

## NOTE FOR WEDNESDAY MEETING

MARKETS: 30 JUNE TO 6 JULY 1982

## MONEY

Shortages in the money market were again moderate this week as the effect of bills maturing in official hands continued to be partially offset on most days by an Exchequer position favourable to the market. The redemption of 8 1/4% Treasury Stock 1982 contributed towards the much easier conditions on Monday.

The Bank gave assistance every day, purchasing a combination of eligible bank, Treasury and local authority bills. On Monday the Bank's dealing rate for band 4 was moved back down to 12 1/4% and on Tuesday the 'stop' rates in bands 3 and 4 were both reduced 1/16 to 12 5/16% and 12 3/16% respectively.

Interbank rates showed falls over the week as upward pressure on eurodollar rates abated and a softer tone emerged. The largest falls accrued after the weekend and the market, encouraged by the Bank's moves to follow the falls in interbank rates in its longer dealing rates, began again to consider the possibility of a cut in base rates. The 7 day rate closed 1/8 down over the week at 12 11/16%, while the 3 month rate fell 3/8 to close at 12 3/4%.

Eurosterling rates also showed an easing over the week particularly after the weekend. The 3 month rate closed at 12 13/16%, 3/8 down over the week as a whole.

At the Treasury bill tender on Friday the average rate of discount fell about 0.04 to 12.2313%.

## LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by 3/8% to 12 7/8%. Issues amounted to £16.1mn (£14.5mn last week) against maturities of £14.5mn.



## GILTS

The market held up well prior to the weekend despite the ASLEF strike threat and continuing worries about US interest rates. With interest rate optimism rekindled after the weekend, prices rose sharply on Monday and a sizeable amount of the 1986 tap was sold. Conditions remained firm yesterday, despite some late profit-taking.

Helped by the overnight strength of US bonds and the firmness of sterling, the market shrugged off the ASLEF strike call to show sizeable gains on Wednesday. Some official sales of stock were made and prices ended up to  $3/4$  higher in shorts and 1 higher in longs.

With continuing uncertainties about US interest rates, sentiment was less buoyant on Thursday, though the underlying tone remained firm. Prices generally closed with little change on the day, except for the low coupon stocks which saw specialist demand and rose by up to about  $1/2$ .

The continuing deadlock on the railways helped to inhibit demand on Friday, but prices ended only slightly lower in quiet trading.

After the weekend, interest rate optimism was revived on Monday by the latest fall in US  $M_1$  and by signs of a softening in domestic rates. During the morning a sizeable amount of the 1986 Convertible tap was sold at  $30 \frac{1}{4}$  (30-paid) and shorts ended the day with gains of about  $1/2$  with longs up to 1 higher.

The market continued firm yesterday although the buying pressure was somewhat less than on Monday. More official sales were made (including further amounts of the 1986 tap at  $30 \frac{3}{8}$  and some of IG 1988). Following the announcement of the June banking figures, which indicated a rise in  $\text{£}M_3$  much in line with expectations, some profit-takers emerged and shorts and longs ended with net gains of about  $1/4$  and  $1/8$  respectively.

Over the week as a whole, yields on shorts fell by  $5/16-1/2\%$  (to  $13 \frac{1}{4}-13 \frac{3}{8}\%$  on 5-year maturities) while those on longs fell by about  $1/4\%$  (to  $13 \frac{1}{4}-13 \frac{5}{8}\%$  on 20-year maturities). Yields on



the indexed stocks were little changed, ranging from 2.98% (IG 1988) to 3.14% (IG 1996).

#### EQUITIES

Trading was generally sluggish and depressed prior to the weekend, but confidence revived thereafter in line with gilts and on hopes of early base rate cuts.

The mood was uncertain at Wednesday's opening in the face of the renewed threat to the railways. However, encouragement was taken from the firm showing of gilts and prices ended slightly higher on balance in thin trading.

Turnover remained low on Thursday and prices eased back before recovering some ground in late trading after the announcement of GEC's results; the 30-Share Index ended with a net fall of 5 points.

Conditions remained dull on Friday with the prospective rail strike a depressing influence. The 30-Share Index shed a further 6.3 points to 543.0, its lowest level since January of this year; defence and electrical shares were the only major exception to the general downward trend.

After the weekend, the market opened slightly easier on Monday, but confidence was boosted by the strong performance of gilts and the Index ended with a net gain of 5.4.

Hopes of base rate cuts enabled this recovery to be extended yesterday, although Wall Street's opening dullness induced a note of caution and the Index ended slightly off the best at 554.0, a rise of 5.6 on the day but only 2.0 over the week. The 500-Share Index ended at 353.60, up 0.39 over the week.

#### NEW ISSUES

##### Queue

With the cancellation of large rights issues for Granada (£75mn)



SECRET

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and Bowater (£80mn), and no significant additions, the queue now totals £734mn compared with £877mn last week.

