

NOTE FOR WEDNESDAY MEETING

MARKETS: 23 JUNE TO 29 JUNE 1982

MONEY

The week began with a severe cash shortage in the market as a strongly adverse Exchequer position added to the volume of bills maturing in official hands. Thereafter the shortages were more moderate as the effect of the maturing bills was partially offset by Exchequer positions favourable to the market. On Monday the regular fall in the note circulation also helped to alleviate the impact of nearly £3/4 bn of maturing bills.

The Bank provided assistance each day by the outright purchase of bills. On Monday the dealing rate in band 4 was raised by 1/16 to 12 5/16% in response to market movements.

Six and twelve month interbank rates were quite steady for most of the week despite large rises in eurodollar rates. Increases in these interbank rates were confined to Friday morning and were only slight. The three month rate showed more movement and was rather firmer straight after the weekend although it fell back on Tuesday as eurodollar rates came off their recent highs. Short rates, having risen in the tight money conditions of Wednesday maintained these new levels until Tuesday when they were slightly easier. The yield curve of interbank rates still shows a slight upward incline. The 7 day rate showed no net change over the week, closing at 12 13/16%, while the 3 month rate closed at 13 1/8%, 1/16 higher than last week.

Eurosterling rates were generally steady to slightly firmer under the influence of rising eurodollar rates. The 3 month rate rose about 3/16 to 13 3/16%.

At the Treasury bill tender on Friday the average rate of discount rose slightly to 12.2696%.

LOCAL AUTHORITY BORROWING

The rate for one year bonds rose by $1/8\%$ to $13\ 1/4\%$. Issues amounted to £14.5mn (£11.25mn last week) against maturities of £15mn.

GILTS -

The market remained preoccupied by US developments and by movements in the exchange rate, with the rail strike an additional adverse influence. However, the ending of the strike prompted a rally yesterday.

With US bonds easier overnight, the dollar strengthening again and domestic money market conditions tight, prices tended to resume their downward course on Wednesday, finishing up to $3/16$ lower in shorts and $3/8$ lower in longs.

Although trading remained extremely slow, the market was helped on Thursday by the slight improvement in US bonds overnight and in sterling and closed with gains of about $1/8$ in shorts and $3/8-1/2$ in longs.

On Friday, however, prices weakened again as sterling fell back against the dollar and with the prospect of a national rail strike; prices in all sections fell by up to $1/2$, though the index-linked stocks remained steady.

The market tone remained uncertain after the weekend as sterling continued to slip back. But early selling on Monday soon faded and prices ended the day only slightly lower at the long end.

Yesterday, the market opened better following the ending of the rail strike and took further encouragement during the day from the improvement in sterling, although concern about US interest rates remained a restraining influence. Small official sales of stock were made and prices ended about $1/4$ up in shorts and $5/8-3/4$ higher in longs; but turnover generally remained very low.

Over the week as a whole, yields on shorts rose by up to $1/16-1/8\%$ (to $13\ 1/2-13\ 3/4\%$ on 5-year maturities) and were little changed

on longs (13 1/2-14% on 20-year maturities). Yields on the indexed stocks rose slightly, ranging from 2.96% (IG 1988) to 3.14% (IG 1996).

EQUITIES

The market continued to be inhibited by the upward trend in US interest rates, the weakness of sterling and industrial problems. Prices drifted lower in very quiet trading, but staged some recovery yesterday following the ending of the rail strike.

The market opened slightly better on Wednesday, helped by the overnight strength of US equities. However, little demand materialised, although defence shares (helped by good results from Racal and Ferranti) were a bright feature.

This firmer tendency continued initially on Thursday but nervous selling developed later in the day and the FT 30-Share Index closed 1.7 lower on balance.

The prospect of a rail strike continued to undermine confidence on Friday and prices drifted lower to produce a fall of 5.1 in the Index.

After the weekend, the latest reports from the CBI and the London Business School added to the market gloom on Monday. Little actual selling materialised in the extremely quiet conditions but the 30-Share Index fell by a further 4.9.

Yesterday, the news that the rail strike had been called off led to a rally in prices, though it failed to generate any significant expansion in trade. Defence and electrical shares were again in demand. The 30-Share Index ended the day 7.8 higher at 552.0, a fall of 3.8 over the week. The 500-Share Index closed at 353.21, only 0.58 lower over the week.

