

NOTE FOR WEDNESDAY MEETING

MARKETS: 21 JULY to 27 JULY 1982

MONEY

Conditions remained tight in the money markets this week. The main factors draining cash from the market were maturities of bills in official hands and the unwinding of bill repurchase agreements. On Monday an additional adverse factor was the settlement of Friday's sales of gilt-edged stock. The balance of Exchequer receipts and disbursements was in general favourable to the market.

The Bank gave assistance every day by purchases of bills outright and accepted lower rates on Wednesday and again on Monday to leave the lowest dealing rates at 11 15/16% in band 1 declining in 'steps' of 3/16 to 11 3/8% in band 4. Additionally, on four days the Bank bought bills for resale at a future date, the repurchase agreements accounting for about two thirds of the total assistance given this week.

Short-term interbank rates were firm in the tight money conditions at the start of the week. Having eased somewhat on Thursday when a smaller shortage emerged than of late, these rates firmed again over the weekend but eased back on Monday afternoon following the Bank's ample provision to the market. The seven day rate finished at 12 5/8%, 1/4 down over the week.

Longer rates tended easier up to the weekend encouraged by the continued decline in US rates and by hopes of a cut in clearing banks' base rates. These rates firmed slightly on Monday, influenced perhaps by the firming of Eurodollar rates as a result of disappointment over Friday's US money supply statistics. However the easier trend resumed on Tuesday and the three month rate closed 1/16 down on the week at 12 1/16%.

Eurosterling rates were generally steady this week although the 1 year rate drifted gently downwards. The three month rate ended 1/16 down on the week at 12 1/16%.

At the Treasury bill tender on Friday the average rate of discount fell about 0.4 to 11.2083%.

LOCAL AUTHORITY BORROWING

The rate for one year bonds was unchanged at 12%. Issues amounted to £14.35mn (£19.6mn last week) against maturities of £11.75mn.

GILTS

Hopes of lower US and domestic interest rates produced a generally firm tone prior to the weekend, particularly on Friday when sizeable amounts of tranches issued on Wednesday were sold. At Friday's close the FT Government Securities Index was at its highest level for almost three years. After the weekend, the market ran out of steam following its recent large gains, but the undertone yesterday was basically firm.

Encouragement was taken from the further cut in the Bank's dealing rates on Wednesday and early losses were soon regained. A few sellers re-emerged in the afternoon, however, and prices ended off the best with rises of 1/8-1/4. At the close the issue was announced of two £300mn tranches of 1989 and 1998 stocks.

Following this announcement the market was slightly easier after-hours and opened lower on Thursday. However demand emerged at these levels and prices quickly recovered to leave shorts up to 1/4 higher than at Wednesday's official close; mediums and longs were mostly unchanged on balance or slightly easier.

With US bonds firmer overnight and amid strengthening hopes of further base rate cuts, the market continued to move ahead on Friday and sizeable amounts of the recently issued tranches were sold (mainly the 1989 Stock at 92 7/8 and then at 93 1/8). After these sales, enthusiasm cooled somewhat, though the undertone remained generally firm with prices ending the day about 1/2 up in all sections. The FT Government Securities Index closed at 72.66, its highest since 1 October 1979.

The market failed to maintain its momentum after the weekend. Some sellers emerged at Monday's opening reflecting disappointment at the latest US money supply figure and although shorts rallied somewhat following the further reduction in the Bank's dealing rates, they finished with losses of 1/8-3/16 with longs up to 3/4 lower. The further cuts in some US banks' prime rates (from 16% to 15 1/2%) had little immediate impact.

Yesterday, prices initially continued their easier tendency following the overnight fall in US bonds. But some buyers appeared during the morning and the early losses were mostly regained; shorts and mediums ended the day showing small net gains in some cases, with longs unchanged.

Over the week as a whole, yields on shorts fell by 3/16-5/16% (to 12 1/8-12 3/8% on five-year maturities) while those on longs rose by about 1/8% (to 12 7/8-13 1/4% on 20-year maturities). Yields on the indexed stocks continued to edge upwards, ranging from 3.07% (IG 1988) to 3.20% (IG 1996).

EQUITIES

The market generally made some small headway over the week as a whole, but marked weakness in the engineering sector and declines in some other leading 30-Share Index constituents produced a sharp fall in the Index yesterday.

Wednesday saw some selective demand in early trading but prices later drifted back and with Glaxo showing fresh weakness the FT 30-Share Index ended 3.0 lower. The broader Indices were, however, marginally higher on the day and the Industrial Group Index reached a new peak.

Trading was dull on Thursday, but interest revived on Friday as hopes of lower interest rates strengthened. The 30-Share Index gained 5 points while the All-Share Index moved to a new all-time high.

The anticipated announcement of a relaxation in HP controls gave an early boost to sentiment on Monday but this quickly evaporated

on lack of follow-through and prices drifted lower to leave the 30-Share Index a net 4.9 down.

Yesterday, the main feature was the sharp fall in engineering shares reflecting the general gloomy outlook for this sector as hopes of economic recovery recede and rumours that one major company was in difficulties. With Glaxo continuing to decline on concern about one of its drugs and Turner and Newall also weak following the asbestos controversy, the 30-Share Index fell by 14 points at one stage before recovering somewhat to close at 561.5, a fall of 11.8 on the day and 14.7 over the week. The broader Indices held up much better: the 500-Share Index was down about 3.5 points yesterday to 369.55, a rise of 2.7 over the week as a whole.

NEW ISSUES

Queue

One new issue was added to the queue: a rights issue of £28mn. for Tricentrol. The queue now totals £610 mn against £627mn last week.

