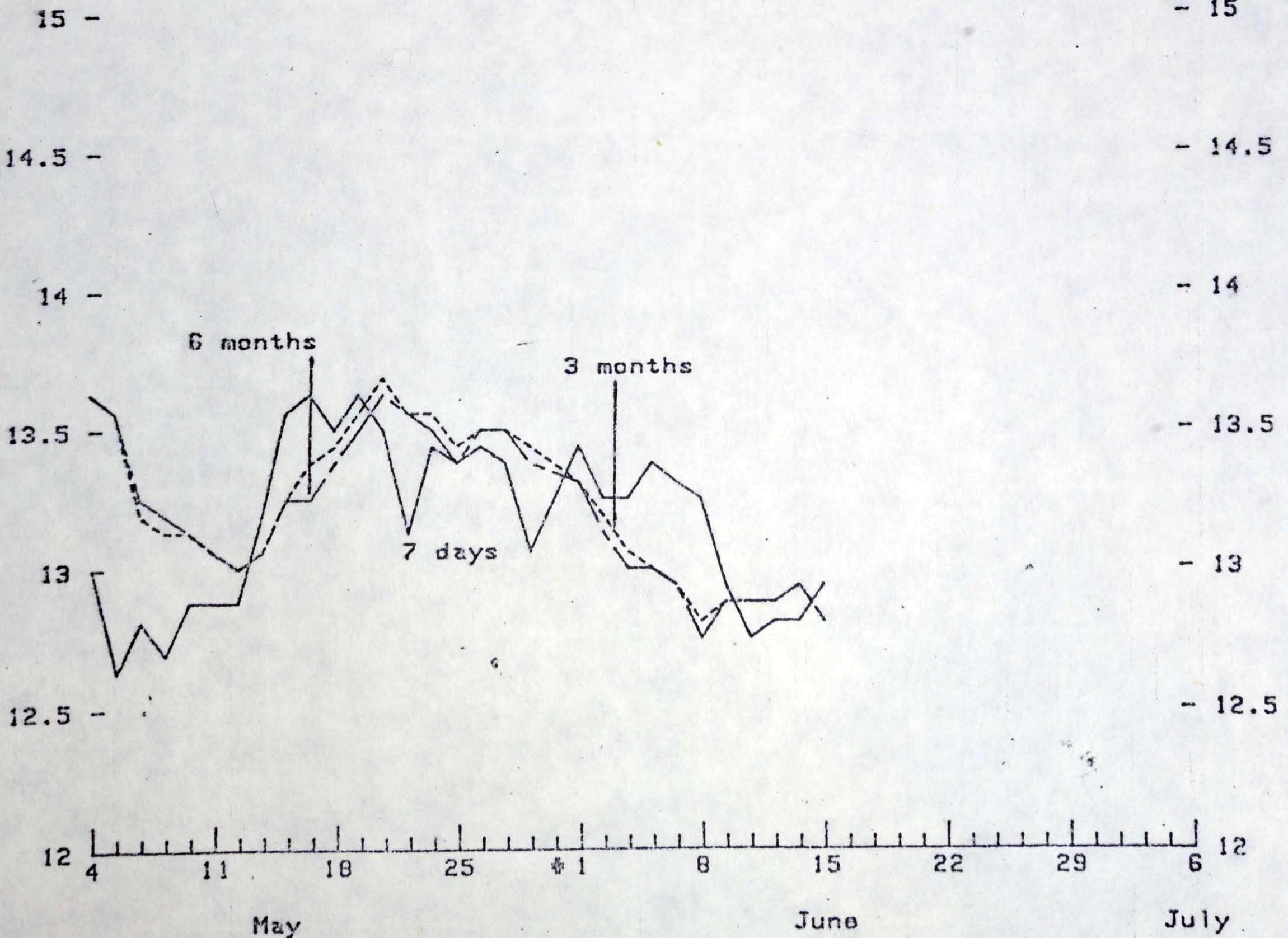
	8 June	15 June	Change
12% Treasury 1983	12.64	12.88	+0.24
15% Treasury 1985	13.07	13.25	+0.18
12% Treasury 1987	13.43	13.60	+0.17
11 3/4% Treasury 1991	13.85	14.07	+0.22
13 1/2% Treasury 1994	13.86	14.10	+0.24
2% Index-Linked			
Treasury 1996	3.06	3.09	+0.03
12 1/4% Exchequer 1999	13.38	13.62	+0.24
14% Treasury 1998/01	13.51	13.75	+0.24
12% Exchequer 2013/17	12.56	12.77	+0.21
3 1/2% War Loan (Flat Yield)	12.21	12.35	+0.14

Gilt edged yields [F.T. High coupon]



Interbank rates

Yields



*Bank Holiday

Per cent Time / Yield Curves of British Government Stocks

16th June 1982

