

NOTE FOR WEDNESDAY MEETING

MARKETS: 25 AUGUST TO 31 AUGUST 1982

Money

Although the market remained short of funds each day the shortages were more moderate than last week, never exceeding £1/2bn on any day. Maturing commercial bills continued to be the main adverse factor, coupled on Wednesday with repayment of the Bank's direct lending to the discount market a week before. The Exchequer position was favourable to the market each day, reducing the effect of the bill maturities. Movements in the note circulation around the bank holiday weekend increased Friday's shortage but brought Tuesday close to balance.

The Bank provided assistance each day through the outright purchase of bills. On the first two days of the week bills were also bought for later resale. The Bank's dealing rates for outright purchases were reduced each day until Friday; they now stand at 10 5/8% in band 1, 10 1/2% in band 2, 10 3/8% in band 3 and 10 1/4% in band 4.

Period interbank rates were fairly steady before the weekend but opened distinctly firmer on Tuesday as the recent downward movement in US rates was slightly reversed. Reductions in European and official US rates on Thursday, followed by announcements on Friday (effective Tuesday) of another 1/2 point cut in UK clearing banks' base rates, to 10 1/2%, had been widely discounted and had only a slight, and temporary, effect on period interbank rates. The three month rate rose 3/16 over the week, closing at 10 15/16%. The cuts in base rates and easier money conditions allowed short interbank rates to fall, however, and the seven day rate closed 1/2 down at 11 1/8%.

Eurosterling rates also reflected the firming in dollar interest rates and the three month rate ended the week around 10 7/8%, a rise of 1/8.

At the Treasury bill tender on Friday the average rate of discount fell 0.07 to 9.9176%.

LOCAL AUTHORITY BORROWING

The rate for one year bonds rose by $1/4\%$ to $10\ 3/4\%$. Issues amounted to £15mn (£17mn last week) against maturities of £11.75mn. There has been very little take-up of the new PWLB variable-rate facility in its first week in operation, but its launch has stimulated fresh interest in PWLB borrowing and, with the fall in long-term rates, there has been a marked rise in fixed-rate borrowing from the PWLB, with the proceeds at least in part devoted to funding variable-rate market facilities.

GILTS

After the significant advances of the previous fortnight, over the past week the market has experienced a period of rather nervous consolidation with some limited profit-taking.

Last Wednesday, after a firm opening, a lack of buying interest and some profit-taking brought prices back. After a reduction in the Bank's intervention rates a limited recovery was seen but longs lost around one point on the day.

Sporadic profit-taking was again evident on Thursday but the market rallied somewhat in the afternoon after a further reduction in intervention rates and signs of falling European interest rates. Tenders for $2\ 1/2\%$ Index-Linked 2001 were on a modest scale and were allotted in full at a price of £94.

On Friday the clearers' base rate reductions had already been discounted by the market and the firmer tone established the previous afternoon gave way to further limited profit-taking. Although a slight improvement was seen later in the day, longs closed about one point lower.

After the holiday weekend, the market opened on a dull note following harder US rates, but the tone improved somewhat over the day with few sellers in evidence. Towards the close prices started to drift lower again as Wall Street opened nervously, and losses over the day were around $1/2$ in shorts and longs.

Over the week as a whole yields on shorts rose by $3/8\%$ - $5/8\%$ (to yield around 11% on five year maturities) and those on mediums and

longs by 1/4-3/8% (to yield 11 5/8%-11 3/4% on 20 year maturities). With the exception of IG 1988, which rose by 3/16%, yields on indexed stocks rose only marginally to range from 2.83% (IG 2011) to 3.16% (IG 1988).

EQUITIES

The market has been quiet and rather subdued with the limited boost given by last Thursday's advance on Wall Street being largely eroded by continuing evidence of flat output.

Last Wednesday indecisive signals from Wall Street brought dull conditions to the market and prices drifted lower.

On Thursday news of another upwards surge on Wall Street boosted the market late in the day and the FT index gained 7.7 points. After a firm opening on Friday and despite the base rate reductions, prices eased back on a lack of buying interest ahead of the long weekend and the FT index closed 2.6 lower.

Yesterday the market opened slightly easier reflecting concern at the latest CBI survey but a steadier tone developed during the day with the FT index only 0.8 lower at the close at 572.7 a rise of 1.7 over the week as a whole.

NEW ISSUES

Queue

One new issue of £10 mn or more, a £30 mn rights for Burnett & Hallamshire Holdings Ltd, was added to the queue this week. Following Midland's decision not to proceed with their £150 mn rights issue the queue now totals £937 mn against £1,069 mn last week.