(Init ALC)

28 July 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

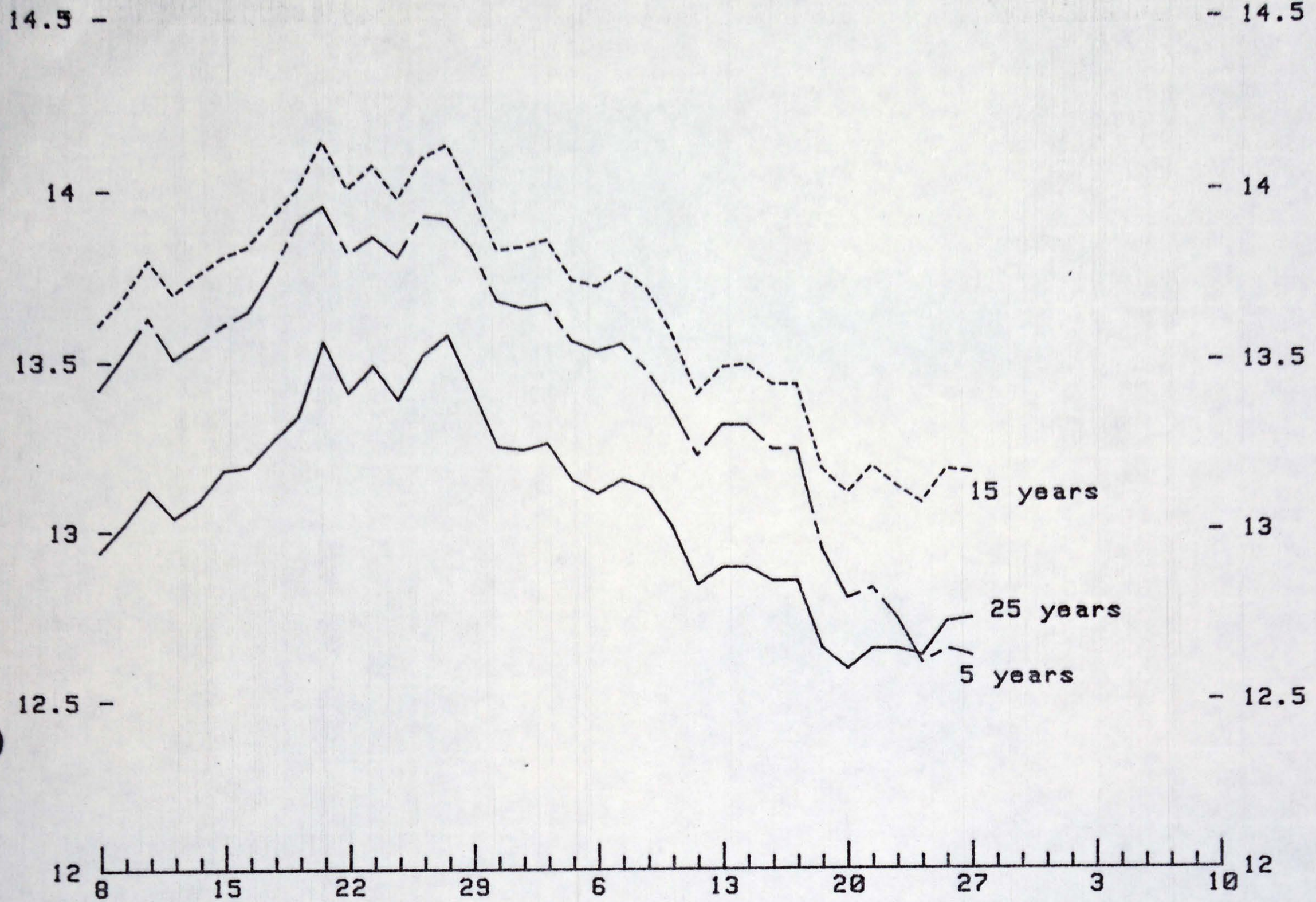
1. Transactions (cash value)

	14. 7.82 <u>-20. 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	- 30	- 20	- 274	- 481
Other short-dated	<u>+ 39</u>	<u>+ 757</u>	<u>+ 889</u>	<u>+ 1,259</u>
	+ 9	+ 737	+ 615	+ 778
Mediums	+ 116	+ 641	+1,701	+ 2,177
Longs and undated	<u>+ 16</u>	<u>+ 272</u>	<u>+ 338</u>	<u>+ 621</u>
Total Issue				
Department trans-				
actions	+ 141	+ 1,650	+2,654	+ 3,576
CRND	- 13	- 23	+ 217	+ 312
Redemptions	-	- 490	- 551	- 949
	<u>+</u>	<u>+</u>	<u>+</u>	<u>+</u>
	<u>128</u>	<u>1,137</u>	<u>2,320</u>	<u>2,939</u>

2. Redemption Yields (tax ignored)

		<u>20 July</u>	<u>27 July</u>	<u>Change</u>
15%	Treasury 1985	12.34	12.15	-0.19
12%	Treasury 1987	12.66	12.43	-0.23
11 3/4%	Treasury 1991	13.21	13.15	-0.06
13 1/2%	Treasury 1994	13.34	13.35	+0.01
2%	Index-Linked			
	Treasury 1996	3.18	3.20	+0.02
12 1/4%	Exchequer 1999	12.88	12.99	+0.11
14%	Treasury 1998/01	13.06	13.19	+0.13
12%	Exchequer 2013/17	12.22	12.29	+0.07
3 1/2%	War Loan (Flat Yield)	11.76	11.89	+0.13

Gilt edged yields [F.T. High coupon]



Interbank rates

July

Aug

Yields

