

NOTE FOR WEDNESDAY MEETING

MARKETS: 11 AUGUST TO 17 AUGUST 1982

Money

Money market conditions were easier this week than recently although moderate daily shortages persisted. These resulted from the unwinding of earlier assistance by the Bank which was partially offset by net Exchequer cash flows to the market and official purchases of next maturity gilt-edged.

The Bank gave assistance every day by the outright purchase of bills. Following reductions of $1/8$ on both Monday and Tuesday the Bank's lowest dealing rates now stand at $11\ 1/4\%$ in band 1, 11% in band 2, $10\ 7/8\%$ in band 3 and $10\ 3/4\%$ in band 4.

There was little movement in interbank rates before the weekend and the yield curve from one month out to a year remained flat at $11\ 7/16\%$ reflecting primarily the market's uncertainty about the future course of US rates. Rates eased on Monday in response to the decline in US domestic rates and a downward sloping yield curve reappeared. The easing continued, encouraged by the reductions in the Bank's lowest dealing rates to levels $1/4$ below those established on 4 August, and by continuing good news from the United States. On Tuesday afternoon the clearing banks announced reductions in their base rates of $1/2$ point to 11% . The seven day rate finished at $11\ 13/16\%$, down $3/16$ on the week, while the three month rate ended $3/8$ down at $11\ 1/16\%$.

Eurosterling rates too were steady before the weekend. These rates eased on Monday and Tuesday in sympathy with domestic rates. The three month rate closed $5/16$ lower at $11\ 1/8\%$.

At the Treasury bill tender on Friday, the average rate of discount fell marginally to 10.7110% .

LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by $3/8\%$ to $10\ 7/8\%$. Issues amounted to £19 mn (£21.1 mn last week) against maturities of £13 mn.

GILTS

The market has advanced extremely strongly this week on sustained interest rate optimism. Yesterday the FT Government Securities index reached its highest level since 25 January 1978.

Last Wednesday, after a fairly easy opening the market recovered and moved ahead in light trading to close around $1/2$ better in longs. On Thursday, amid growing expectation of a further cut in base rates within the next few days, the market continued to advance throughout the day to record rises of around $3/4$ at the longer end. The 1998 tranchette, issued on 21 July, was exhausted. Very firm conditions were maintained on Friday encouraged by the RPI announcement for July (8.7% year on year); and in increasingly active trading the tranche of 12% Treasury 1987 A, issued on 3 August, was exhausted at $99\ 7/8$. However substantial buying-in of the next maturity 9 $1/4\%$ Exchequer 1982 also took place. At the close, prices of shorts, which had recorded only modest rises over the preceding two days, were around $5/8$ better and the longer dated stocks about 1 point higher.

After the weekend, falling US rates provided a fresh, strongly bullish influence and reductions in the Bank's money market intervention rates further fuelled hopes of fairly imminent base rate cuts. The market continued to advance very strongly with price rises at the close extending to over 2 points in longs. The FT Government Securities index reached a fresh 3-year peak and also recorded its largest single day advance since September 1979. At 3.30 pm a new issue of $10\ 1/2\%$ Exchequer 1987 was announced for tender on Thursday 19 August at a minimum price of £96.75. After this announcement, quotations were again raised in after hours trading and yesterday, despite some small profit taking during the morning, further gains were made before and after the clearers' base rate cut announcements. At the close, rises ranged from $1/2$ in shorts to $1\ 1/4$ in longs, with the market at a $4\ 1/2$ year high.

Over the week, yields on shorts fell by around 7/8% (to 11 1/4 - 11 3/8% on five year maturities) and those on longs by about 3/4% (to 12 1/4 - 12 1/2 on 20 year maturities). The indexed stocks (with the exception of IG 1988) fell by around 1/16% to range from 2.83% (IG 2011) to 3.10% (IG 1988).

EQUITIES

The equities market has been subdued by pessimism over economic prospects and did not share much of the euphoria of the gilts market until late yesterday. However the underlying tone has been reasonably firm.

Last Wednesday, in fairly quiet trading, some small investment demand was seen and prices staged a modest advance with the FT index some 6 points higher at the close. On Thursday and Friday however, buyers again retreated following further indications that economic recovery is still some way off; nevertheless although little business was done at the end of the account, the undertone remained firm.

After the weekend the equities market again failed to share in the euphoria of gilts and the generally subdued conditions prevailed until yesterday afternoon when the market at last responded to interest rate optimism and sharp advances in early trading on Wall Street. At the close the FT index was 12.4 points higher at 558.2 (having been only 1.2 higher at 2 pm), a rise of 17.1 points over the week as a whole.

NEW ISSUES

Queue

Two new issues of £10 million or more were added to the queue this week and included a £15 mn rights issue for Guinness Peat Group. The queue now totals £1,115 against £1,121 last week.