(init IP)
1 September 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

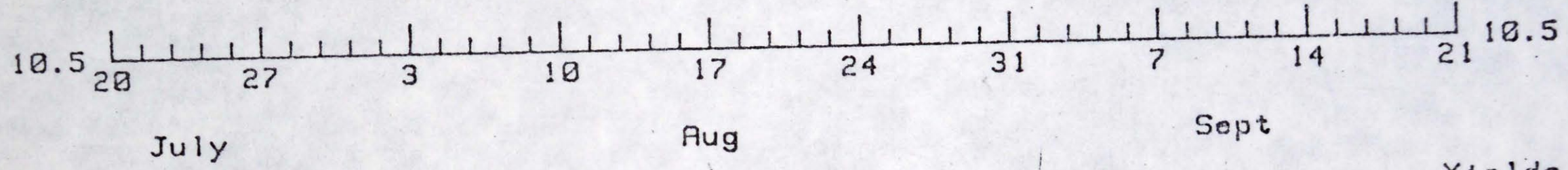
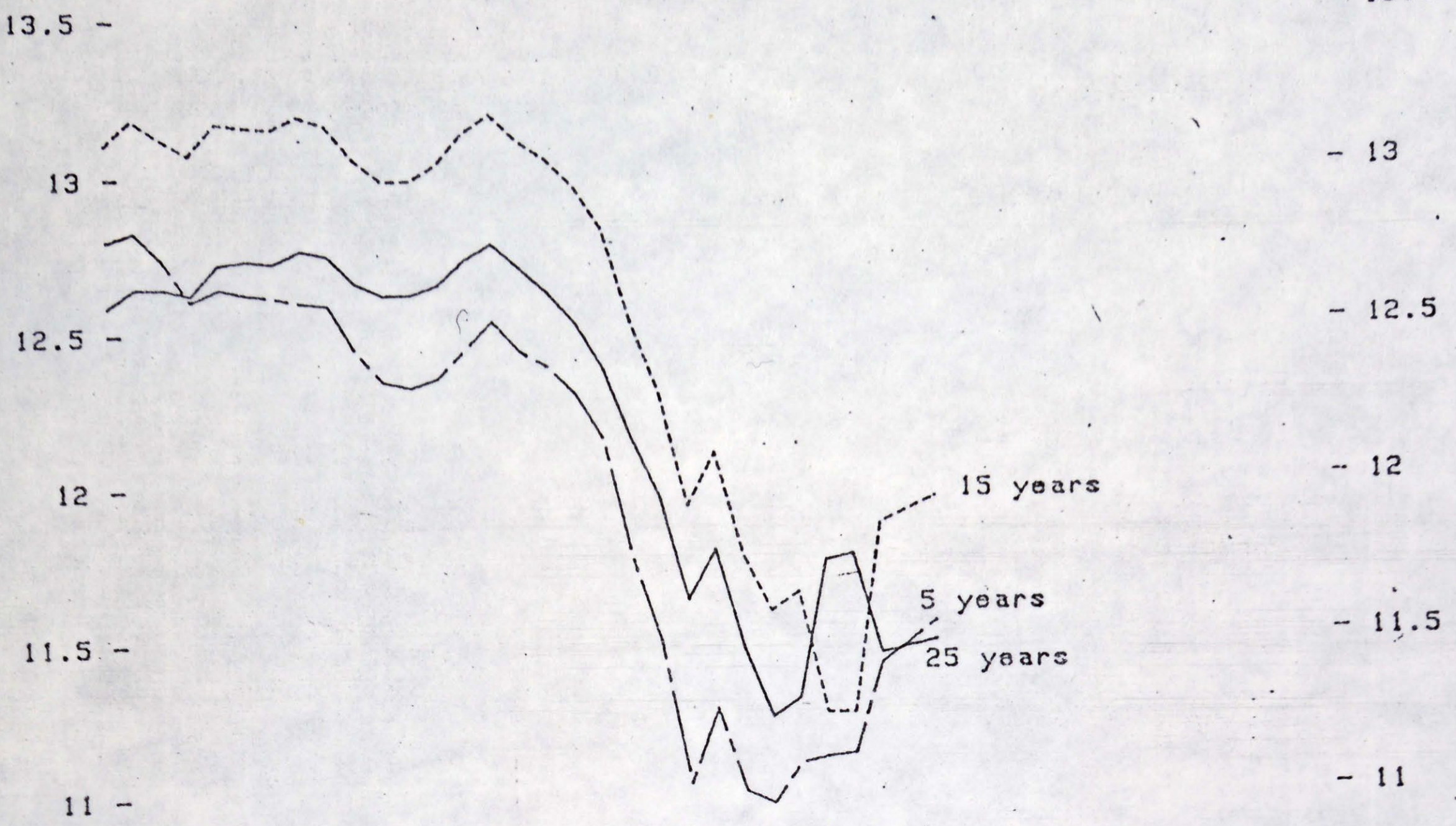
	25. 8.82 <u>-31. 8.82</u>	Cal Qtr to date	Fin year to date	17. 2.82 to date
Issue Department				
Purchases/sales	-	- 819	-1,073	- 1,280
Next Maturities				
Other short-dated	- 30	+ 952	+1,084	+ 1,454
	- 30	+ 133	+ 11	+ 174
Mediums	- 28	+ 1,779	+2,839	+ 3,316
Longs and undated	- 13*	+ 538	+ 604	+ 887
Total Issue				
Department trans-				
actions	- 71	+ 2,450	+3,454	+ 4,377
CRND	- 1	- 36	+ 204	+ 298
Redemptions	-	- 490	- 550	- 950
	- 72	+ 1,924	+3,108	+ 3,725

* Includes +46 in respect of deposit on
2 1/2% Index-Linked Treasury 2001

2. Redemption Yields (tax ignored)

	<u>24 August</u>	<u>31 August</u>	<u>Change</u>
11 1/2% Treasury 1985	10.10	10.98	+0.88
12% Treasury 1987	11.04	11.45	+0.41
11 3/4% Treasury 1991	11.68	12.01	+0.33
12 1/2% Exchequer 1994	11.67	12.03	+0.36
2% Index-Linked			
Treasury 1996	2.99	3.06	+0.07
12 1/4% Exchequer 1999	11.44	11.76	+0.32
14% Treasury 1998/01	11.62	11.82	+0.20
12% Exchequer 2013/17	10.90	11.12	+0.22
3 1/2% War Loan (Flat Yield)	10.84	10.94	+0.10

Gilt-edged yields [F.T. High coupon]



Interbank rates