Init EAJG

7 July 1982



Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases - )

1. Transactions (cash value)

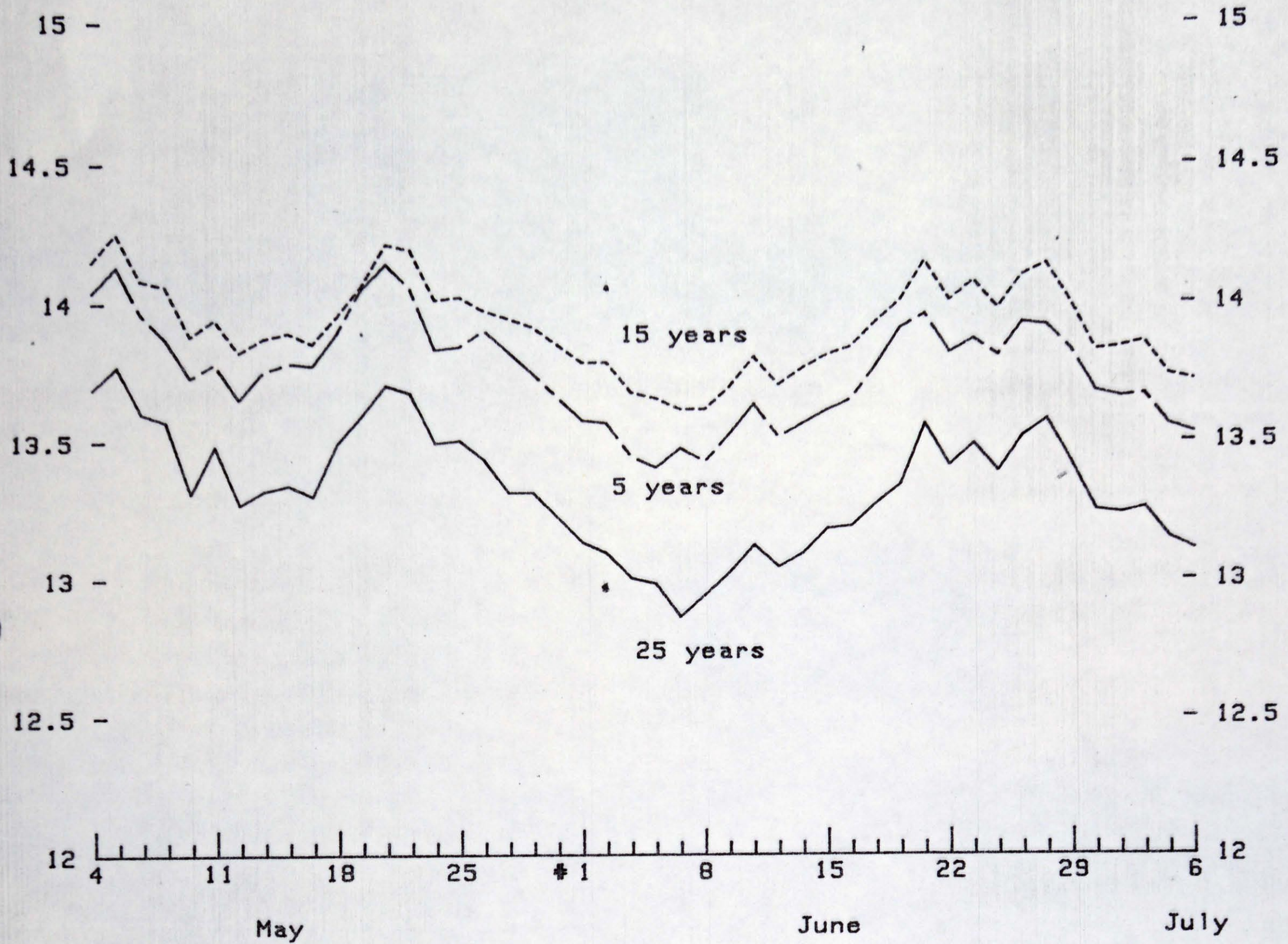
	30. 6.82 <u>- 6. 7.82</u>	Cal Qtr to date	Fin year to date	17. 2.82 to date
Issue Department				
Purchases/sales				
Next Maturities	-	- 253	-	- 440
Other short-dated	+ 83	+ 183	+ 51	+ 541
	+ 83	- 70	+ 51	+ 101
Mediums	+ 86	+ 1,143	+ 83	+ 1,652
Longs and undated	+ 106	+ 132	+ 67	+ 391
Total Issue				
Department trans- actions	+ 275	+ 1,205	+ 201	+ 2,144
CRND	-	+ 240	-	+ 344
Redemptions	- 471	- 531	- 471	- 885
	- 196	+ 914	- 270	+ 1,593

