

## NOTE FOR WEDNESDAY MEETING

MARKETS: 29 SEPTEMBER TO 5 OCTOBER 1982

## MONEY

Unwinding assistance amounted to about £1/2 bn each day this week except Wednesday. This drain on the markets' funds was partly offset by a generally favourable Exchequer position but daily money market conditions remained tight over most of the week. Subscriptions to the newly issued 10 1/2% Exchequer 1988 Stock contributed to the shortage on Wednesday and Friday's shortage was particularly severe as an increase in the note circulation added to the effect of the maturing bills.

The Bank provided assistance each day by the outright purchase of bills and also, before the weekend, by buying bills for later resale. The lowest dealing rates in all bands were reduced by 1/8 on Wednesday and again on Thursday but were unchanged thereafter.

Longer interbank rates fell prior to the weekend following the reductions in the Bank's dealing rates, as operators anticipated cuts in clearing banks' base rates. The disappointing US money supply figures and rises in eurodollar rates after the weekend, however, influenced interbank rates and a firmer tone developed in longer rates. The 3 month rate showed no net change over the week, closing at 10 5/8%.

Short interbank rates continued to be strongly influenced by the tight money conditions. After the weekend, when the shortages were more moderate, these rates began to ease and they fell sharply yesterday after the Bank provided ample assistance in its morning operations. The 7 day rate closed at 10 11/16%, a net fall of 3/8 over the week.

Eurosterling rates behaved similarly to domestic rates during the week and the 3 month rate ended 1/16 lower, also at 10 5/8%.

At the Treasury bill tender on Friday the average rate of discount fell 0.29 to 9.6777%, reflecting the fall in market rates before the weekend.



## LOCAL AUTHORITY BORROWING

The rate for one year bonds was unchanged at 10 1/2%. Issues amounted to £22.05mn (£23.6mn last week) against maturities of £16.5mn.

## GILTS

After reaching a new 10-year high on Wednesday, the market was affected by profit-taking before and after the weekend as US interest rates hardened. Yesterday saw steadier conditions after a nervous start with a calm initial reaction to the September banking figures.

Interest rate optimism encouraged the market to improve further on Wednesday. The new issue of 10 1/2% Exchequer 1988 was oversubscribed at an allotment price of 97 (1 point above the minimum tender price). Although prices edged lower towards the close, the FT Government Securities Index ended at 79.95, its highest since April 1972. The easier tendency initially continued at Thursday's opening, but support emerged at the lower levels and prices ended the day only about 1/4 down on balance; the new issue closed at 20 1/4 (20-paid). Firmer US interest rates prompted some profit-taking on Friday, although prices recovered slightly in the afternoon on the announcement of a lower Treasury bill rate; at the close losses had been reduced to 1/4 in shorts and 1/2 in longs.

Disappointment at the rise in US money supply prompted further selling on Monday. This was persistent enough to produce losses of up to 1 1/2 at the long end at one stage, but prices turned towards the close and ended off the bottom. The mood was nervous at yesterday's opening in advance of publication of the September banking figures. However, early losses were soon recovered and the market moved further ahead following the announcement of the figures which indicated a rise in  $\text{EM}_3$  towards the lower end of market expectations. Although tending to drift off slightly before the close, prices closed with net gains of 1/8 in shorts and 1/4 in longs. After a period of little interest in indexed stocks, some market demand re-emerged bringing gains of up to 5/8.



Over the week, yields on shorts rose by up to 1/4% (to 10 7/8-11 3/8% on 5-year maturities) and those on longs by 1/8% or more (to 11 3/8-11 5/8% on 20-year maturities). Yields on the indexed stocks were unchanged or slightly lower, ranging from 2.87% (IG 2011) to 3.42% (IG 1988).

#### EQUITIES

The market continued to fluctuate during the week as hopes of lower interest rates contended with the influence of weaker US equities and concern about the economic outlook.

After trading cautiously but with a firm undertone for much of Wednesday, prices slipped back towards the close reflecting Wall Street's early weakness. On Thursday, the market opened lower but quickly began to recover with buyers encouraged by hopes of lower interest rates. Stocks were enlivened by news of the offer for Woolworth. Later in the day, however, prices slipped back again to leave the 30-Share Index 3 points lower. This decline gathered strength on Friday morning after the Dow Jones Index had slipped back below 900. But prices began to recover after the initial mark-down and the Index ended a net 1.3 higher having been 7.2 down at its first calculation.

After the weekend, sentiment was influenced at the start of the new account by further gloomy forecasts of the economic outlook and with Wall Street again coming in easier in the afternoon the Index lost 8.8 points on Monday.

Yesterday, the market took heart from Wall Street's recovery from its early weakness on Monday and with the better tone of gilts and with US equities maintaining their firmness at the opening, prices gathered strength during the day to leave the 30-Share Index 6.2 higher at 576.8, a fall of 10.8 over the week. The 500-Share Index fell by about 5 1/2 points over the week to 400.32.

