

NOTE FOR WEDNESDAY MEETING

MARKETS: 15 SEPTEMBER TO 21 SEPTEMBER 1982

MONEY

The unwinding of earlier assistance continued to be the main factor keeping money market conditions tight this week; the overall shortages amounted to around £500mn each day except Thursday. The Exchequer position was the single most important adverse factor on Wednesday but thereafter was favourable each day except Monday. On Monday, however, its adverse effect was partly offset by a large volume of maturing Treasury bills. The note circulation continued to exert its customary influence around the weekend.

The Bank provided assistance each day by the outright purchase of bills at unchanged rates. On Wednesday and Monday bills were also bought for later resale.

Period interbank rates were fairly steady at the start of the week but developed a firmer trend thereafter as the market became nervous awaiting a clearer direction from the US. A very slight easing was seen on Tuesday as rates, having opened higher, fell back to Monday's levels. Over the course of the week the 3 month rate rose $1/8$ to close at $11 \frac{1}{16}\%$. Short rates showed more two way movement from day to day but were also, on balance, slightly firmer. The 7 day rate closed at 11% , a net rise of $1/16$ over the week.

Eurosterling rates displayed the same underlying firmness throughout the week and the 3 month rate rose $3/16$ to close at around $11 \frac{1}{8}\%$.

The firmer tone in market rates was reflected in the average rate of discount at the Treasury bill tender on Friday. It rose 0.16 to 10.0701% .

LOCAL AUTHORITY BORROWING

The rate for one-year bonds was unchanged at 10 3/4%. Issues amounted to £20.9mn (£21.75mn last week) against maturities of £16.65mn.

GILTS

Prices continued to drift lower prior to the weekend on nervousness at the coming US money bulge. Since the weekend the market has risen fairly steadily enabling official rates to be resumed; but the underlying tone remains cautious. Indexed stocks continued to ease.

After a steady day on Wednesday, the market opened 1/8-1/4 lower on Thursday following the Federal Reserve's overnight move to drain reserves. Prices tended to drift lower during the day with sentiment further dampened by the rise in bank lending revealed by the August money figures and by Wall Street's easier opening. Prices ended about 1/2-5/8 down. Trading was very quiet on Friday and prices ended little changed, early losses having been retrieved after publication of the August RPI.

On Monday the market took heart from the news that the latest rise in US M_1 had not been as large as feared. Moderate official sales were made and longs ended with gains of about 3/4; shorts were restrained by firmer money market rates and closed only 1/4 higher. The firmer tendency continued yesterday, encouraged by the overnight strength of US bonds and the Chancellor's forecast of lower inflation. Demand tended to be concentrated in longs, where little stock is available. Further sizeable official sales of stock were made. By the close shorts had risen by up to 7/16 with longs up to 1 higher.

Over the week yields on shorts fell by 1/16-1/8% (to about 10 5/8-11 5/16% on 5-year maturities) and those on longs by 1/8-3/16% (to 11 1/2-11 5/8% on 20-year maturities). Yields on the indexed stocks continued to drift upwards, ranging from 2.83% (IG 2011) to 3.33% (IG 1988).

EQUITIES

The market was sharply weaker prior to the weekend on concern at the economic outlook and company trading prospects, but recovered part of its losses yesterday.

After the previous day's recovery, prices fell back sharply again on Wednesday on rumours that a major industrial company was in difficulties and a series of disappointing trading statements; further scrutiny of the latest industrial production figures added to the gloom and at the close the 30-Share Index had lost 9.5 points. The nervous mood continued on Thursday and Friday with the Index shedding a further 12 1/2 points.

The start of the new account on Monday saw some selective demand though the underlying mood remained uncertain; prices made a slight recovery. This trend gathered strength yesterday as institutional demand emerged and the 30-Share Index closed at an estimated 575.0, up 10.1 on the day but down 9.3 over the week as a whole.

