

NOTE FOR WEDNESDAY MEETING

MARKETS: 22 SEPTEMBER TO 28 SEPTEMBER 1982

MONEY

The week's shortage in the money markets amounted to nearly £3bn, almost all of which reflected the maturing of earlier assistance. Within the week Monday was extremely tight but yesterday, by contrast, was the easiest day for some weeks. The Exchequer position was unfavourable on Wednesday but either roughly in balance or in the market's favour thereafter. Transactions in gilt-edged stock had a marked impact this week. Wednesday and Thursday saw payments for sizeable official sales (although on Wednesday this effect was outweighed by the redemption of 9 1/4% Exchequer 1982) and on Monday £400mn was called from the market in respect of 10 1/2% Exchequer 1987.

The Bank assisted the market each day by buying bills outright and also undertaking purchase and resale agreements each day except yesterday. On Monday the lowest dealing rates in all bands were reduced by 1/8 and yesterday cuts were again made, of 1/8 in bands 1 and 2 and 1/16 in band 3.

Before the weekend period interbank rates were influenced by movements in dollar interest rates. They eased over Wednesday and Thursday as dollar rates softened but opened slightly higher on Friday. This firmer tone was maintained until Monday morning as news from the US was disappointing, but after the cuts in the Bank's dealing rates were announced, interbank rates eased and they continued to fall when the action was repeated yesterday. The 3-month rate showed a net fall of 7/16 over the week, closing at 10 5/8%. The tight money conditions over most of the week kept short interbank rates firm. Although the 7 day rate had been as low as 10 5/16% at times in the week it closed at 11 1/16%, a net rise of 1/16 over the week as a whole.

Eurosterling rates from a month to a year remained close to 11% for most of the week, moving in a similar manner to domestic rates from day to day. The 3 month rate, having fallen quite sharply yesterday, also closed at around 10 11/16%.

At the Treasury bill tender on Friday the average rate of discount fell 0.1 to 9.9670%.

LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by 1/4% to 10 1/2%. Issues amounted to £23.6mn (£20.9mn last week) against maturities of £15.6mn.

GILTS

Although the market was quiet and slightly easier prior to the weekend, the underlying tone was firm enough to permit the announcement of a new shorter-dated issue. After the weekend, prices moved further ahead, mainly at the long end, on hopes of a further cut in base rates.

At Wednesday's opening prices were marked up sharply following the overnight rise in US bonds and the easier tendency in US interest rates. The largest gains were seen in longs which closed up to 1 3/8 higher. Further sizeable official sales of stock were made. An overnight setback on Wall Street made for more cautious trading on Thursday and prices ended either little changed or slightly lower in shorts. On Friday prices drifted lower ahead of the US money figures, but the announcement at 3.30 pm of a new issue of £1bn of 10 1/2% Exchequer 1988 caused little reaction.

After the weekend, the market opened on a firmer note on Monday and made further progress during the day, encouraged by the cut in the Bank's dealing rates and by the good early showing of US bonds. Longs showed the largest increases (up to 3/4) with shorts more subdued. Yesterday, the market continued to move ahead on expectations of lower interest rates and the FT Government Securities Index closed at its highest level for almost ten years. Shorts continued to be restrained by today's tender for the new issue, but longs ended up to 1 point higher.

Over the week, yields on shorts fell by up to 1/4% (to 10 5/8-11 1/8% on five-year maturities) and those on longs by over 1/4% (to

11 3/16%-11 3/8% on 20-year maturities). The indexed stocks continued to be neglected with yields rising by 1/16% or more to range from 2.89% (IG 2011) to 3.42% (IG 1988).

EQUITIES

Although prices continued to fluctuate, interest rate optimism helped the market to move ahead on balance over the week.

Optimism about a further cut in base rates made for a good start on Wednesday and profit-taking later in the day was reversed by Wall Street's firm opening; the 30-Share Index ended 6.4 higher. These gains were mostly lost the following day following Wall Street's overnight reversal. But sentiment revived on Friday on reports of possible tax cuts and rises in stores and consumer shares helped to take the Industrial and 500-Share Indices to new all-time highs.

