

SECRET

NOTE FOR WEDNESDAY MEETING

MARKETS: 2 JULY 1980 TO 8 JULY 1980

MONEY

After a relatively easy start to the week conditions in the money markets were extremely tight from Friday onwards. The main factors against the market were Friday's 30% call on 13½% Exchequer 1994, together with the unwinding on Friday and Tuesday of previous bill purchases by the Bank and heavy gilt sales on Friday and Monday. The net Exchequer position was also largely unfavourable to the market.

Against this, the market was helped on Friday by the Bank's purchase of gilts under the first gilt purchase and resale facility open to all listed banks and finance houses above a certain size. A second facility on similar terms, to run from 11 July to 18 August, was announced on the same day.

The Bank gave assistance by the purchase of Treasury and Local Authority bills outright on Friday, Monday and Tuesday, and on Monday and Tuesday also by the purchase of eligible bills for subsequent resale, Tuesday's purchases being to a date after the July makeup day. In addition, small to extremely large amounts were lent overnight at MLR on everyday but Thursday, the only day on which no assistance was necessary.

Interbank rates tended downwards at all maturities throughout the week, both before and after Thursday's reduction in MLR, though there was a temporary sharp firming on Monday which was particularly evident at the short end. The three month rate finished 1% down at 15 7/8%.

Rates this morning easier at shorter maturities: firm at six months and over.



Eurosterling rates also showed a markedly easier tendency this week, the three month rate finishing  $1\frac{1}{8}\%$  down at  $16\%$ .

At the Treasury Bill Tender on Friday the average rate of discount fell by 0.9397 to 14.7404.

#### LOCAL AUTHORITY BONDS

Reflecting the decline in money market rates, the coupon on fixed rate one-year bonds fell by  $1\%$  to  $13\frac{3}{4}\%$ , the lowest level since end-October of last year. Issues totalled  $\pounds 13.25$  mn ( $\pounds 15.5$  mn last week) against maturities of  $\pounds 12.75$  mn.

#### GILTS

Very firm conditions saw the exhaustion of three tap stocks and the announcement of a new issue; but the market fell back a little following publication of the banking figures yesterday afternoon.

The market rallied strongly on Wednesday morning, supported by foreign demand, and at lunchtime the long tap,  $13\%$  Treasury 2000, was exhausted at  $30\frac{1}{4}$ . Further improvement was seen after Thursday's cut in MLR and substantial amounts of the 1985 tap were sold at  $40\frac{1}{16} - \frac{1}{8}$  while large demand also developed for  $3\%$  Treasury 1985. Both stocks were exhausted (at  $40\frac{3}{16}$  and  $69\frac{1}{4}$  respectively) as soon as the market opened on Friday; the level of activity then dropped and, after some further gains, prices fluctuated for the rest of the day. At the close a new issue of  $\pounds 800$  mn of  $12\%$  Treasury 1987 was announced. Following this, the short/medium sector was subdued on Monday, but longs moved ahead sharply with gains of up to  $1\frac{1}{2}$ . These gains were extended by a further  $\frac{3}{4}$  yesterday morning with the whole market opening strongly. Profit-taking appeared ahead of the June banking figures and some quite heavy selling occurred after their announcement: by the close prices generally had reverted to the previous night's level.



Over the week as a whole, shorts rose by up to 1 and longs by around 3.

#### EQUITIES

The market responded to Thursday's cut in MLR with the largest single day rise for over 15 months. Conditions remained buoyant on Friday and Monday, helped by the strength of the gilts sector, with the FT index recording a rise of 31.4 over the three days as a whole. Yesterday the market initially improved further but then met profit-taking after the announcement of the banking figures and the FT index closed at 492.7, a fall of 2.3 on the day but a rise of 31.3 over the week as a whole.

#### NEW ISSUES

##### Queue

Two sizeable rights issues were added to the queue: £34 mn for Lonrho and £50 mn for Blue Circle Industries. An issue of £7 mn by a water company was also added, making a total for the queue of £154 mn.

Although new issue activity in the equity market has picked up sharply since the end of the first quarter (reflecting partly the £100 mn issue for Land Securities Trust), it continues to run below the level for the same period last year.

##### Others

Metropolitan Estate & Property International NV (a subsidiary of MEPC Ltd) is to issue a \$30 mn euro-dollar convertible bond by way of a placing.