NEW ISSUES

Issues

MEPC's £30mn debenture stock began trading on Thursday and has consistently traded at a premium since then; it closed yesterday at 26 1/4 (25-paid); the BOC issue, whose performance has been slightly more variable closed yesterday at 25 1/2.

Queue

There were further requests for places in the fixed interest queue during the week. In total there are now about 10 domestic corporate borrowers who have booked fairly firm dates over the next three months, planning to raise about £500 mn in aggregate. Two issues were allocated dates in October in the past week. One of these is a £10mn placing of debenture stock by a company in the food and drink sector and the other a £20mn, 40-year issue by an investment trust. The latter will have a "rising coupon" ie it will be issued at par with an initial coupon below current levels

which will increase for the first several years. Since the relatively low coupon payments in the early years should produce a rising capital value during that period (if yields remain constant), the issue will initially be akin to a deep discount stock.

Four issues were also added to the unallotted queue (waiting list) during the week - a domestic investment trust, a local authority and two bulldogs.

In the equity queue, the main feature was the return of a £100 mn rights issue which dropped out some weeks ago. However, this was partly offset by the cancellation of two smaller issues.

The total queue now amounts to £1,594mn (£865mn equity, £729mn fixed interest) against £1,538 last week.

Init. ALC

22 September 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

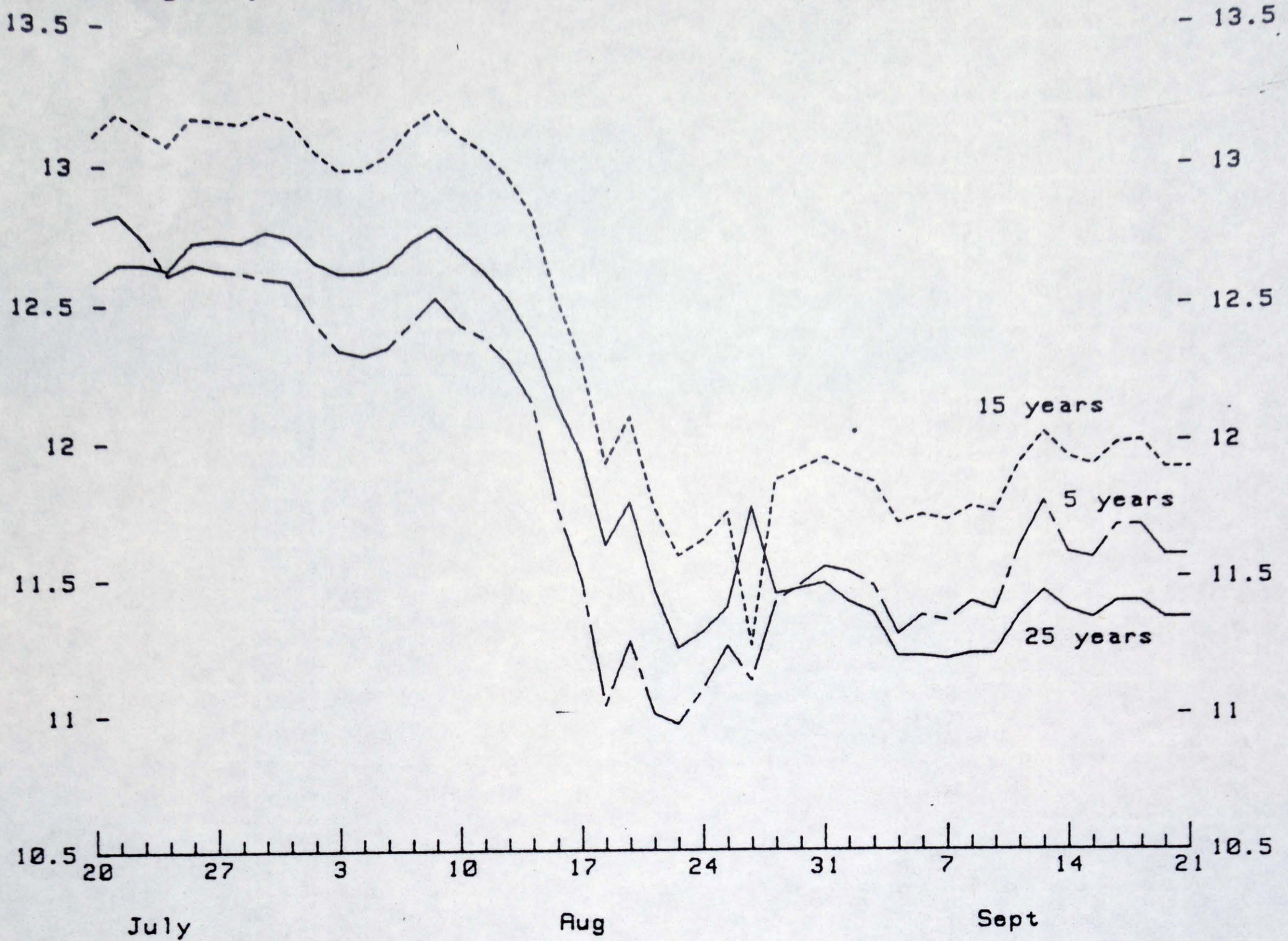
1. Transactions (cash value)

