

NOTE FOR WEDNESDAY MEETING

MARKETS: 16 JUNE TO 22 JUNE 1982

MONEY

The market's cash position was roughly in balance on the first day of the week. Then conditions became tighter and remained so for the rest of the week. A very large shortage emerged on Friday. The effect of an Exchequer position favourable to the market was outweighed by the cash drain resulting from bills maturing in the Bank's hands. Additionally, on Friday, there was a moderate increase in the note circulation and bankers brought forward balances some way below target.

The Bank gave assistance every day purchasing a combination of bank, Treasury and local authority bills.

Short-term interbank rates were slightly easier at the start of the week but firmed before the weekend in response to the rise in US rates. These rates eased a little on Monday and tended steady thereafter. The seven day rate closed $1/16\%$ higher on the week at $12 \frac{13}{16}\%$.

Longer rates began the week steady but soon firmed in response to rising US rates and by Friday a distinctly upward-sloping yield curve had appeared. The firmer trend persisted after the weekend although rates tended steadier on Tuesday. The three-month rate finished the week $1/4\%$ higher at $13 \frac{1}{16}\%$.

Euro-sterling rates too firmed over the week but their path was more erratic than that of domestic rates. After their initial firming these rates eased somewhat on Friday. The firm trend resumed on Monday but rates had eased a little by the end of the week. The three-month rate closed just over $3/16\%$ higher on the week at $13 \frac{1}{32}\%$.

At the Treasury bill tender on Friday, the average rate of discount rose slightly to 12.2425%.

LOCAL AUTHORITY BORROWING

The rate for one year bonds rose by $3/8\%$ to $13\ 1/8\%$. Issues amounted to £15mn (£11.25mn last week) against maturities of £16.75mn.

GILTS

With the Falklands crisis out of the way, attention became more firmly focussed on the rising trend of US interest rates and the associated weakness of sterling against the dollar. Prices fell back until late on Monday when a rally developed as the dollar encountered profit-taking.

The market steadied on Wednesday, but resumed its downward trend in thin trading on Thursday, reflecting continued concern about US interest rates and the weakness of sterling against the dollar; prices ended up to $3/8$ down in shorts and $5/8$ lower in longs.

Sentiment remained depressed on Friday with prices generally losing up to a further $1/2$. Publication of the RPI for May had little impact.

The market's decline was given added impetus after the weekend by sterling's sharp fall against the dollar on Monday morning (coming after US money supply figures on Friday which offered little encouragement). After opening about $3/8$ easier, prices drifted lower in continued thin trading to close up to $7/16$ down in shorts and $3/4$ down in longs. However, some improvement was seen in late trading as sterling recovered some of its lost ground against the dollar.

This better tone continued yesterday although turnover remained very light. By the close shorts were up to $9/16$ higher and longs up to $3/4$ better.

Over the week as a whole, yields on shorts rose by about $1/8-1/4\%$ (to $13\ 1/2-13\ 3/4\%$ on five-year maturities) and those on longs by about $3/16\%$ (to $13\ 1/2-14\%$ on 20-year maturities). Yields on the IGs rose by up to $1/16\%$, ranging from 2.92% (IG 1988) to 3.12% (IG 1996).

EQUITIES

With a variety of adverse influences - higher US interest rates, the exchange rate, the unsettled labour situation - the market continued to retreat for the first four days before steadying yesterday.

Prices eased slightly in very slow trading on Wednesday. The decline accelerated on Thursday with the 30-Share Index falling by 9.1 points, although selling remained scattered. With Wall Street reaching a new 26-month low, the market remained depressed on Friday (the last day of the account), although the fall in the Index was limited to 1.4.

After the weekend, concern about US interest rates and the sharp decline in sterling against the dollar produced a fall in the Index of 11.9 points by midday on Monday. As with gilts, however, prices recovered along with sterling and the fall in the Index was cut to 3.1 by the close. At this point, the Index was 39 points below its 1982 peak reached on 8 June.

The continuation of sterling's recovery against the dollar and technical factors led to further improvement yesterday. But sentiment remained fragile and early gains were mostly lost in late trading, with the 30-Share Index closing only 0.9 higher at 555.8, a fall of 15.1 over the week. The 500-Share Index ended at 353.79, down 9.75 over the week.

NEW ISSUES

Queue

Two new issues of £10mn or more were added to the queue, but with the announcement of New Zealand's bulldog of £100mn (see below) and a cancellation of an issue of £50mn the total queue dropped to £891mn against £1,001mn last week.

New Zealand's bulldog was announced on Monday for subscription this Thursday. The stock will be priced to yield 3/4% above two reference gilts of the same (1987) maturity.