On Monday the mood was more cautious following another gloomy CBI survey, but the 30-Share Index closed only slightly lower. Clearing bank shares were depressed by adverse press comment, with Lloyds particularly weak on reports of problems with Hong Kong property loans. Yesterday, hopes of lower interest rates prompted selective demand, concentrated again mainly on consumer shares, and the 30-Share rose by 7.1 to 587.6, an increase of 12.6 over the week. The broader Indices all ended at new record peaks, the 500-Share Index rising by 12.87 over the week to 405.79.

NEW ISSUES

Issues

Standard Chartered Bank went ahead with a £100mn issue of subordinated unsecured loan stock, with a coupon of 12 7/8% and priced at £99.925 to yield 12.89%. Maturity is 2002/07. The yield was fixed at 1.6% over the reference gilts, compared with 1.4% for the recent BOC unsecured loan stock and 1% for MEPC's debenture. Earlier this year Barclays and Midland raised £100mn each at about 3/4% and 0.9% over gilts respectively.

Also last week FFI launched a £30mn, 6-year issue in the euro-sterling market. The proposed coupon is 12 1/4%.

There were no equity issues of significance during the week.

The net amount of new money raised in banking September was £56mn against £29mn in August. In the first three quarters the total is £904mn compared with £1,208mn in the same period of 1981 (£924mn excluding the BP rights issue).

Queue

No fixed interest issues were allotted firm dates in the queue this week. However, three borrowers were placed on the waiting list - a UK investment trust (£10mn) and two bulldogs (£50mn each).

In the equity queue only one significant issue was added: a £30mn rights issue.

With the loss of the issues announced during the week, the total queue now amounts to £1,429mn (£875mn equity, £554mn fixed interest) against £1,549mn last week.

(Init ALC)

29 September 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

	22. 9.82 <u>-28. 9.82</u>	Cal Qtr to date	Fin year to date	17. 2.82 to date
Issue Department				
Purchases/sales				
Next Maturities	- 15	- 842	- 1,095	- 1,303
Other short-dated	<u>+ 463*</u>	<u>+ 1,536</u>	<u>+ 1,668</u>	<u>+ 2,038</u>
	+ 448	+ 694	+ 573	+ 735
Mediums	+ 138	+ 2,100	+ 3,160	+ 3,637
Longs and undated	<u>+ 10</u>	<u>+ 634</u>	<u>+ 699</u>	<u>+ 983</u>
Total Issue				
Department trans-				
actions	+ 596	+ 3,428	+ 4,432	+ 5,355
CRND	- 1	- 47	+ 192	+ 287
Redemptions	<u>- 484⁷</u>	<u>- 974</u>	<u>- 1,034</u>	<u>- 1,434</u>
	<u>+ 111</u>	<u>+ 2,407</u>	<u>+ 3,590</u>	<u>+ 4,208</u>