NEW ISSUES

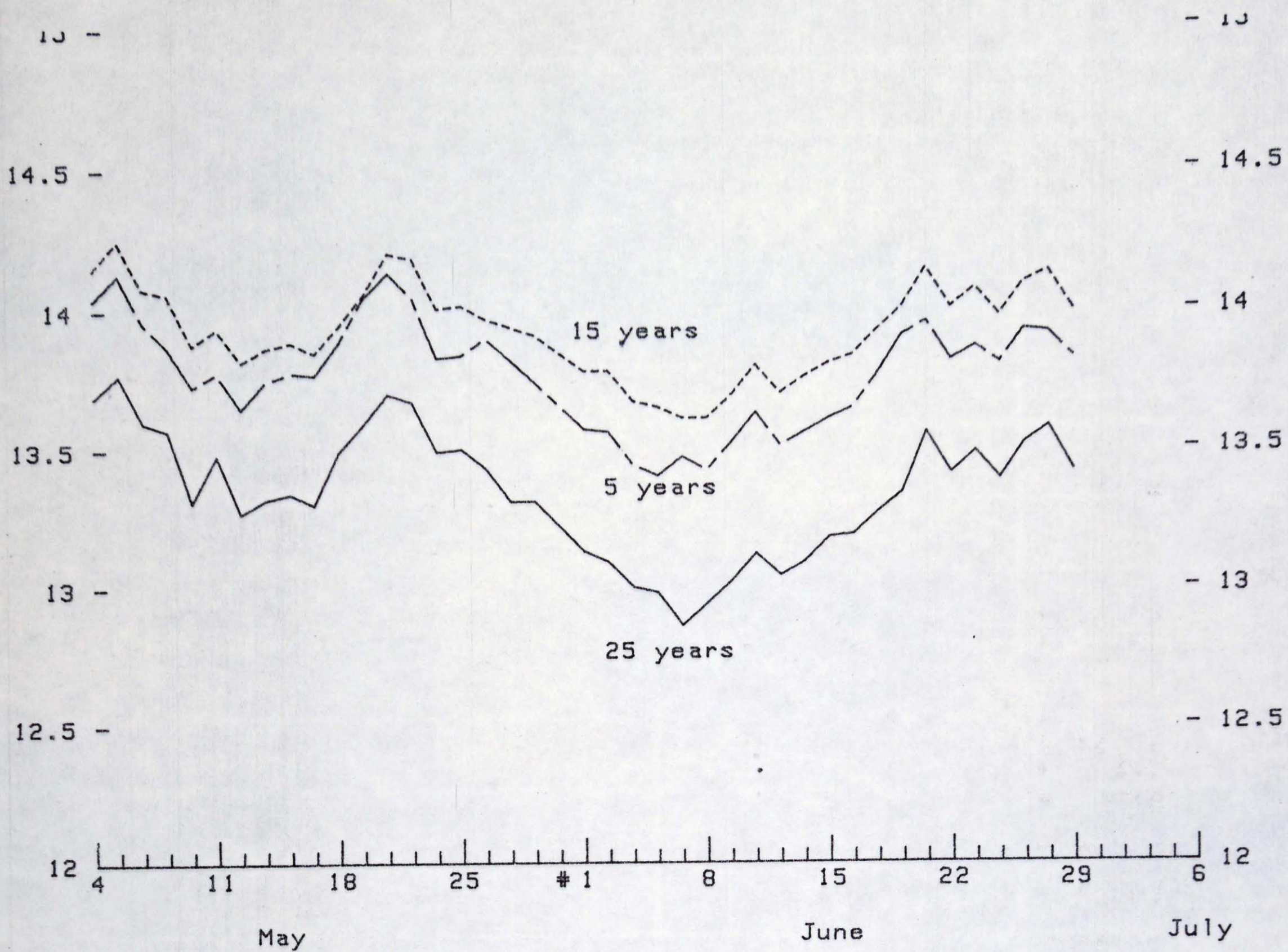
Queue

No new issues of £10mn or more were added to the queue which totals £877mn against £891mn last week.