| | 15. 9.82 <u>-21. 9.82</u> | <u>Cal Qtr</u> <u>to date</u> | <u>Fin year</u> <u>to date</u> | 17. 2.82 <u>to date</u> |
|------------------------------|------------------------------|----------------------------------|-----------------------------------|----------------------------|
| Issue Department | | | | |
| Purchases/sales | | | | |
| Next Maturities | - 8 | - 827 | - 1,080 | - 1,288 |
| Other short-dated | <u>+ 62</u> | <u>+ 1,073</u> | <u>+ 1,205</u> | <u>+ 1,575</u> |
| | + 54 | + 246 | + 125 | + 287 |
| Mediums | + 97 | + 1,962 | + 3,022 | + 3,499 |
| Longs and undated | <u>+ 36</u> | <u>+ 624</u> | <u>+ 689</u> | <u>+ 973</u> |
| Total Issue | | | | |
| Department trans- actions | + 187 | + 2,832 | + 3,836 | + 4,759 |
| CRND | - 1 | - 46 | + 194 | + 288 |
| Redemptions | - | - 490 | - 550 | - 950 |
| | <u>+</u> | <u>+</u> | <u>+</u> | <u>+</u> |
| | <u>186</u> | <u>2,296</u> | <u>3,480</u> | <u>4,097</u> |

