11. 8.82

NOTE FOR WEDNESDAY MEETING

MARKETS: 4 AUGUST TO 10 AUGUST 1982

MONEY

Fairly tight conditions persisted in the money markets this week. The main factor against the market continued to be the unwinding of previous assistance by the Bank although official sales of gilt-edged added to the daily shortages before the weekend. The Exchequer position too was modesty adverse over the week as a whole. The Bank gave assistance every day by the outright purchase of bills and also purchased bills for resale at future dates on the first three days of the week. On Wednesday the Bank accepted offers of bills at rates 1/16-1/8 below its previous stop rates. These now stand at 11 1/2% in band 1, 11 1/4% in band 2, 11 1/8% in band 3 and 11% in band 4.

Short-term interbank rates eased at the start of the week amid expectations of a further reduction in the clearing banks' base rates. Following the Bank's ample provision of assistance at lower rates on Wednesday these rates continued to ease on Thursday but firmed on Friday in response to sterling's weakness against the US dollar. Short rates eased again in Monday's comparatively easy money conditions but (apart from the overnight rate) finished the week on a firmer tone in response to the continued pressure on sterling. The seven-day rate closed at 11 5/8%, 1/4 point down on the week.

Longer rates began the week steady then eased on Thursday in sympathy with short-term rates. These rates also firmed before the weekend in response to the pressure on sterling. Longer rates were steady on Monday but a firmer tone reappeared on Tuesday following higher Eurodollar rates resulting from fears of an upturn in US domestic rates. The three-month rate nevertheless ended 1/8 down over the week at 11 3/8%.

Eurosterling rates eased before the weekend reflecting the decline in domestic rates. These rates firmed somewhat on Monday but eased back a little thereafter. The three-month rate finished at 11 3/8%, 1/8 down on the week.

At the Treasury bill tender on Friday, the average rate of discount fell about 0.36% to 10.7246%.

LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by 1/8% to 11 1/4%. Issues amounted to £21.1mn (£19mn last week) against maturities of £14.75mn. Among these were one four-year and two five-year bonds, the first such maturities for some time.

GILTS

The market fluctuated over the week as it tracked developments in the US. In the first two days further large amounts of stock - mainly the indexed gilts - were sold. But initial hopes of further base rate cuts were eroded by a renewed upturn in dollar interest rates and a sharp fall in the sterling/dollar exchange rate. Yesterday, however, saw a recovery in line with an improvement in US bonds.

The market opened slightly lower on Wednesday in response to the new tranche of 12% Treasury 1987 announced the previous afternoon and following the easier US bond market overnight. However, prices soon picked up again and initial losses were turned into small net gains which were held until the close. The main feature was the demand for indexed stocks: the remaining supplies of the 1996, 2006 and 2011 maturities were exhausted and a sizeable amount of IG 1988 was also sold. By the close the two longer stocks were showing rises of around 5/8-7/8.

Hopes of a further cut in base rates prompted early demand on Thursday and a significant amount of the 1987 stock was sold at 99 3/4 (1/8 above the price paid by the Bank on issue); further amounts were also sold of IG 1988 at 98 1/4 (1/4 above the previous day's price). In the afternoon, however, some profit-taking developed and prices finished with small net losses of 1/8-1/4.

The marked weakness of sterling against the dollar over the previous two days and indications that the decline in US rates might have bottomed caught up with the market on Friday. Further profit-taking saw longs up to 3/4 lower during the morning though they recovered slightly later in the day to close about 5/8 down; shorts recorded losses of up to 1/2. The indexed stocks, on the other hand, ended virtually unchanged.

With US bonds weakening further after disappointing US money figures and with sterling continuing to ease, the downward reaction continued on Monday. However, after the initial falls business became more two-way and prices ended above the worst with losses of 1/4-3/8.

Yesterday the market opened better following a recovery in US bonds and improved further during the morning to record gains of up to 3/8 in shorts and 3/4 in longs by lunchtime. Prices eased back slightly in the afternoon, however, following publication of the July banking figures.

