

## NOTE FOR WEDNESDAY MEETING

MARKETS: 28 JULY to 3 AUGUST 1982

## MONEY

This week again saw very tight conditions in the money markets although Thursday's shortage was much smaller than of late. The overall cash shortage was more than accounted for by the unwinding of previous assistance by the Bank, although official sales of gilt-edged stock on Monday also drained cash from the market. The Exchequer position favoured the market every day but Monday.

The Bank gave assistance every day by the outright purchase of bills. In addition on Wednesday, Friday and Tuesday bills were purchased for resale at a future date. The Bank lowered the rates at which it accepted offers of bills every day but Tuesday and these rates now stand at 11 9/16% in band 1, 11 3/8% in band 2, 11 1/4% in band 3 and 11 1/8% in band 4, 3/8 to 1/4 point lower than a week ago.

Short term interbank rates eased before the weekend in response to the reductions in the Bank's lowest dealing rates, the downward movement being rather pronounced on Thursday when much easier money conditions emerged. Following the announcement on Friday of 1/2 point reductions to 11 1/2% in the clearing banks' base rates with effect from Monday, short-term rates eased further. The seven day rate finished at 11 15/16%, 7/8% down on the week.

Longer interbank rates were steady at the start of the week amid uncertainty about the immediate future course of US domestic interest rates. These rates eased ahead of the weekend in response to the falls in US banks' prime rates and the further 1/2 point reduction in the Federal Reserve's discount rate. The easing continued after the weekend and longer rates were very easy on Tuesday following an easing of Eurodollar deposit rates in response to further cuts in US domestic rates. The three month rate ended at 11 7/16%, 5/8 down on the week.

Movements in Eurosterling rates were mixed at the start of the week, but an easier trend was established by the weekend. These rates were much easier on Tuesday, reflecting the continuing decline in domestic rates. The three month rate closed 5/16 down at 11 3/4%.

At the Treasury bill tender on Friday the average rate of discount fell about 0.125 to 11.0802%.

#### LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by 5/8% to 11 3/8%. Issues amounted to £19mn (£14.35mn last week) against maturities of £14.75mn.

#### GILTS

The market continued to spend the period before the weekend consolidating its recent gains. Thereafter it resumed its advance following further encouraging developments in the US. The 1989 tranche was exhausted on Monday and a further tranche of 1987 Stock was issued to the Bank yesterday.

The market continued to consolidate its gains of the previous week on Wednesday and prices edged higher in quiet trading.

Sentiment was slightly unsettled on Thursday morning by news of the record US Treasury borrowing for the third quarter. But prices tended to recover in light trading, helped by the continuing downward trend in domestic interest rates, and closed with only slight losses.

The market maintained a firm undertone on Friday, encouraged by the improvement in US bonds, and prices made small gains. The cut in base rates had already been discounted and made little impact.

Following the reduction in the Federal Reserve discount rate and the fall in the latest US M<sub>1</sub> figure - which produced a late

rally in US bonds on Friday - the market opened firm on Monday morning. The remaining supplies of the recently issued 1989 tranchette were exhausted (at a price of 93 1/2) and some of the 1998 tranchette was also sold. Prices ended the day about 7/16 higher in shorts and up to 3/4 better in longs.

With US rates continuing to fall (as evidenced by a general move to 15% prime rates), the market tone remained buoyant yesterday and it was possible to sell a sizeable amount of the 1998 tranchette. Prices ended the day about 3/8 up in all sections. At the close the issue was announced of £500mn of 12% Treasury 1987 "A" direct to the Bank.

Over the week as a whole, yields on shorts fell by a further 1/4-3/8% (to 11 7/8-12% on five-year maturities) while longs fell by 1/8-3/16% (to 12 3/4-13% on 20-year maturities). However, yields on the indexed stocks continued to drift gently upwards, ranging from 2.96% (IG 2011) to 3.21 % (IG 1996).

#### EQUITIES

Pessimism about the prospects for economic recovery led to dull trading for much of the week. Only yesterday did the market make any headway, encouraged by the good performance of Wall Street and the downward momentum in interest rates.

Wednesday saw somewhat steadier conditions after the previous day's sharp decline in the engineering sector. The underlying mood remained cautious, however, and prices made little headway.

On Thursday, the market opened easier following the sharp overnight fall on Wall Street. ICI's disappointing interim results were also a dampener on sentiment and the 30-Share Index ended 5.5 lower.

Trading remained dull on Friday, but early losses were regained in late trading and the Index closed little changed.

After the weekend, expectations of a gloomy CBI business survey instilled a cautious mood at Monday's opening. But the tone

improved somewhat during the day, helped in late trading by Wall Street's firm opening, and the Index recorded a small gain.

Yesterday, the market opened sharply higher, reflecting the strong overnight performance on Wall Street and the continuing downward trend in interest rates. The CBI survey had already been discounted and had little additional impact on sentiment. The 30-Share Index rose by 8 points to 566.2, an increase of 4.7 over the week as a whole. The 500-Share Index was little changed at 369.11.