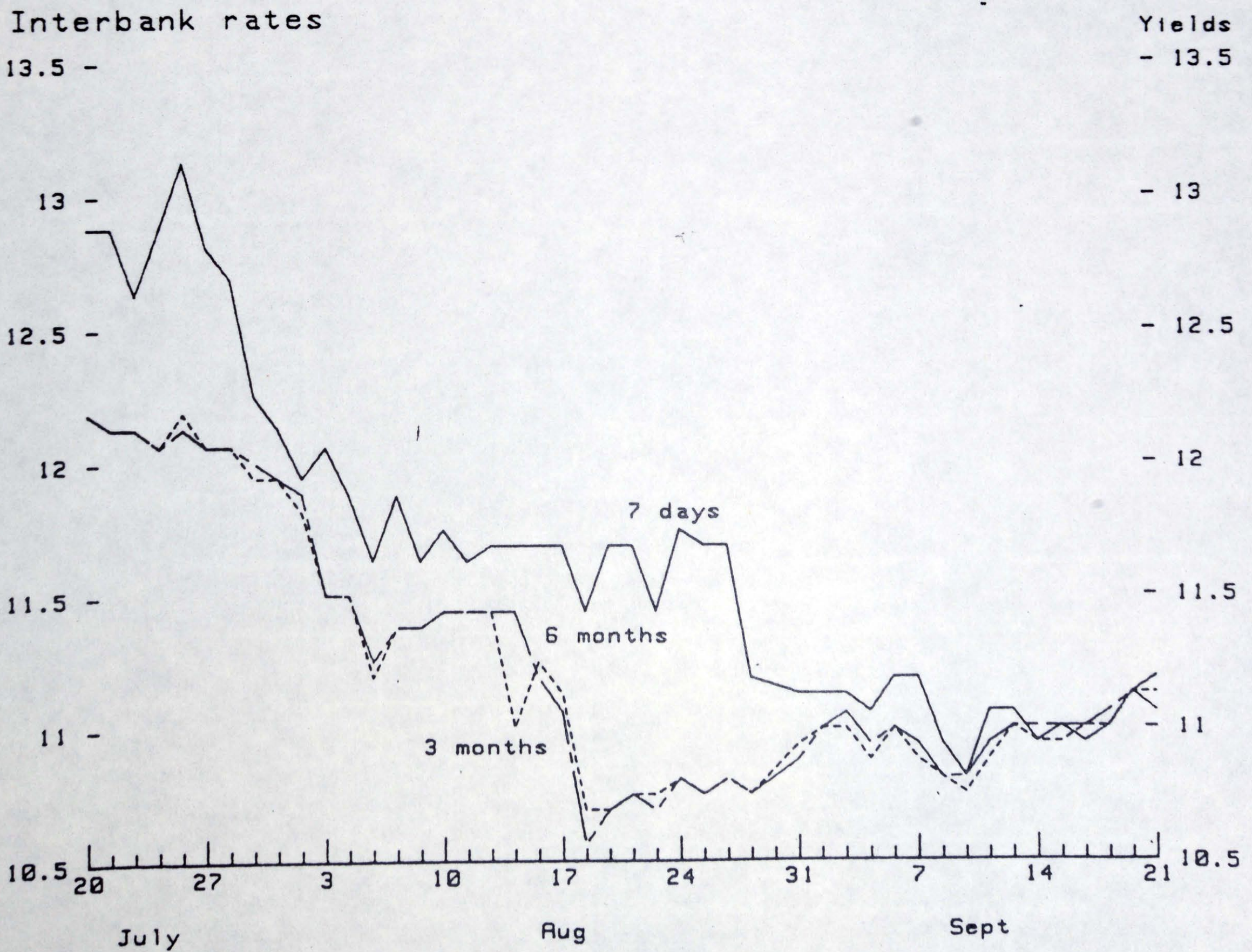
2. Redemption Yields (tax ignored)

| | <u>14 September</u> | <u>21 September</u> | <u>Change</u> |
|------------------------------|---------------------|---------------------|---------------|
| 11 1/2% Treasury 1985 | 10.79 | 10.63 | -0.16 |
| 12% Treasury 1987 | 11.47 | 11.33 | -0.14 |
| 11 3/4% Treasury 1991 | 12.20 | 12.07 | -0.13 |
| 12 1/2% Exchequer 1994 | 12.13 | 11.99 | -0.14 |
| 2% Index-Linked | | | |
| Treasury 1996 | 3.09 | 3.12 | +0.03 |
| 12 1/4% Exchequer 1999 | 11.69 | 11.55 | -0.14 |
| 14% Treasury 1998/01 | 11.81 | 11.67 | -0.14 |
| 12% Exchequer 2013/17 | 11.05 | 10.97 | -0.08 |
| 3 1/2% War Loan (Flat Yield) | 10.86 | 10.80 | -0.06 |

Gilt edged yields [F.T. High coupon]



