

NOTE FOR WEDNESDAY MEETING

MARKETS: 7 JULY TO 13 JULY 1982

MONEY

Conditions tightened in the money markets this week with shortages of £500mn or over each day except Tuesday. Bill maturities were generally only moderate but before the weekend an adverse Exchequer position added to their impact on the market's cash position rather than being an offsetting influence as in the recent past. The first two days of the week were particularly short as the clearing banks sought to restore their operational balances to the targeted levels, and Friday saw a large cash drain from the rise in the note circulation as this builds towards its summer peak. On Monday payment for large official sales of gilt-edged stock contributed to the shortage but was partially offset by the favourable impact of other Exchequer transactions. The unwinding of repurchase agreements undertaken on Thursday contributed to the overall position on both Monday and Tuesday.

The Bank's assistance, until Tuesday, was concentrated in bills bought under short repurchase agreements. Some bills were also bought outright, however, every day except Friday. Dealing rates on outright purchases were reduced each day and over the week showed falls of between 7/16 and 1/2. The lowest dealing rates on Tuesday were in band 1, 12 1/8%; band 2, 12%; band 3, 11 7/8% and band 4, 11 3/4%.

Continued falls in eurodollar rates (stemming from optimism about prospective falls in US domestic rates) together with the reductions in the Bank's dealing rates encouraged a softening of period interbank rates as the market looked for a cut in base rates. Falls were particularly marked early on Monday following news of good US money supply figures but they then steadied as no news was forthcoming from the clearing banks. On Tuesday morning the clearing banks, led by National Westminster, announced reductions of 1/2 point in their base rates, to 12%, with effect from Wednesday

14th. As the news was completely expected period interbank rates fell no further and, indeed, firmed marginally as eurodollar rates hardened. The three month rate closed at 12 7/16%, a net fall of 5/16 over the week as a whole.

The tight money conditions over most of the week kept short interbank rates from falling sharply. The seven day rate rose to 12 13/16% at the beginning of the week before gradually easing back to stand at 12 5/8% at the close on Tuesday, 1/16 lower than last week.

Eurosterling rates matched the falls in domestic rates and the three month rate also closed at 12 7/16%, 3/8 down over the week as a whole.

At the Treasury bill tender on Friday the average rate of discount fell nearly 1/2 point to 11.7492%.

LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by 1/2% to 12 3/8%. Issues amounted to £15.25mn (£18.6mn last week) against maturities of £14.5mn.

GILTS

Hopes of lower domestic interest rates were strengthened by US developments and the market moved to its highest levels for 20 months, exhausting the 1986 tap. Yesterday's cut in base rate had been well discounted and, with a renewed upturn in US rates, the market suffered a modest reaction as some holders took profits.

The market returned to inactivity on Wednesday with enthusiasm tempered by the renewed weakness of sterling against the dollar. Prices tended to drift lower and ended 1/8-1/4 down.

Prices opened firmer on Thursday after the overnight strength of US bonds and improved further after the cut in the Bank's band 1 dealing rate; shorts ended the day up to 1/4 better with longs 1/2 higher.

With US interest rates falling overnight and US bonds sharply higher on speculation that the Federal Reserve was easing its monetary stance, the market continued firm at Friday's opening and it was possible to sell a substantial amount of the 1986 Convertible tap at 30 3/8 (30-paid) before withdrawing. Conditions were much quieter in the afternoon, but the undertone remained firm. Shorts closed with gains of about 3/16 with longs showing rises of up to 7/8.

Further enthusiasm was generated after the weekend by the sharp fall in US M_1 announced on Friday. The remaining supplies of the 1986 tap were quickly exhausted on Monday morning at a price of 30 3/4 and the untapped long end improved to show gains of up to 1 3/8. At this level, trade became more two-way, but the underlying tone continued firm and the FT Government Securities Index ended at 71.07, its highest since 24 November 1980. At the official close, the issue was announced of six £100 mn tranches with maturities ranging from 1985 to 1998.

Yesterday's cut in base rate was no more than expected and with the decline in US rates having apparently stalled for the moment, the market suffered a reaction following its previous advances. Shorts and longs opened with losses of about 3/16 and up to 1/2 respectively and fluctuated about these levels for the rest of the day. There was a small demand for index-linked stocks which was met by official sales.

