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SECRET

15. 9.82

NOTE FOR WEDNESDAY MEETING

MARKETS: 8 SEPTEMBER TO 14 SEPTEMBER 1982

MONEY

The first two days of this week saw only moderate shortages in the money markets but conditions tightened from Friday onwards. Except on Friday, the shortages were almost entirely due to maturing commercial bills and unwinding repurchase agreements. The Exchequer position was roughly in balance until Tuesday when it was quite strongly favourable.

The Bank provided assistance each day by the outright purchase of bills at unchanged dealing rates.

The week began with a slight easing in interbank rates but as eurodollar rates began to firm once more, period interbank rates followed, although less sharply. The rises continued until Tuesday when rates eased over the course of the day. The market was generally subdued throughout the week and trading was light. The 7 day and 3 month interbank rates moved by 1/8, down and up respectively, both closing at 10 15/16%.

Eurosterling rates showed a similar pattern of movement over the week and the 3 month rate also finished at about 10 15/16%.

At the Treasury bill tender on Friday the average rate of discount rose by 0.21 to 9.9052%.

LOCAL AUTHORITY BORROWING

The rate for one-year bonds rose by 1/4% to 10 3/4%. Issues amounted to £17mn (£21.75mn last week) against maturities of £11.75mn.

Borrowing from the PWLB continues to run at a modest level, all on a fixed-rate basis.

GILTS

Fears of higher US interest rates and the weakness of US bonds were unsettling influences on a market still trying to consolidate last month's gains. From Monday evening, however, the market began to move ahead on a more confident view of the Fed's stance.

The market opened lower on Wednesday reflecting some easing after-hours the previous night. With no buying interest prices tended to drift lower, recording losses of up to 1/2 by the close. An overnight improvement in US bonds led to a firmer tendency at Thursday's opening, but prices slipped back slightly following news of a larger than expected August CGBR. Revived worries about US interest rates and the weakness of US bonds caused prices to open 1/4-1/2 lower on Friday. With no buyers, the decline continued during the day and at the close shorts had fallen by up to 3/4 and longs by up to 1 3/8.

The market was further unsettled on Monday by the latest rise in US M_1, which had caused further weakness in US bonds in late trading on Friday. Prices opened sharply lower and after fluctuating during the day ended up to 9/16 down in shorts and 1 in longs. Yesterday, however, the market took encouragement from a turn-around in sentiment in New York overnight as the Federal Reserve moved to ease liquidity. Prices opened 1/2-3/4 higher and although turnover remained low there was sufficient buying to produce further small gains during the day: at the close shorts had risen by up to 11/16 and mediums/longs by about 7/8.

Over the week as a whole yields on shorts rose by 3/16-3/8% to about 10 3/4-11 1/2% on five-year maturities and those on longs by about 1/4% to 11 5/8-11 3/4% on 20-year maturities. Yields on the indexed stocks were up to 1/16% higher, ranging from 2.84% (IG 2011) to 3.24% (IG 1988).

EQUITIES

Evidence of difficult trading conditions in the recently firm electrical sector caused a major setback on Friday, but the market recovered most of the ground yesterday on the back of Wall Street.

Wednesday saw a dull performance in the wake of Wall Street's overnight setback, but prices moved ahead the following day with the FT 500 and All-Share Indices reaching new all-time highs. On Friday, sentiment was undermined by a gloomy statement by Thorn-EMI and poor results from BSR. Prices fell back sharply, particularly in the electrical sector, and the 30-Share Index lost 15.9 points, its largest single-day loss since 28 September of last year.

Prices continued to decline, albeit on a smaller scale, after the weekend but Wall Street's rally after initial weakness provided some support on Monday afternoon. With the recovery in US equities having been confirmed overnight, the market opened sharply higher yesterday. Electricals staged a recovery after Friday's setback and stores were firm following the latest rise in retail sales. With Wall Street coming in firm again in the afternoon the 30-Share Index closed 14.1 higher at 585.7, a net fall of 3.5 over the week. The 500-Share Index ended at 395.89, slightly lower over the week.

NEW ISSUES

Issues

BOC's £100mn placing of unsecured loan stock with a 2012/17 maturity went ahead on Thursday. The coupon was fixed at 12 1/4% and the price at £97.504 to give a yield of 12.57% (1.4% above the basket of three reference gilts). The issue made its trading debut on Monday in difficult conditions and at one stage fell to 1 point discount before closing at 24 1/2 (25-paid). The recovery continued yesterday with the issue closing at 25 1/4.

The BOC issue was followed yesterday by a placing of £30mn of 35-year debentures by MEPC. Reflecting the issue's secured status, the yield of 12.29% was fixed at 1% over the two reference gilts: the coupon is 12% and price £97.705.

Queue

The fixed interest sector has been stimulated by the BOC issue. Bookings were made this week for a placing of up to £50mn by the

UK subsidiary of Seagram and a placing of £34mn of debentures by Rosehaugh Greycoat Estates. This week's total also includes part of a financing package for Paternoster Stores, the rest of which will consist of equity. Paternoster is a new company being formed to acquire the entire share capital of Woolworth. Other corporate issues already in the queue are a small placing by a film company and three issues by British banks totalling £350mn*; current enquiries may shortly add to this list.

Two large rights issues were added in the equity sector: £40mn for Barratt Developments (though a £30mn issue for Wates Ltd has dropped out) and up to £100mn for ICL.

The total queue now amounts to £1,538mn** against £1,197mn last week.

Init ALC
15 September 1982

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*This total includes the Lloyds issue for £100mn reported last week for which a date in the queue has not yet been formally assigned.