Interbank rates



Per cent Time / Yield Curves of British Government Stocks

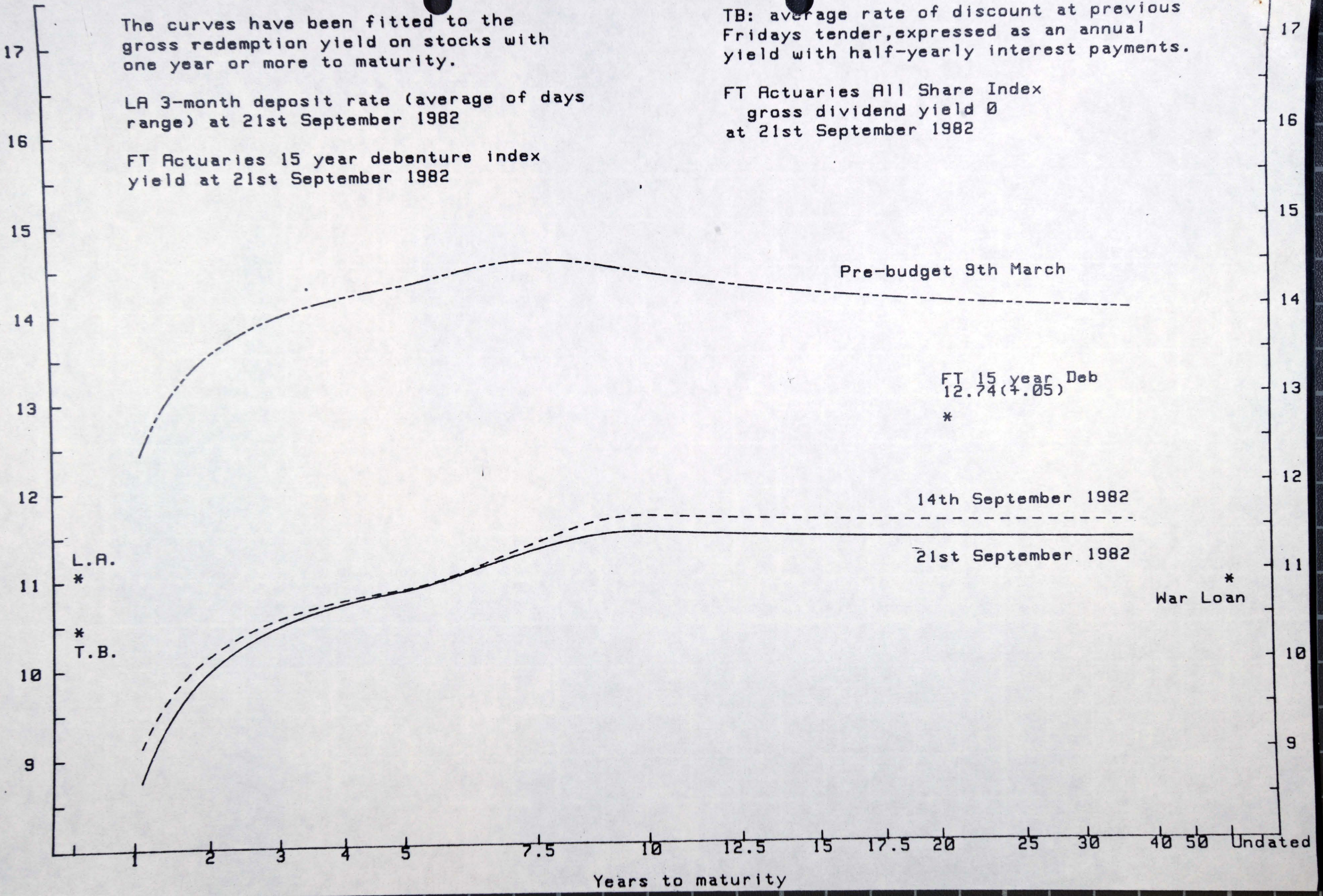
The curves have been fitted to the gross redemption yield on stocks with one year or more to maturity.

LA 3-month deposit rate (average of days range) at 21st September 1982

FT Actuaries 15 year debenture index yield at 21st September 1982

TB: average rate of discount at previous Fridays tender, expressed as an annual yield with half-yearly interest payments.

FT Actuaries All Share Index gross dividend yield \emptyset at 21st September 1982



FT 15 year Deb
12.74 (4.05)
*

14th September 1982

21st September 1982

*
War Loan

Pre-budget 9th March

L.A.
*

*
T.B.

Years to maturity