

NOTE FOR WEDNESDAY MEETING

MARKETS: 14 JULY TO 20 JULY 1982

MONEY

Large shortages persisted in the money markets this week with Monday's position exceptionally severe at over £1 bn. Payment after the weekend for substantial official sales of gilt-edged stock and a call on 12 1/4% Treasury Convertible 1986 on Monday were together responsible for nearly a third of the week's shortage but the unwinding of earlier money market assistance remained the largest single factor, accounting for just over half of the week's shortage. Most of the unwinding assistance took the form of maturing commercial bills but in addition, a sizeable repurchase agreement fell due on Wednesday.

The Bank provided assistance every day. Before the weekend this was through outright purchases of bills in all bands but thereafter, although bills were also bought on an outright basis, most of the assistance was provided by means of bills bought for resale in a week's time. The lowest dealing rates in bands 3 and 4 were reduced on Monday by 1/16 and 1/8 respectively to 11 13/16% and 11 5/8%.

In the interbank market period rates showed a slight firming prior to the weekend as renewed uncertainty over the likely course of US interest rates in the short-term provided the main influence. The situation changed after the weekend, however, and period rates showed falls of up to 1/4 each day as better than expected US money supply figures were followed by cuts in prime rates and, more significantly, in the Fed's discount rate. The three month interbank rate, having touched 12 9/16% before the weekend ended at 12 1/8%, a net fall of 5/16 over the week as a whole.

Although short interbank rates fell sharply on Wednesday in the wake of the base rate cuts, the very tight money conditions soon brought about a return to higher levels and the seven day rate ended the week 1/16 up at 12 11/16%.

Eurosterling rates were also influenced by developments in the USA and so behaved similarly to domestic rates over the week. The three month rate also ended at 12 1/8%, 5/16 down over the week as a whole.

At the Treasury bill tender on Friday the average rate of discount fell about 0.12 to 11.6339%.

LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by 3/8% to 12%. Issues amounted to £18.85 mn (£17.75 mn last week) against maturities of £15.35 mn.

GILTS

Encouraged by US developments and by the ending of the rail strike, the market moved to new two-year highs after the weekend, exhausting the recently issued tranches.

The market steadied on Wednesday after the reaction the previous day which had followed the cuts in base rates.

On Thursday prices began to drift upwards again and closed about 3/8 better in all sections. Small demand for the indexed stocks continued to be met by official sales.

Conditions remained firm on Friday amid hopes of lower US interest rates. Sizeable official sales of IG 2011 were made as well as some of the recently issued tranches. By the close shorts were showing rises of 1/8-3/16 with longs up around 3/8.

After the weekend, the market opened very firm on Monday following the ending of the rail strike and the improvement in US bonds on the better than expected US M1 increase. During the morning prices improved sharply with the cut in the Bank's dealing rates helping to improve sentiment further. Large official sales were made, exhausting the remaining supplies of the tranches. Conditions were quieter in the afternoon but longs retained gains of about 1 3/8 with shorts slightly off the best at up to 7/8 higher.

Encouraged by the cut in some US banks' prime rates (16 1/2% to 16%) and in the Federal Discount Rate (12% to 11 1/2%), the market retained its firm undertone yesterday though activity was on a reduced scale; prices moved ahead further to close about 5/8 higher in all sections. The FT Government Securities Index ended at a new two-year high of 72.36.

Over the week as a whole, yields on shorts fell by about 1/2% (to 12 1/2-12 5/6% on 5-year maturities) while those on longs fell by 5/16-3/8% (to 12 3/4-13% on 20-year maturities). In contrast, yields on the IGs continued to drift upwards, ranging from 3.04% (IG 1988) to 3.18% (IG 1996).

EQUITIES

Trading remained dull prior to the weekend, but sentiment improved sharply thereafter on the ending of the rail dispute and on revived interest rate optimism.

The market continued to be overshadowed by the rail strike on Wednesday and the FT 30-Share Index was little changed on the day.

Activity remained at a low level on Thursday and although sentiment was supported by some good company results (Thorn EMI, Distillers, Dowty), prices tended to drift lower.

Hopes of an end to the rail strike helped improve the market tone on Friday, but the main feature was the sharp fall in Glaxo, one of the 30-Share Index constituents, following adverse comment on one of its new drugs. This helped to depress the Index which closed little changed.

The end of the rail strike and the favourable trend in interest rates encouraged increased activity on Monday and the Index gained 12.9 points on the day.

This improvement was extended yesterday but prices eased back from the best levels in the afternoon as Wall Street opened lower. The 30-Share Index closed at 576.2, a rise of 6.6 on the day and 21.9 over the week. The 500-Share Index ended at 366.86, up 12.94 over the week.

NEW ISSUES

Queue

Activity remained slack with no new issues of any size being added to the queue and with the cancellation of Ultramar's proposed £100 mn rights issue and the postponement to February of next year of Lloyds Bank's issue of the same size. Following the announcement of Australia's £100 mn bulldog issue, the queue now totals only £627 mn against £837 mn last week.