Init EAJG
23 June 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

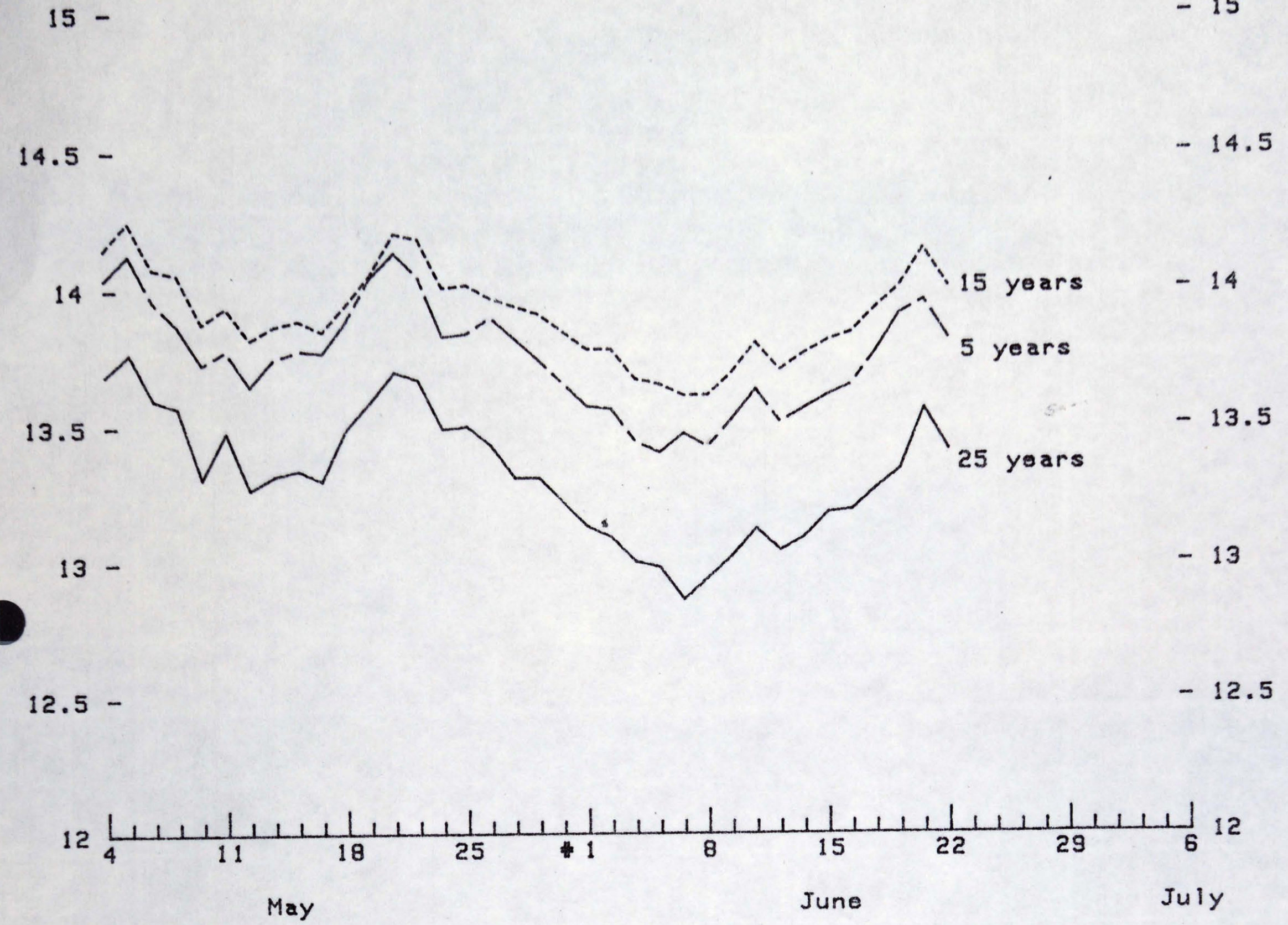
1. Transactions (cash value)

| | 16. 6.82 | Cal Qtr and Fin Year to date | 17. 2.82 |
|-------------------|------------------|------------------------------------|----------------|
| | <u>-22. 6.82</u> | <u>to date</u> | <u>to date</u> |
| Issue Department | | | |
| Purchases/sales | | | |
| Next Maturities | - | - 253 | - 440 |
| Other short-dated | - 30 | + 101 | + 460 |
| | - 30 | - 152 | + 20 |
| Mediums | - 1 | + 1,027 | + 1,536 |
| Longs and undated | + 1 | + 49 | + 308 |
| Total Issue | | | |
| Department trans- | | | |
| actions | - 30 | + 924 | + 1,864 |
| CRND | - | + 240 | + 345 |
| Redemptions | - 8 | - 60 | - 414 |
| | <u>- 38</u> | <u>+ 1,104</u> | <u>+ 1,795</u> |