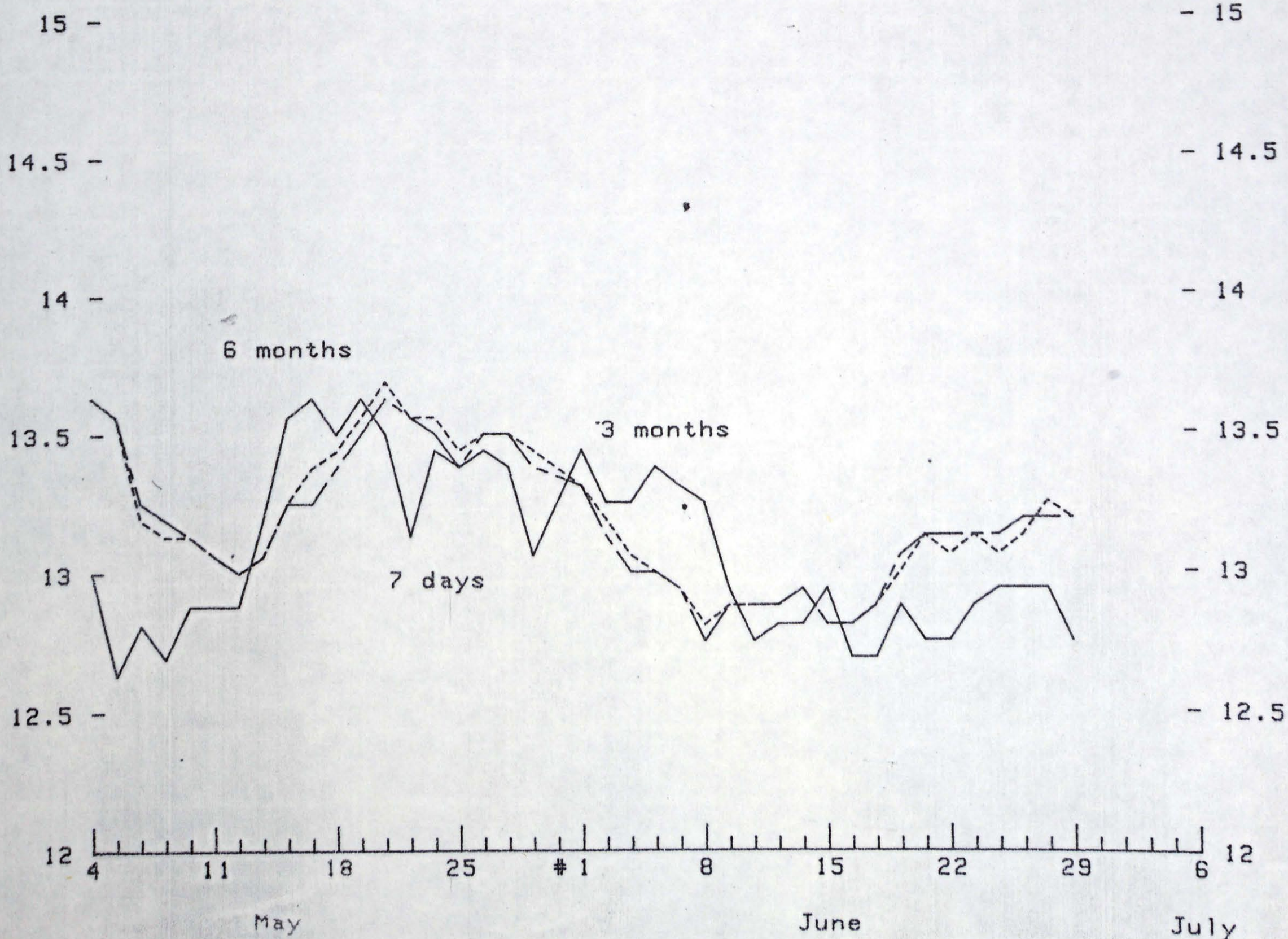
Init EAJG

30 June 1982

Gilt edged yields [F.T. High coupon]



Interbank rates



Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

	23. 6.82 <u>-29. 6.82</u>	Cal Qtr and Fin Year <u>to date</u>	17. 2.82 <u>to date</u>
Issue Department			
Purchases/sales			
Next Maturities	-	- 253	- 440
Other short-dated	- 2	+ 99	+ 458
	- 2	- 154	+ 18
Mediums	+ 30	+ 1,057	+ 1,566
Longs and undated	- 23	+ 26	+ 285
Total Issue			
Department trans- actions	+ 5	+ 929	+ 1,869
CRND	-	+ 240	+ 345
Redemptions	-	- 60	- 414
	<u>+</u> 5	<u>+</u> 1,109	<u>+</u> 1,800

2. Redemption Yields (tax ignored)

	<u>22 June</u>	<u>29 June</u>	<u>Change</u>
15% Treasury 1985	13.49	13.57	+0.08
12% Treasury 1987	13.74	13.74	N/C
11 3/4% Treasury 1991	14.20	14.17	-0.03
13 1/2% Treasury 1994	14.24	14.24	N/C
2% Index-Linked			
Treasury 1996	3.12	3.14	+0.02
12 1/4% Exchequer 1999	13.76	13.78	+0.02
14% Treasury 1998/01	13.93	13.93	N/C
12% Exchequer 2013/17	12.94	12.94	N/C
3 1/2% War Loan (Flat Yield)	12.54	12.57	+0.03

Per cent Time / Yield Curves of British Government Stocks

30th June 1982

The curves have been fitted to the gross redemption yield on stocks with one year or more to maturity.

FT Actuaries All Share Index gross dividend yield 6.1 at 29th June

LA 3-month deposit rate (average of days range) at 29th June

FT Actuaries 15 year debenture index yield at 29th June

TB: average rate of discount at previous Fridays tender, expressed as an annual yield with half-yearly interest payments.

FT 15 year Deb 14.69(+.04)
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