#### NEW ISSUES

##### Queue

Four new issues of £10mn or more were added to the queue: these include offers for sale of £30mn by INSICO and £60mn by United International Pictures. The queue now totals £693mn against £610mn last week.

The decline in yields in recent weeks has stimulated interest in issues of loan stock and there are a number of candidates for issues in September (not yet in the queue). These include two UK companies - BOC and MEPC.

##### Net Capital Issues

The net amount of new money raised in banking July was £156mn against £274mn last month. The total for 1982 so far is £821mn, compared with £1,028mn in the same period of 1981.

(Init ALC)

4 August 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases - )

1. Transactions (cash value)

	21. 7.82 <u>-27. 7.82</u>	Cal Qtr to date	Fin year to date	17. 2.82 to date
Issue, Department Purchases/sales				
Next Maturities	- 21	- 41	- 294	- 502
Other short-dated	<u>-</u>	<u>+ 757</u>	<u>+ 889</u>	<u>+ 1,259</u>
	- 21	+ 716	+ 595	+ 757
Mediums	+ 185	+ 826	+1,886	+ 2,362
Longs and undated	<u>+ 164</u>	<u>+ 436</u>	<u>+ 501</u>	<u>+ 785</u>
Total Issue				
Department trans- actions	+ 328	+ 1,978	+2,982	+ 3,904
CRND	- 16	- 39	+ 201	+ 296
Redemptions	<u>-</u>	<u>- 490</u>	<u>- 551</u>	<u>- 949</u>
	<u>+ 312</u>	<u>+ 1,449</u>	<u>+2,632</u>	<u>+ 3,251</u>

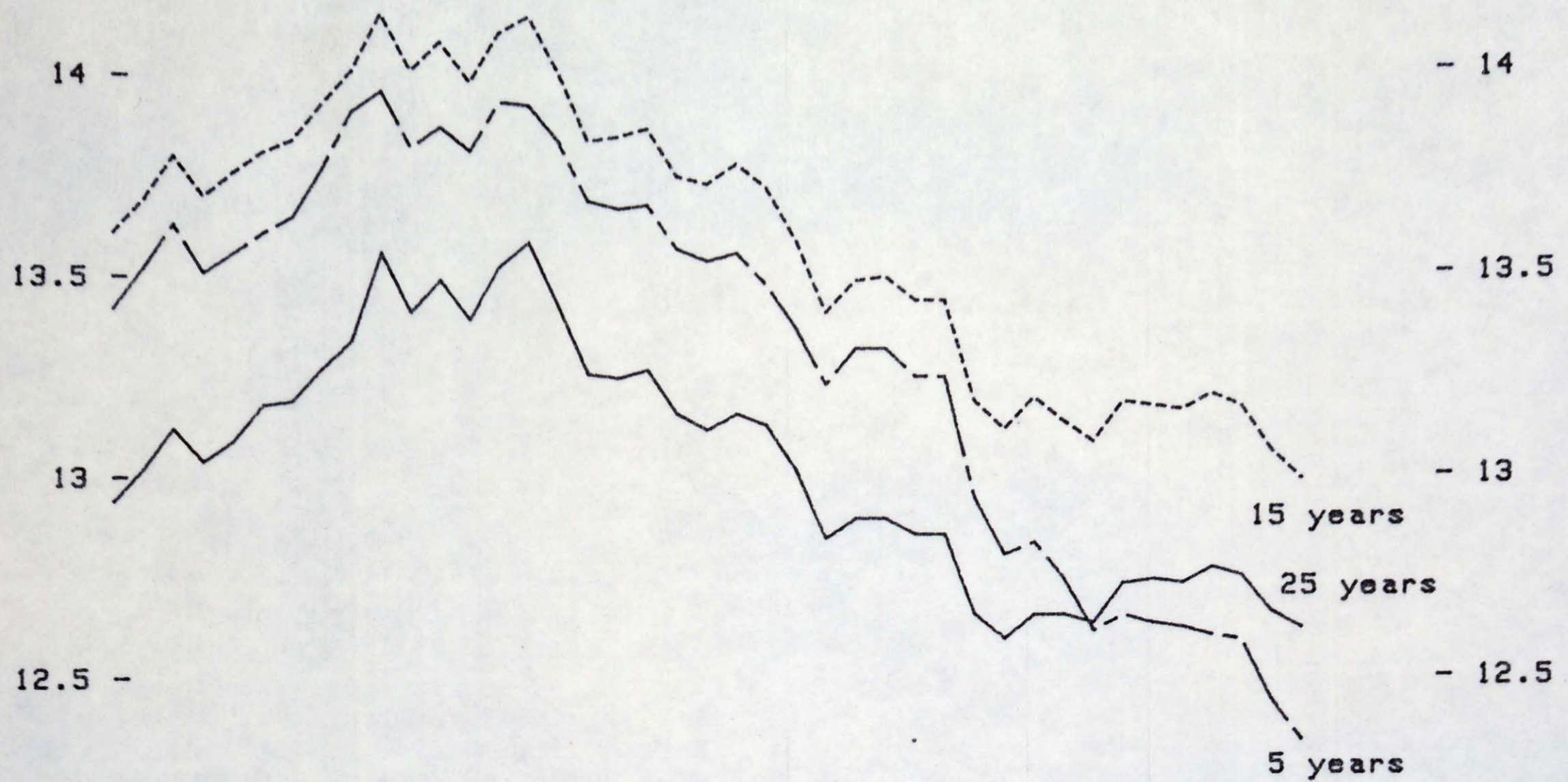
2. Redemption Yields (tax ignored)