Over the week, yields on shorts fell by up to 5/16% (to about 13-13 1/8% on five-year maturities) and on longs by about 1/4% (to 13-13 3/8% on 20-year maturities). Yields on the indexed stocks rose slightly to range from 3.02% (IG 1988) to 3.15% (IG 1996).

EQUITIES

With hopes of economic recovery diminishing, the market was less impressed than gilts with the prospect of lower interest rates and trading was dull for most of the week.

The market recovered from early losses on Wednesday to show a small net gain on the day. Some selective demand continued on Thursday, but prices later fell back as Wall Street opened sharply lower.

The overnight turnaround in US equities sparked by lower interest rates encouraged a firmer opening on Friday. However, little follow-through emerged and prices drifted to leave the 30-Share Index only 1.3 higher.

The market remained subdued on Monday with the rail strike and further gloomy predictions about economic prospects helping to counter expectations of imminent base rate cuts and Wall Street's continued good showing. The FT Index made only limited progress to close 4.8 up.

With US equities again showing good rises overnight, the market opened modestly firm yesterday. However, with the base rate cuts having been already discounted and with a continued lack of investor interest, the market soon followed gilts down. The 30-Share Index ended 3.2 lower at 554.3, almost unchanged over the week. The 500-Share Index closed at 353.92, also little changed.

NEW ISSUES

Queue

Interest in new equity issues remained slack with no issues of £10mn or more being added to the queue. However, Surrey County Council and Coventry are planning loan stock issues of £12mn and £20mn respectively (the former a convertible). Electricite de France is to make a bulldog issue of £75mn. The queue now totals £837mn against £734mn last week.