#### NEW ISSUES

##### Issues

Seagram Distillers' placing of a £50mn debenture issue was announced yesterday. The issue was priced to yield 12.44%, 1.35% over the



basket of reference gilts. (This compares with the margin of 1% for MEPC's recent debenture and 1.4% for BOC's unsecured loan stock). An element of flexibility has been introduced into the covenants by means of a defeasance clause. This allows the substitution of cash security (equal to the principal of the outstanding stock plus 9 months' gross interest) for the original security provided by the trust deed in the event of the disposal by the company of more than 30% of the assets that constitute that security. The issue appears to have been well received by the institutions.

Islington's £10mn droplock option was triggered during the week with the relevant gilt yield having fallen to the mandatory lock-in level of 11 1/2%. The lock-in margin is 1.15% over the gilt yield. Final maturity is 2012. The only other droplock to be triggered so far was Birmingham's in August, although a number of other facilities are close to triggering.

In the euro-sterling market the French state Caisse Nationale de Telecommunications is raising £20mn through a 12 1/2%, 7-year issue priced at par. This follows FFI's £30mn issue launched the previous week, which was increased from £25mn because of strong demand.

The package to finance the take-over of Woolworth by the newly-formed Paternoster Stores was finalised during the week. A number of City institutions will subscribe for new shares in Paternoster worth £83mn and take up £75mn nominal of 14% unsecured loan stock maturing in 1987-89. Other than this, there were no significant equity issues during the week.

#### Queue

Dates were allotted for November in the fixed-interest queue: the main prospective borrowers are a UK bank and, possibly, a UK industrial company, both for £100mn. Two local authorities and an investment trust are planning smaller issues. No new issues were added to the waiting list.

Activity in the equity queue remained quiet with no new large issues being added.



With deletions from the equity queue matching additions to the fixed-interest queue, the overall total remained at £1,429mn (£763mn equity, £666mn loan stock).

(Init ALC)  
6 October 1982



Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases - )

1. Transactions (cash value)

	29. 9.82 <u>- 5.10.82</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	- 21	- 21	- 1,116	- 1,324
Other short-dated	<u>- 16</u>	<u>- 9</u>	<u>+ 1,652</u>	<u>+ 2,022</u>
	- 37	- 30	+ 536	+ 698
Mediums	+ 213	+ 8	+ 3,373	+ 3,850
Longs and undated	<u>-</u>	<u>-</u>	<u>+ 699</u>	<u>+ 983</u>
Total Issue				
Department trans- actions	+ 176	- 22	+ 4,608	+ 5,531
CRND	-	-	+ 192	+ 287
Redemptions	<u>- 9</u>	<u>- 2</u>	<u>- 1,043</u>	<u>- 1,443</u>
	<u>+ 167</u>	<u>- 24</u>	<u>+ 3,757</u>	<u>+ 4,375</u>

2. Redemption Yields (tax ignored)

	<u>28 September</u>	<u>5 October</u>	<u>Change</u>
11 1/2% Treasury 1985	10.36	10.59	+0.23
12% Treasury 1987	11.10	11.37	+0.27
11 3/4% Treasury 1991	11.75	11.99	+0.24
12 1/2% Exchequer 1994	11.71	11.90	+0.19
2% Index-Linked			
Treasury 1996	3.17	3.15	-0.02
12 1/4% Exchequer 1999	11.26	11.42	+0.16
14% Treasury 1998/01	11.43	11.58	+0.15
12% Exchequer 2013/17	10.77	10.87	+0.10
3 1/2% War Loan (Flat Yield)	10.58	10.68	+0.10



Gilt edged yields [F.T. High coupon]

12.5 -

- 12.5

12 -

- 12

11.5 -

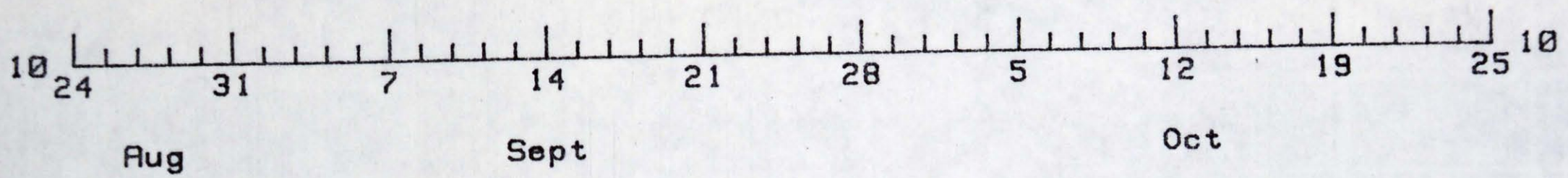
- 11.5

11 -

- 11

10.5 -

- 10.5



Interbank rates

Yields

12.5 -

- 12.5

12 -

- 12

11.5 -

- 11.5

11 -

- 11

10.5 -

- 10.5