2. Redemption Yields (tax ignored)

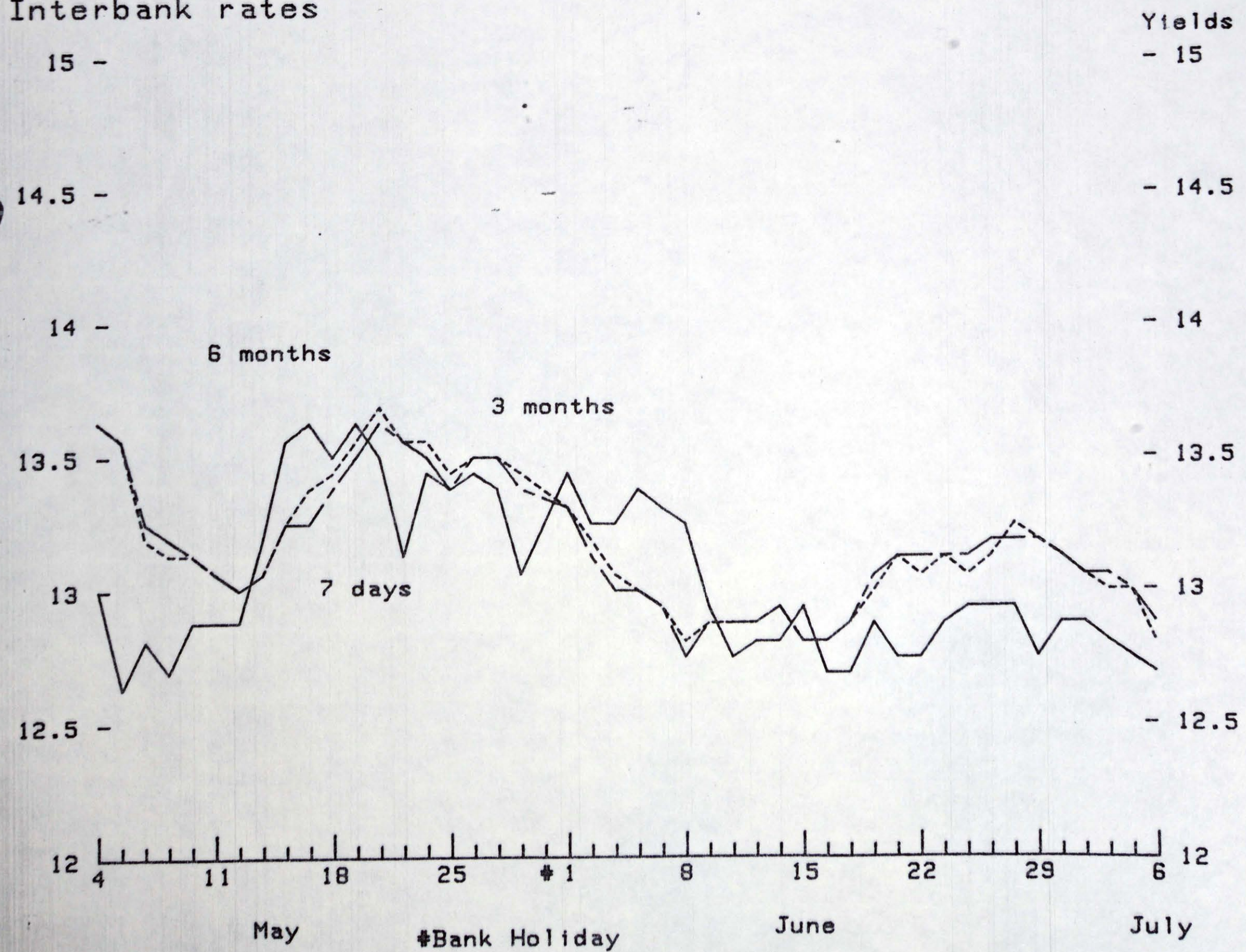
	<u>29 June</u>	<u>6 July</u>	<u>Change</u>
15% Treasury 1985	13.57	13.08	-0.49
12% Treasury 1987	13.74	13.42	-0.32
11 3/4% Treasury 1991	14.17	13.92	-0.25
13 1/2% Treasury 1994	14.24	13.97	-0.27
2% Index-Linked			
Treasury 1996	3.14	3.14	N/C
12 1/4% Exchequer 1999	13.78	13.49	-0.29
14% Treasury 1998/01	13.93	13.68	-0.25
12% Exchequer 2013/17	12.94	12.71	-0.23
3 1/2% War Loan (Flat Yield)	12.57	12.38	-0.19



Gift edged yields [F.T. High coupon]



Interbank rates





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 6th July

FT Actuaries 15 year debenture index yield at 6th July

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 6.1 at 6th July