Init EAJG

14 July 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

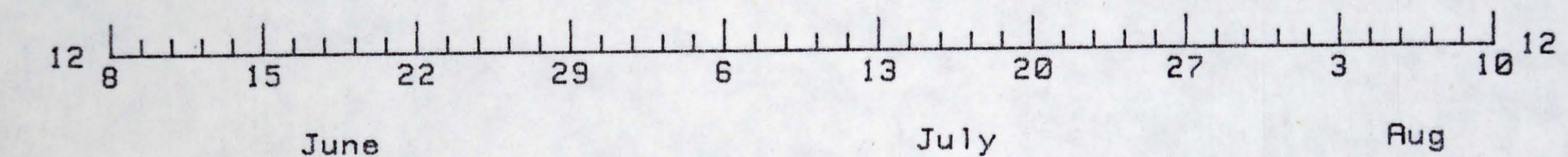
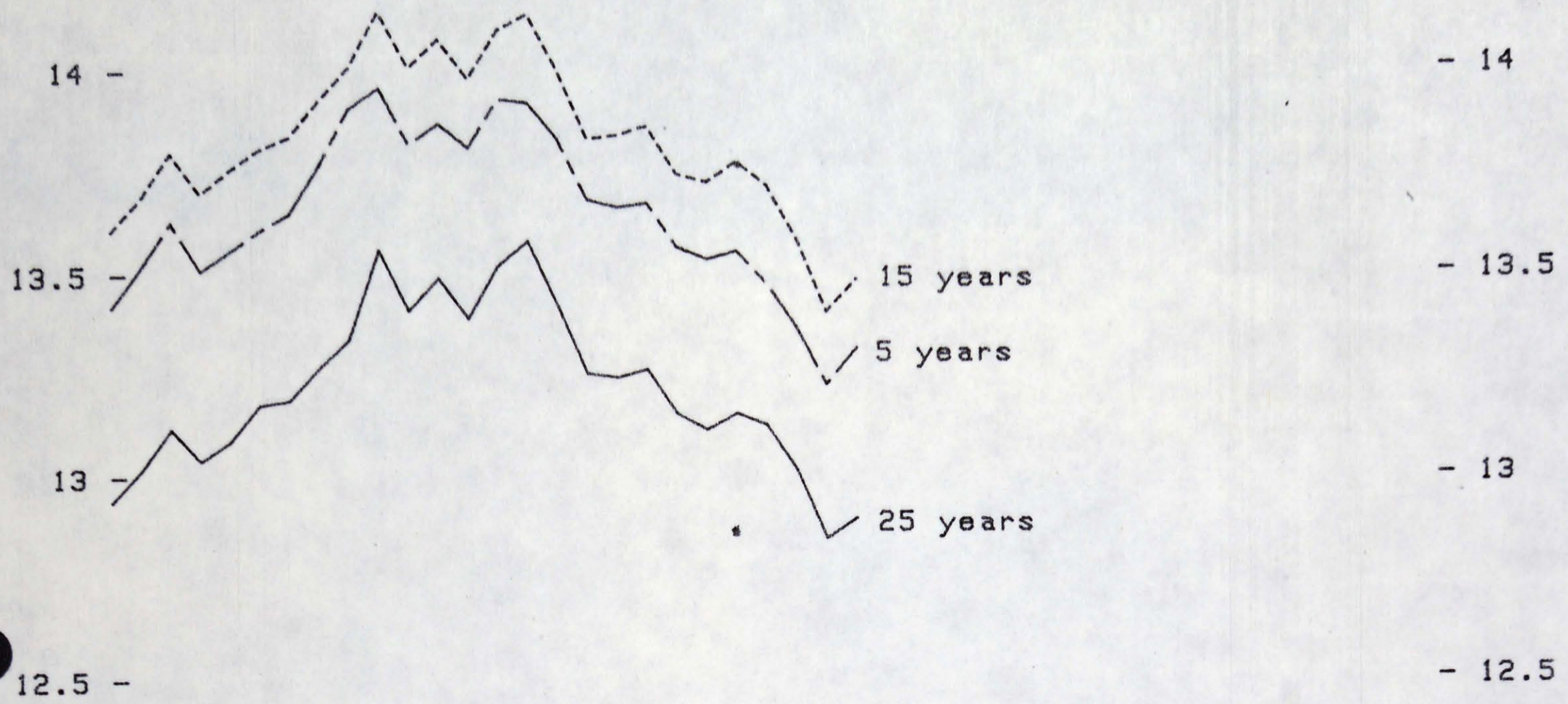
	7. 7.82 <u>-13. 7.82</u>	Cal Qtr <u>to date</u>	Fin year <u>to date</u>	17. 2.82 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	-	-	- 253	- 440
Other short-dated	+ 113	+ 163	+ 295	+ 654
	+ 113	+ 163	+ 42	+ 214
Mediums	+ 79	+ 162	+1,222	+ 1,731
Longs and undated	-	+ 67	+ 133	+ 391
Total Issue				
Department trans-				
actions	+ 192	+ 392	+1,396	+ 2,336
CRND	-	-	+ 240	+ 334
Redemptions	- 19	- 490	- 551	- 904
	<u>+</u> 173	<u>-</u> 98	<u>+</u> 1,086	<u>+</u> 1,766

2. Redemption Yields (tax ignored)

		<u>6 July</u>	<u>13 July</u>	<u>Change</u>
15%	Treasury 1985	13.08	12.88	-0.20
12%	Treasury 1987	13.42	13.11	-0.31
11 3/4%	Treasury 1991	13.92	13.69	-0.23
13 1/2%	Treasury 1994	13.97	13.75	-0.22
2%	Index-Linked			
	Treasury 1996	3.14	13.15	+0.01
12 1/4%	Exchequer 1999	13.49	13.25	-0.24
14%	Treasury 1998/01	13.68	13.42	-0.26
12%	Exchequer 2013/17	12.71	12.51	-0.20
3 1/2%	War Loan (Flat Yield)	12.38	12.19	-0.19