(init EAJG)

9 July 1980

Official Stock Transactions and Gilt-Edged Yields

(\$ million: sales + , purchases - )

1. Transactions (cash value)

	2 7.80 <u>- 8.7.80</u>	Cal.Qtr. <u>to date</u>	Fin.Year <u>to date</u>	21.2.80 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 16	- 16	- 642	- 738
Other short-dated	<u>+ 294</u>	<u>+ 294</u>	<u>+ 1,357</u>	<u>+ 1,445</u>
	+ 278	+ 278	+ 715	+ 707
Mediums	+ 510*	+ 510	+ 1,430	+ 1,480
Longs and undated	<u>+ 97</u>	<u>+ 97</u>	<u>+ 2,066</u>	<u>+ 2,331</u>
Total Issue				
Department trans-				
actions	+ 885	+ 885	+ 4,211	+ 4,518
CRND	- 9	- 14	+ 76	+ 74
Redemptions	- 3	- 5	- 500	- 789
	<u>+</u>	<u>+</u>	<u>+</u>	<u>+</u>
	+ 873	+ 866	+ 3,787	+ 3,803

\* Includes + 299 from call on 13 1/2% Exchequer 1994.

2. Redemption Yields (tax ignored)

	1 July	8 July
11 1/2% Treasury 1981	14.09	14.28
8 1/4% Exchequer 1981	13.70	13.35
12% Treasury 1984	12.90	12.61
13 1/4% Exchequer 1987	13.08	12.99
10% Treasury 1992	13.46	13.10
12 1/4% Exchequer 1999	13.75	13.29
11 1/2% Treasury 2001/04	13.56	13.36
12% Exchequer 2013/17	13.18	12.77
3 1/2% War (Flat Yield)	10.91	10.81



## SECRET

£ millions

## NEW ISSUES OF 3 OR OVER

Date	Government, etc.	Other Fixed Interest	Convertible Stocks	Others
1980		(excl. Convertibles)		
Week 1 (9/7-11/7)				Marinex Petroleum Ltd (placing) (10/7) 7
Week 2 (14/7-18/7)				<u>Lonrho Ltd</u> (rights) (18/7) 34
Week 3 (21/7-25/7)				The Charterhouse Group Ltd (offer for sale) (24/7) 40
Week 4 (28/7-1/8)				
Week 5 (4/8-8/8)		Newcastle and Gateshead Water Company (tender) (5/8) 6		
Week 6 (11/8-15/8)				
Week 7 (18/8-22/8)				
Forthcoming		Lee Valley Water Company (tender) (7/10) 4		<u>Blue Circle</u> <u>Industries Ltd</u> (rights) 50 (27/8)
		<u>Essex Water</u> Company (tender) (2/12) 7		Law Land Company Ltd (rights) (2/9) 6
		TOTAL 17	TOTAL	TOTAL 137

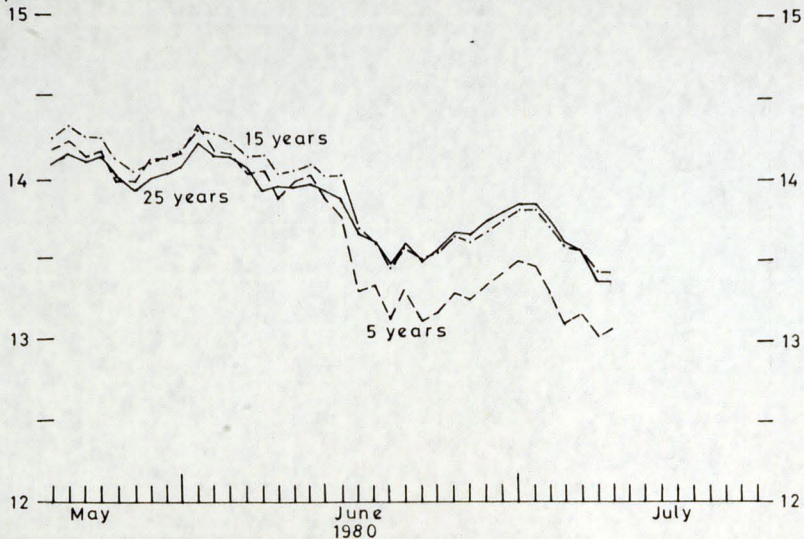
*Issues announced:	1977	118	815
	1978	60	959
	1979	162	946
	1980 to date	79	387
*Issues completed	1977	143	784
	1978	63	910
	1979	150	979
	1980 to date	54	248

\*Includes issues of less than 3.

9 July 1980

### Gilt edged yields (F.T. high coupon)

yields  
15 —



### Interbank rates

19 —