Over the week yields on shorts rose by 1/8-1/4% (to 12-12 1/4% on five-year maturities) and those on longs by about 1/8% (to 12 7/8-13 1/4% on 20-year maturities). The indexed stocks reversed the trend of recent weeks by falling slightly to range from 2.89% (IG 2011) to 3.12% (IG 1996).

EQUITIES

Concern about the economy and the slump on Wall Street caused prices to fall back sharply.

The market lost part of the previous day's gains on Wednesday on further consideration of the gloomy CBI report and reflecting the renewed weakness on Wall Street. The FT 30-Share Index ended 5.9 lower.

The continued downward slide in US equities remained an inhibiting influence on Thursday which also saw disappointing results from Reed International and Barclays; but the 30-Share Index ended only slightly lower.

With the Dow Jones Index having dropped below the 800-barrier to a 28-month low, prices fell back sharply on Friday and the Index finished with a loss of 10.9 points.

Prices were marked down sharply on Monday morning as the jobbers tried to deter nervous selling. A small amount of demand was forthcoming at the lower levels and the Index recovered slightly to close 8.4 lower.

The slightly better tendency continued initially yesterday, but with no follow-though prices fluctuated in dull and featureless trading and the Index ended only marginally higher at 541.1, a fall of 25.1 over the week and the lowest level since January of this year.

NEW ISSUES

Queue

Activity was at its highest for some weeks. Among equities, the main addition was a £200 million offer for sale by Standard Telephones and Cables. However, this is a special case since it represents the disposal by ITT of a further 40% of its shareholding in the company. In view of the size, the disposal is being effected by means of an underwritten offer for sale with existing shareholders being offered preferential treatment.

In addition, this week's total has been swollen by the allocation of places in the fixed interest queue for September. Apart from a £40mn bulldog for Quebec Hydro, the main feature is the proposed issue of loan stock by three UK corporate borrowers. Among these is a £100mn issue with a possible 25-year maturity by BOC which, if it goes ahead, would be the first such issue by an industrial company since ICI in 1971. However, the company will only proceed if the issue can be made at a yield of not more than 13%. With the possible 2004/08 reference gilt currently yielding about 12 3/4% and a likely margin of about 1 1/8%, this would require yields to fall by a further 7/8% in the next six weeks or so. One of the other issues is for MEPC which was one of the last UK companies (other than a clearing bank) to issue loan stock (June 1972). In addition, City of Leeds is planning an issue of £50mn.

The queue now totals £1,121mn against £693mn last week.