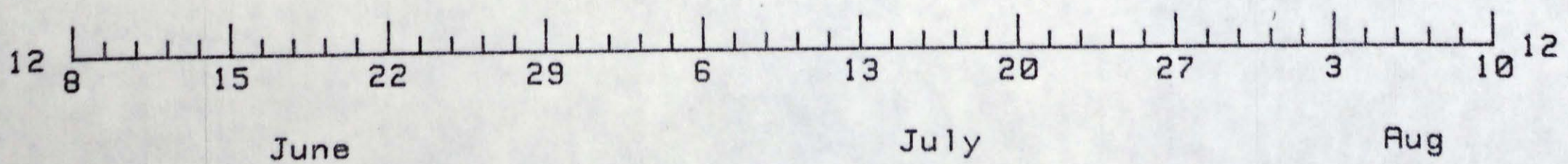
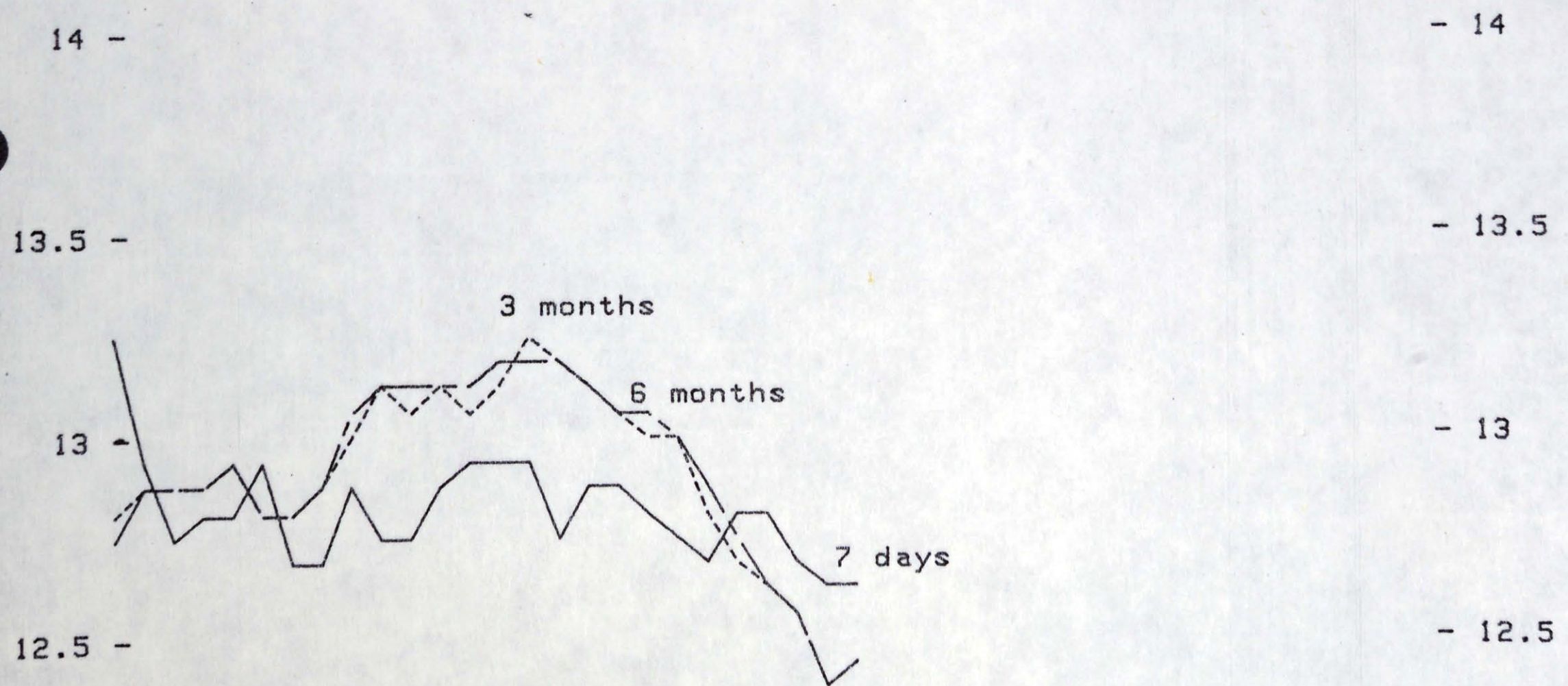
Gilt edged yields [F.T. High coupon]
14.5 -

- 14.5



Interbank rates
14.5 -

Yields
- 14.5



#Bank Holiday