The Australian issue has a 28-year maturity and will be priced to yield one percentage point above the reference gilt.

A euro-sterling issue of £30 mn was launched last week for Tenneco International. Maturity is 5 years and coupon 14 3/4%.

(Int ALC)

21 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 to date	Fin year to date	17. 2.82 to date ϕ
Issue Department				
Purchases/sales				
Next Maturities	+ 10	+ 10	- 243	- 451
Other short-dated	+ 555*	+ 718	+ 850	+ 1,220
	+ 565	+ 728	+ 607	+ 769
Mediums	+ 363	+ 525	+1,585	+ 2,061
Longs and undated	+ 188	+ 255	+ 321	+ 605
Total Issue				
Department trans- actions	+1,116	+ 1,508	+2,513	+ 3,434
CRND	- 9	- 9	+ 230	+ 325
Redemptions	-	- 490	- 551	- 949
	<u>+</u>	<u>+</u>	<u>+</u>	<u>+</u>
	<u>+1,107</u>	<u>+ 1,009</u>	<u>+2,192</u>	<u>+ 2,810</u>

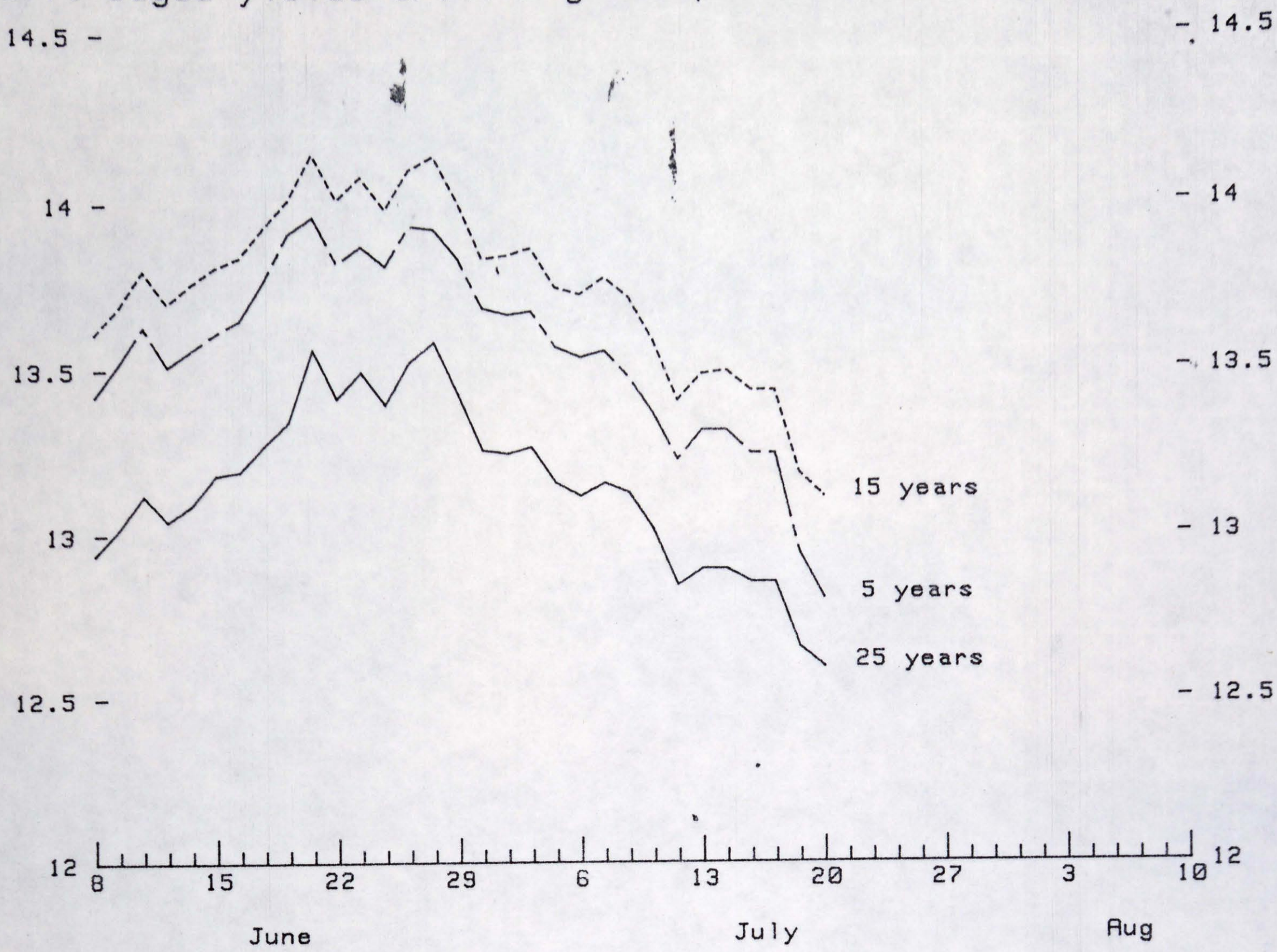
*Includes 503 in respect of call on 12 1/4% Treasury Convertible 1986.