(Init EAJG)
11 August 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

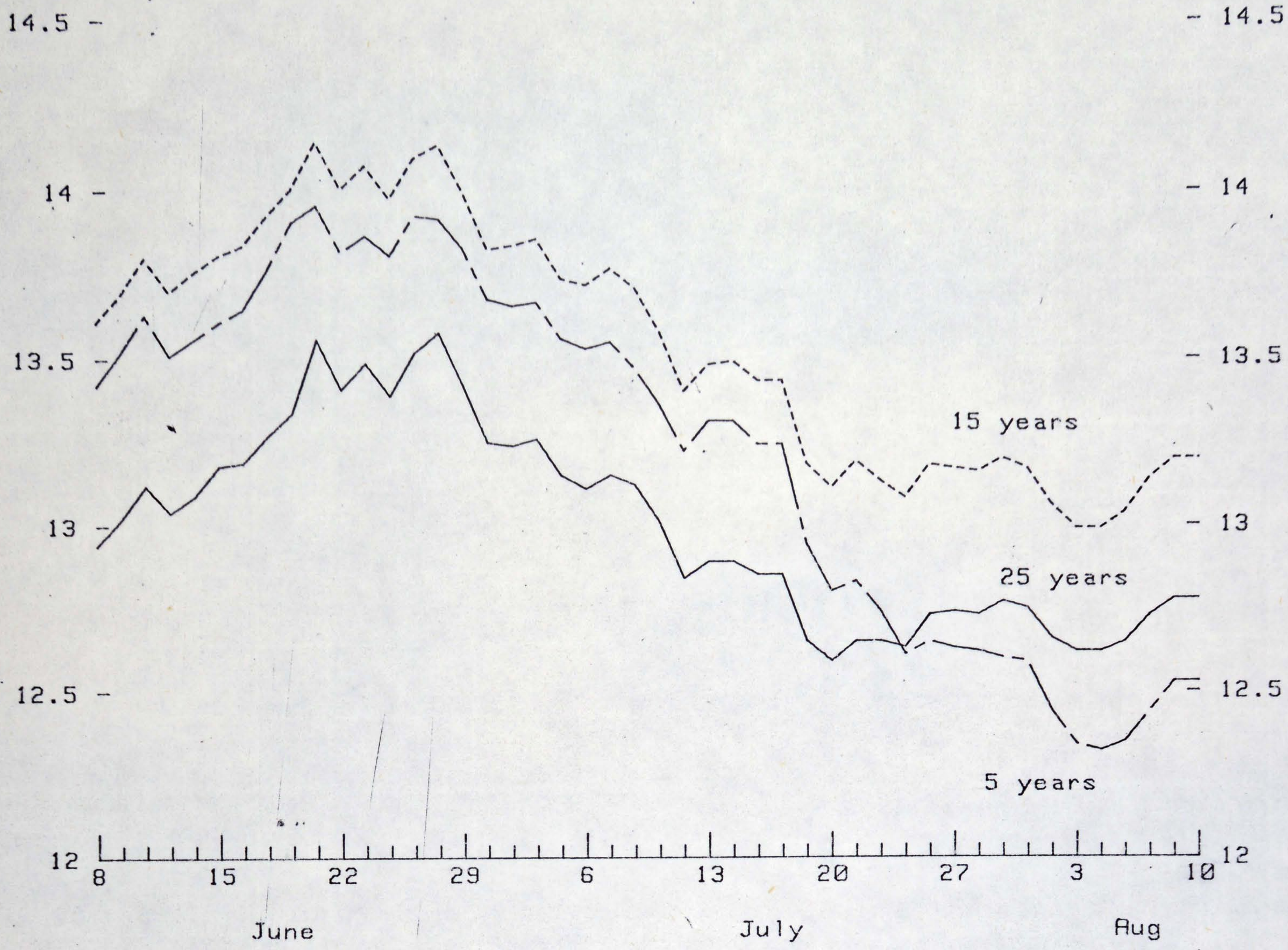
1. Transactions (cash value)

	28. 7.82 - 3. 8.82	Cal Qtr to date	Fin year to date	17. 2.82 to date
Issue Department				
Purchases/sales				
Next Maturities	- 79	- 121	- 374	- 581
Other short-dated	- 5	+ 753	+ 885	+ 1,254
	- 84	+ 632	+ 511	+ 673
Mediums	+ 371	+ 1,197	+2,257	+ 2,733
Longs and undated	+ 52	+ 488	+ 553	+ 837
Total Issue Department transactions	+ 339	+ 2,317	+3,321	+ 4,243
CRND	+ 5	- 33	+ 206	+ 301
Redemptions	-	- 490	- 551	- 949
	+ 344	+ 1,794	+2,976	+ 3,595

2. Redemption Yields (tax ignored)

		3 August	10 August	Change
15%	Treasury 1985	11.50	11.72	+0.22
12%	Treasury 1987	12.06	12.30	+0.24
11 3/4%	Treasury 1991	12.91	13.04	+0.13
13 1/2%	Exchequer 1994	13.14	13.24	+0.10
2%	Index-Linked Treasury 1996	3.21	3.12	-0.09
12 1/4%	Exchequer 1999	12.84	12.97	+0.13
14%	Treasury 1998/01	13.03	13.12	+0.09
12%	Exchequer 2013/17	12.16	12.27	+0.11
3 1/2%	War Loan (Flat Yield)	11.81	11.94	+0.13

Gilt edged yields [F.T. High coupon]



Interbank rates