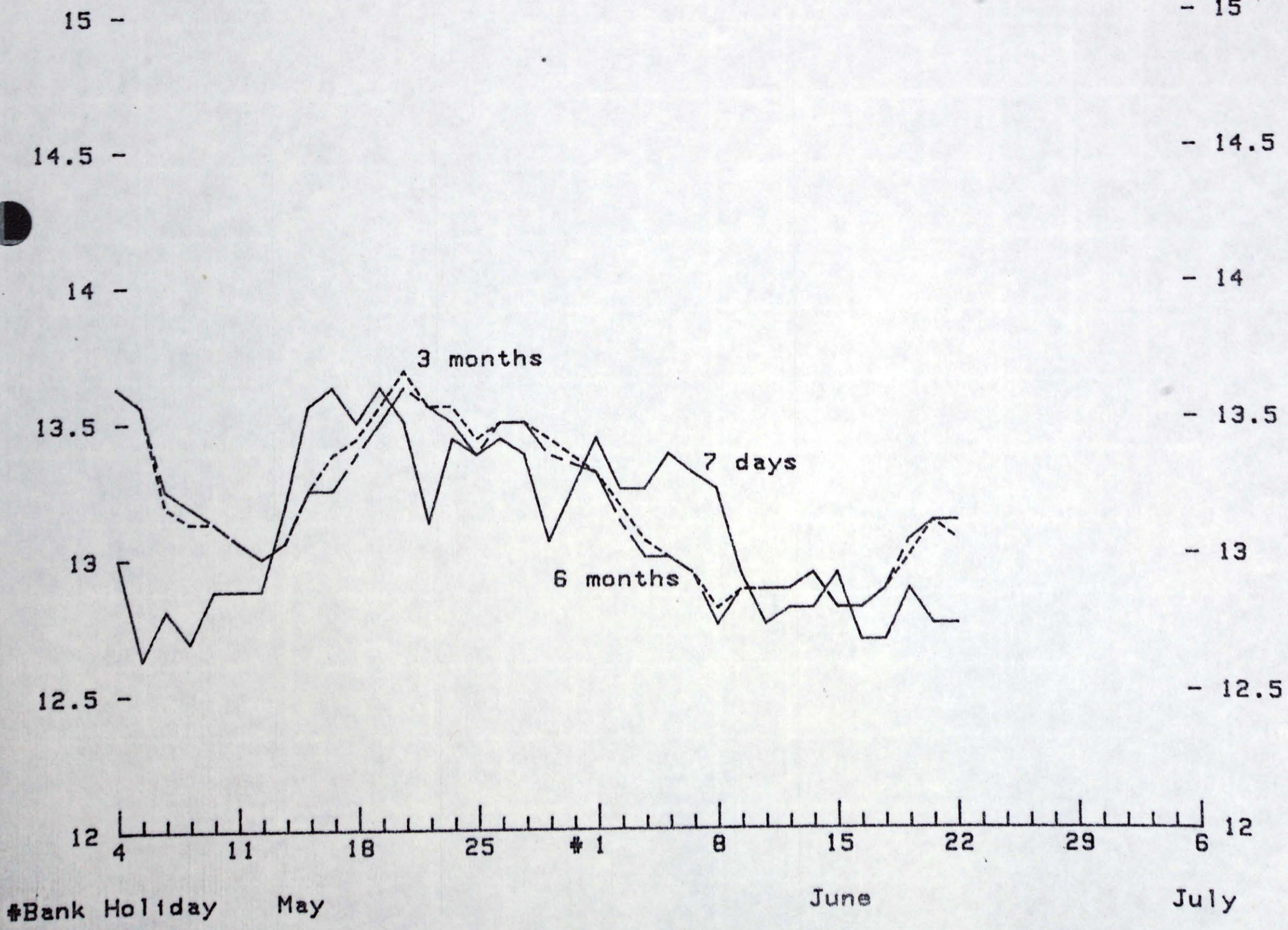
2. Redemption Yields (tax ignored)

| | <u>15 June</u> | <u>22 June</u> | <u>Change</u> |
|------------------------------|----------------|----------------|---------------|
| 15% Treasury 1985 | 13.25 | 13.49 | +0.24 |
| 12% Treasury 1987 | 13.60 | 13.74 | +0.14 |
| 11 3/4% Treasury 1991 | 14.07 | 14.20 | +0.13 |
| 13 1/2% Treasury 1994 | 14.10 | 14.24 | +0.14 |
| 2% Index-Linked | | | |
| Treasury 1996 | 3.09 | 3.12 | +0.03 |
| 12 1/4% Exchequer 1999 | 13.62 | 13.76 | +0.14 |
| 14% Treasury 1998/01 | 13.75 | 13.93 | +0.18 |
| 12% Exchequer 2013/17 | 12.77 | 12.94 | +0.17 |
| 3 1/2% War Loan (Flat Yield) | 12.35 | 12.54 | +0.19 |

Gilt edged yields [F.T. High coupon]



Interbank rates



Per cent Time / Yield Curves of British Government Stocks

23rd June 1982