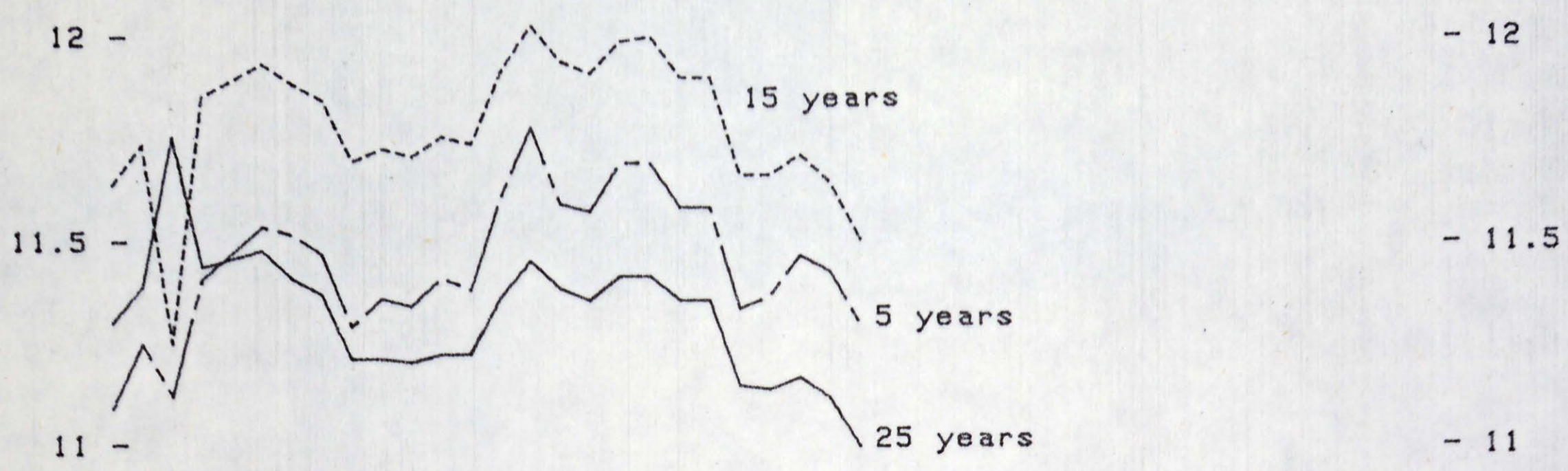
*Including +467 from call on 10 1/2% Exchequer 1987
⁷Redemption of 9 1/4% Exchequer 1982

2. Redemption Yields (tax ignored)

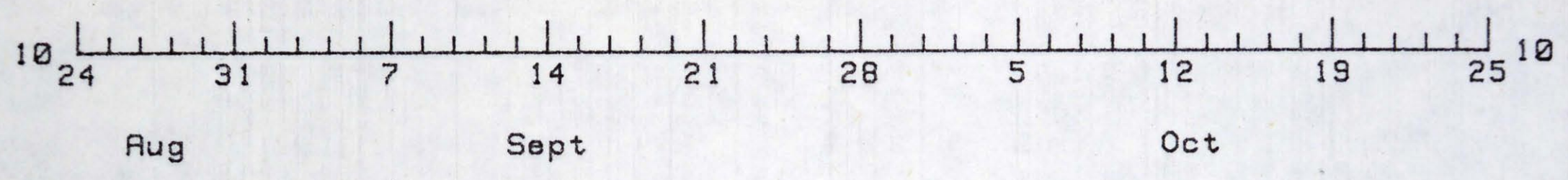
	<u>21 September</u>	<u>28 September</u>	<u>Change</u>
11 1/2% Treasury 1985	10.63	10.36	-0.27
12% Treasury 1987	11.33	11.10	-0.23
11 3/4% Treasury 1991	12.07	11.75	-0.32
12 1/2% Exchequer 1994	11.99	11.71	-0.28
2% Index-Linked			
Treasury 1996	3.12	3.17	+0.05
12 1/4% Exchequer 1999	11.55	11.26	-0.29
14% Treasury 1998/01	11.67	11.43	-0.24
12% Exchequer 2013/17	10.97	10.77	-0.20
3 1/2% War Loan (Flat Yield)	10.80	10.58	-0.22

Gilt edged yields [F.T. High coupon]

