

*Markets Des*

THE GOVERNOR o/r

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Markets: 21 May-27 May

## Money

Conditions in the money market continued short over this period particularly on Thursday and Friday when the unwinding of earlier foreign exchange swaps was the main adverse factor. Help was given by the Bank on every day, taking the form of purchases of Treasury and Local Authority bills outright and of purchases of Local Authority and eligible bills for resale on 4 June. In addition small amounts were lent overnight at MLR on every day but Thursday, when exceptionally large lending on the same terms was necessary.

Interbank rates at up to six months showed a generally firm tendency, the three month rate finishing  $\frac{1}{8}\%$  up at  $17\frac{1}{8}\%$ . Twelve month rates have dropped back a little after their recent rise, falling from  $15\frac{1}{8}\%$  to  $15\%$ .

At the Treasury Bill tender on Friday the average rate of discount fell by 0.048 to 16.0947.

## Gilts

The market has been strong apart from temporary weakness on Thursday.

The period began on a quietly steady note/reflecting the strength of sterling and prices gained up to  $\frac{1}{2}$  by lunchtime with little change in the afternoon. The following day prices eased back in very light trading after a steady start. But a firmer tendency re-emerged on Friday aided by the overnight news of an easing in credit curbs by the Federal Reserve and the continuing strength of sterling. Over £240 mn. of the medium tap,  $13\frac{1}{2}\%$  on Wednesday

Exchequer 1992, was sold at  $20\frac{1}{4}$  and  $20\frac{5}{16}$  before the latter price was withdrawn. The market was further encouraged in the afternoon by Citibank's 2% reduction in prime rate to  $14\frac{1}{2}\%$ , and by the official close prices had risen by up to  $1\frac{1}{8}$ . A new low coupon tap stock, £600 million of 3% Treasury 1985 at a minimum price of 69, was announced at 3.30 pm.

The market continued very firm after the weekend and the medium tap was quickly exhausted at  $20\frac{3}{8}$  this morning. At one point prices had gained up to  $\frac{1}{8}$  but closed about a  $\frac{1}{4}$  below the best levels.

#### Equities

Prices drifted lower prior to the weekend on concern at the possible level of future pay settlements and reflecting pessimistic statements on Thursday by the chairmen of GKN and ICI about current trading conditions. Today, prices have continued to ease and at 3.00 pm the FT index was 419.6, a fall of 3.7 on the day and of 13.8 over the week.

27 May 1980

G L Drummond/D T R Carse (4419)

G.L.

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