ϕ Revised

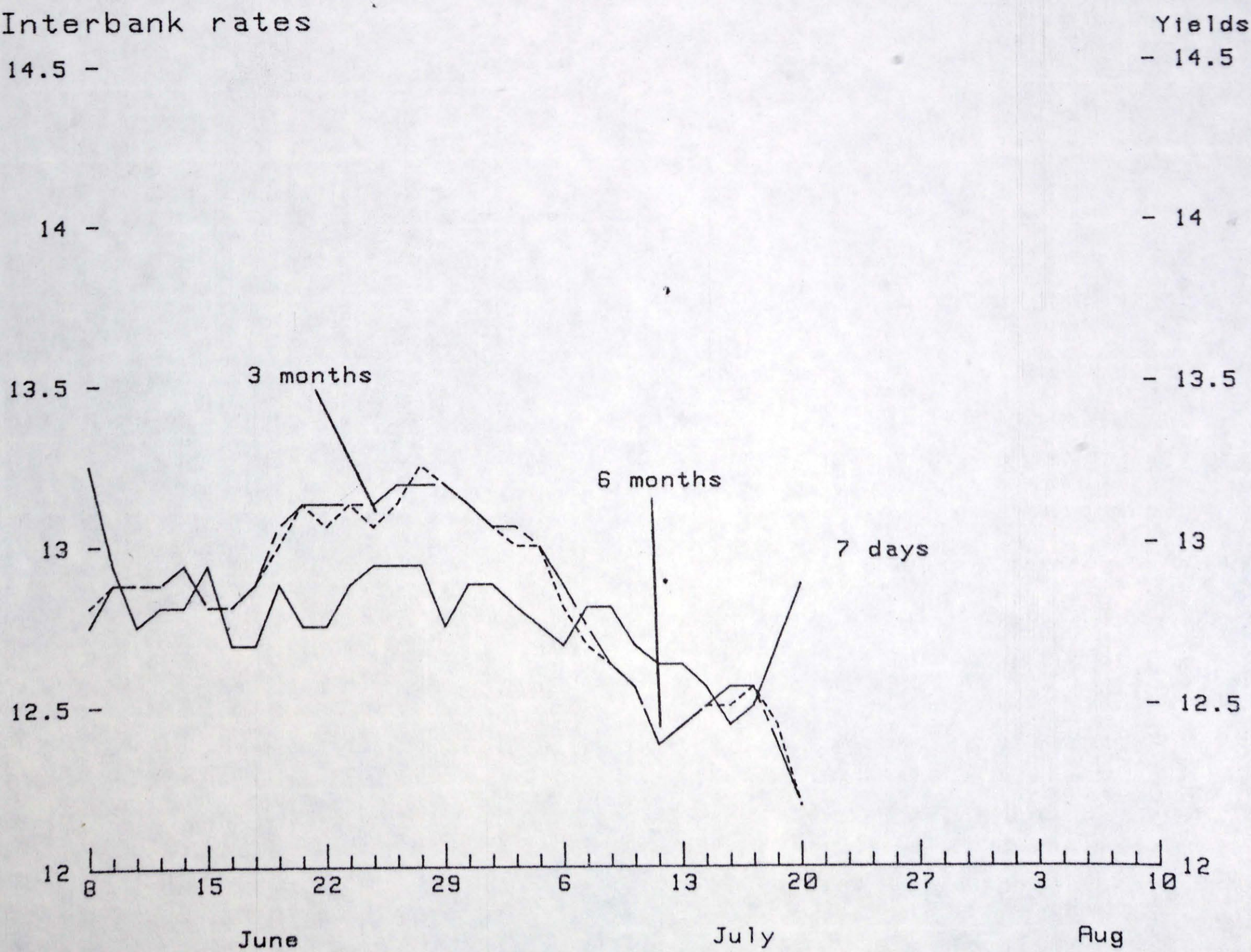
2. Redemption Yields (tax ignored)

		<u>13 July</u>	<u>23 July</u>	<u>Change</u>
15%	Treasury 1985	12.88	12.34	-0.54
12%	Treasury 1987	13.11	12.66	-0.45
11 3/4%	Treasury 1991	13.69	13.21	-0.48
13 1/2%	Treasury 1994	13.75	13.34	-0.41
2%	Index-Linked			
	Treasury 1996	3.15	3.18	+0.03
12 1/4%	Exchequer 1999	13.25	12.88	-0.37
14%	Treasury 1998/01	13.42	13.06	-0.36
12%	Exchequer 2013/17	12.51	12.22	-0.29
3 1/2%	War Loan (Flat Yield)	12.19	11.76	-0.43

Gilt 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 20th July

FT Actuaries 15 year debenture index yield at 20th 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 5.9 at 20th July