12.5 - - 12.5

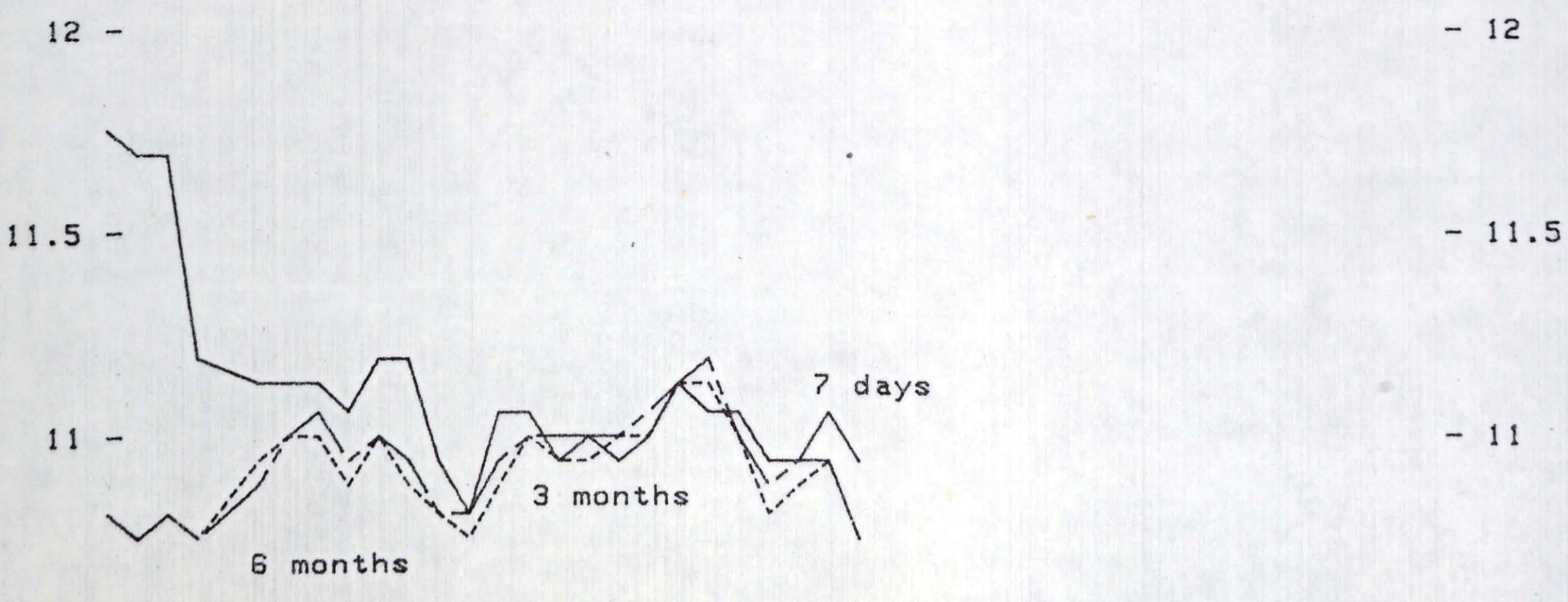


10.5 - - 10.5

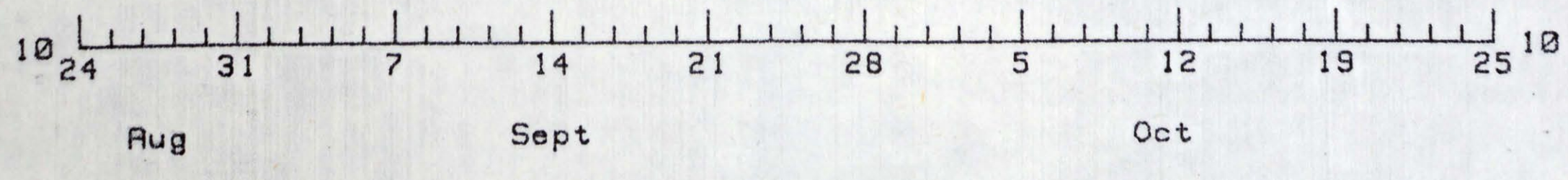


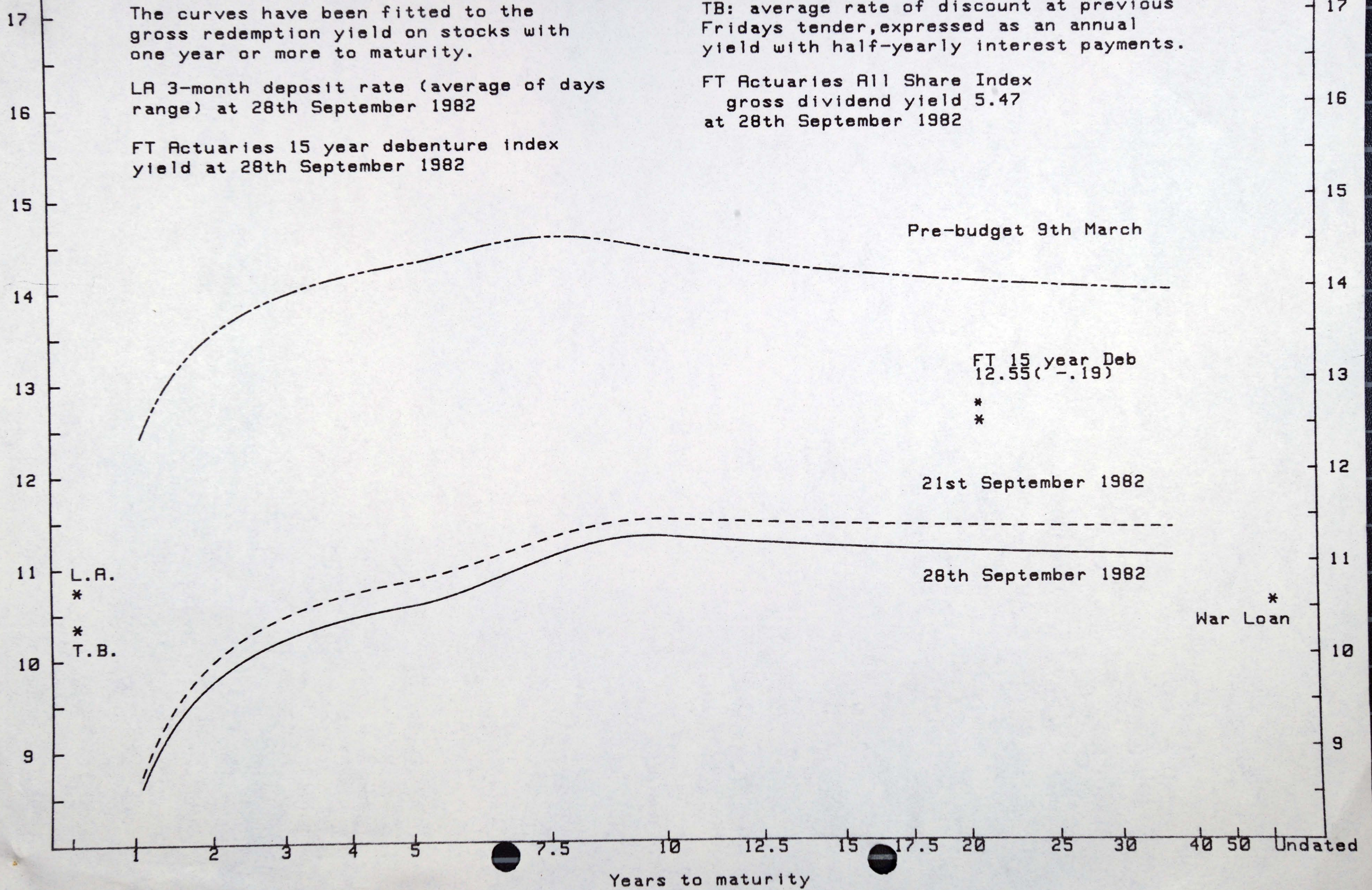
Interbank rates

12.5 - Yields - 12.5



10.5 - - 10.5





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 28th September 1982

FT Actuaries 15 year debenture index yield at 28th 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 5.47 at 28th September 1982

Pre-budget 9th March

FT 15 year Deb 12.55 (-.19)

* *

21st September 1982

28th September 1982

* War Loan

Years to maturity