	<u>27 July</u>	<u>3 August</u>	<u>Change</u>
15% Treasury 1985	12.15	11.50	-0.65
12% Treasury 1987	12.43	12.06	-0.37
11 3/4% Treasury 1991	13.15	12.91	-0.24
13 1/2% Exchequer 1994	13.35	13.14	-0.21
2% Index-Linked			
Treasury 1996	3.20	3.21	+0.01
12 1/4% Exchequer 1999	12.99	12.84	-0.15
14% Treasury 1998/01	13.19	13.03	-0.16
12% Exchequer 2013/17	12.29	12.16	-0.13
3 1/2% War Loan (Flat Yield)	11.89	11.81	-0.08

Gilt edged yields [F.T. High coupon]

14.5 -

- 14.5



12 8 15 22 29 6 13 20 27 3 10 12

June

July

Aug

Interbank rates

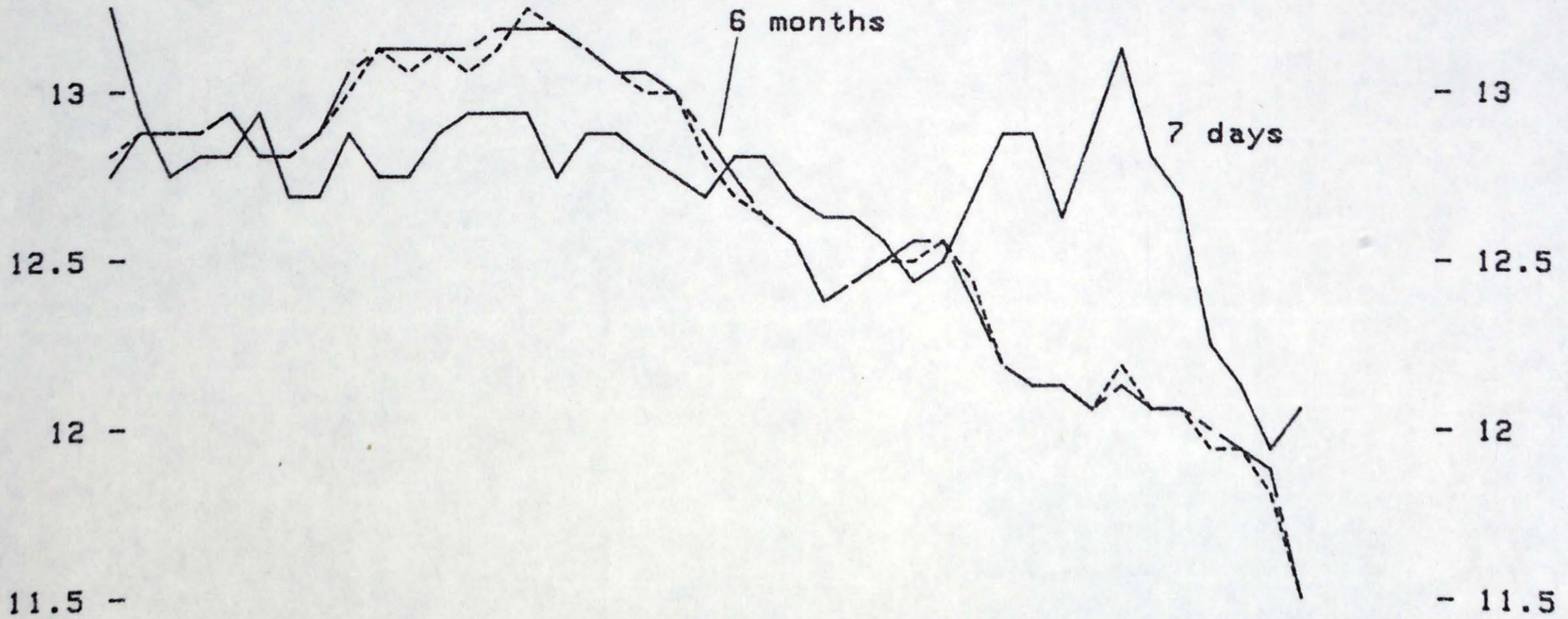
Yields

14 -

- 14

13.5 -

- 13.5



11 8 15 22 29 6 13 20 27 3 10 11

June

July

Aug