**excluding the Lloyds issue.

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

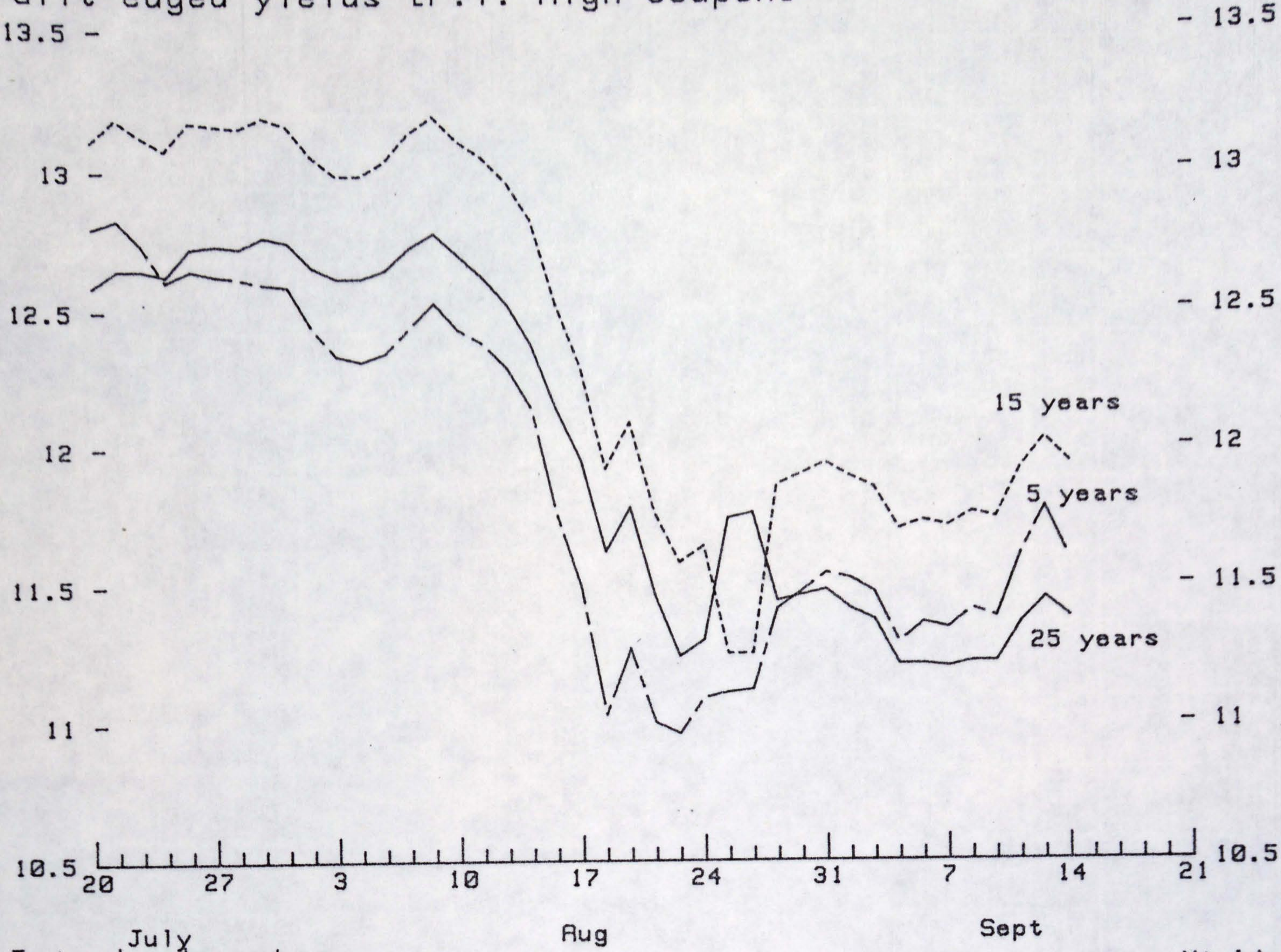
1. Transactions (cash value)

	8. 9.82 -14. 9.82	Cal Qtr to date	Fin year to date	17. 2.82 to date
Issue Department Purchases/sales				
Next Maturities	-	- 819	- 1,073	- 1,280
Other short-dated	+ 14	+ 1,011	+ 1,143	+ 1,513
	+ 14	+ 192	+ 70	+ 233
Mediums	- 30	+ 1,866	+ 2,925	+ 3,402
Longs and undated	+ 12	+ 588	+ 654	+ 937
Total Issue Department transactions	- 4	+ 2,646	+ 3,649	+ 4,572
CRND	- 5	- 45	+ 194	+ 289
Redemptions	-	- 490	- 550	- 950
	- 9	+ 2,111	+ 3,293	+ 3,911

2. Redemption Yields (tax ignored)

	7 September	14 September	Change
11 1/2% Treasury 1985	10.49	10.79	+0.30
12% Treasury 1987	11.06	11.47	+0.41
11 3/4% Treasury 1991	11.86	12.20	+0.34
12 1/2% Exchequer 1994	11.88	12.13	+0.25
2% Index-Linked Treasury 1996	3.06	3.09	+0.03
12 1/4% Exchequer 1999	11.49	11.69	+0.20
14% Treasury 1998/01	11.56	11.81	+0.25
12% Exchequer 2013/17	10.89	11.05	+0.16
3 1/2% War Loan (Flat Yield)	10.67	10.86	+0.19

Gilt edged yields [F.T. High coupon]



Interbank rates