(Init EAJG)
18 August 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

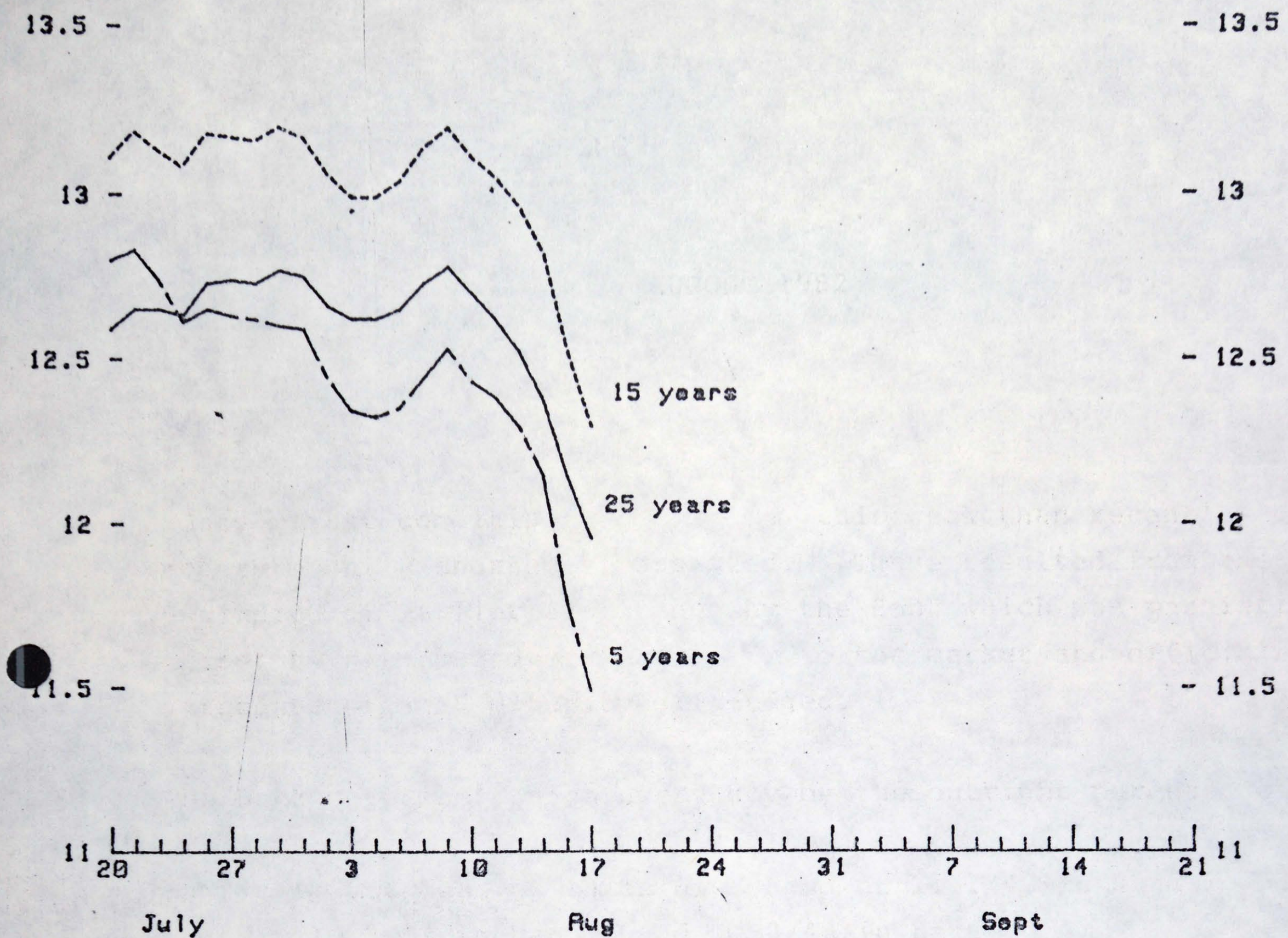
1. Transactions (cash value)

	11. 8.82 <u>-17. 8.82</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	- 699	- 819	-1,073	- 1,280
Other short-dated	- 8	+ 744	+ 876	+ 1,246
	<u>- 707</u>	<u>- 75</u>	<u>- 197</u>	<u>- 34</u>
Mediums	+ 390	+ 1,587	+2,647	+ 3,123
Longs and undated	+ 115	+ 603	+ 669	+ 952
Total Issue				
Department trans-				
actions	- 202	+ 2,115	+3,119	+ 4,041
CRND	-	- 33	+ 207	+ 301
Redemptions	-	- 490	- 551	- 949
	<u>- 202</u>	<u>+ 1,592</u>	<u>+2,775</u>	<u>+ 3,393</u>

2. Redemption Yields (tax ignored)

		<u>10 August</u>	<u>17 August</u>	<u>Change</u>
15%	Treasury 1985	11.72	10.83	-0.89
12%	Treasury 1987	12.30	11.46	-0.84
11 3/4%	Treasury 1991	13.04	12.20	-0.84
13 1/2%	Exchequer 1994	13.24	12.49	-0.75
2%	Index-Linked			
	Treasury 1996	3.12	3.02	-0.10
12 1/4%	Exchequer 1999	12.97	12.23	-0.74
14%	Treasury 1998/01	13.12	12.39	-0.73
12%	Exchequer 2013/17	12.27	11.63	-0.64
3 1/2%	War Loan (Flat Yield)	11.94	11.34	-0.60

Gilt edged yields [F.T. High coupon]



Interbank rates

