

SECRET

NOTE FOR WEDNESDAY MEETING

MARKETS: 30 JULY 1980-5 AUGUST 1980

MONEY

Conditions in the money market continued tight, though there was some easing of last week's extreme stringency. The main factors involved were the repayment of previous market advances on Wednesday, together with Friday's call on 12 1/4% Exchequer 1985 (A), while the unwinding of earlier foreign exchange swaps by the Bank on both Wednesday and Thursday, the monthly oil revenue payment to Nigeria on Thursday and the unwinding of a previous purchase of Commercial Bills by the Bank on Monday further exacerbated the situation. Against this, the net Exchequer position was almost consistently in the market's favour.

Assistance by the Bank was necessary on every day, taking the form of purchases of Treasury Bills outright, together with Local Authority Bills on every day but Monday. Additional help was given in the form of lending overnight at MLR on every day but Thursday, and by means of a further foreign exchange swap on Friday.

Interbank rates at three months and over were firm almost throughout the week, particularly from Friday onwards after MLR was again left unchanged. Shorter rates fell sharply in the early part of the week and eased again after a brief firmness on Friday, which was the week's tightest day. The three month rate ended the week 9/16% higher at 16 1/4%.

Rates this morning firmer.

Eurosterling rates were generally firm throughout the week, particularly on Monday when the three and twelve month rates both rose by 5/8%. The three month rate finished the week 3/4% up at 16 5/8%.

At the Treasury Bill tender on Friday the average rate of discount rose by 0.2693 to 14.7076.

LOCAL AUTHORITY BONDS

The coupon on fixed rate one year bonds rose by 5/8% to 14 1/8%, the first increase for five weeks. In consequence, ten authorities in the queue for £6.5 mn dropped out and issues totalled only £9.5 mn (£18.75 mn last week) against maturities of £11.75 mn.

GILTS

The market, which had become more hesitant the previous week, weakened quite sharply in anticipation of adverse money and banking figures yesterday. It fell further when they were announced.

The market remained weak on Wednesday with falls of about 1/4 in shorts and 3/8-1/2 in longs, partly attributable to profit-taking by overseas investors. The easier trend persisted on Thursday and there was fresh selling in the afternoon in the absence of a change in MLR: by the close shorts and longs had lost a further 1/2 and 1 respectively. Longs were steadier on Friday, helped by some bear closing, but high coupon shorts remained under pressure.

After the weekend the market displayed renewed weakness on Monday reflecting concern about the likely money supply outturn for July and disposals of recent issues by some holders in advance of the heavy calls due over the coming weeks. Initial weakness in shorts - reportedly due mainly to selling by the discount houses - soon spread down the list to longs and falls of 3/4 were widespread by lunchtime. A slight rally in the afternoon petered out following the increase in Chemical Bank's prime rate from 10 3/4% to 11%. Yesterday, the market was initially somewhat firmer, but all the early gains were lost after publication of the July banking figures and by the close shorts showed net falls of about 1/4 and longs about 1/2.

Over the week as a whole the longer shorts fell by over 2 points and longs by around 2 5/8 points.

SOUTHERN RHODESIA STOCKS

Monday was the first day of trading in Southern Rhodesia Stocks following the release on Friday of details of the debt settlement. (Trading in the stocks had been suspended on 27 June.) With buyers almost wholly absent, prices were marked down heavily in the stocks past their maturity dates, with smaller losses among the four current

stocks. The 2 1/2% Stock 1965/70 finished the day at 95 compared with its suspension price of 153 to give a yield of over 30%. In contrast, the price of 6% Stock 1978/81 fell from 167 to 145. Tuesday saw some recovery as speculative buyers emerged and by the close the 2 1/2% Stock had recovered by 12 points to 107 with smaller gains for the other stocks.

EQUITIES

Trading was subdued with little change in prices at the beginning of the week. Initial firmness on Thursday was not sustained amid disappointment at the absence of a cut in MLR, and property shares in particular turned easier; electrical shares also encountered profit-taking after their recent firmness. Scattered selling continued on Friday and the market eased further on Monday in line with gilts. Yesterday the market was slightly firmer until the disappointing banking figures for July were announced, after which prices were marked lower. By the close the FT index was 2.5 lower at 480.9, a fall of 8.8 over the week.

NEW ISSUES

Queue

Two new sterling convertible issues by Japanese companies were added to the queue: £10 mn for Jusco (retail store) in September and £12 mn for Orient Leasing in November. Both issues will be made in the domestic rather than eurobond market. A rights issue of £5 mn for British Vita Co Ltd (plastics etc) and an offer for sale of £7mn by Intersun Ltd were also added to the queue which now totals £156 mn, somewhat higher than in the last two weeks.

Other

Rothschild Investment Holdings is raising £12 mn through a euro-sterling bond issue with a maturity of ten years (average eight years) and a proposed coupon of 14 1/4%.

Init EAJG

6 August 1980

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

	30.7.80 <u>- 5.8.80</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	- 42	- 87	- 713	- 809
Other short-dated	<u>- 65</u>	<u>+ 285</u>	<u>+ 1,349</u>	<u>+ 1,435</u>
	- 107	+ 198	+ 636	+ 626
Mediums	+ 333*	+ 1,807	+ 2,727	+ 2,777
Longs and undated	<u>- 62</u>	<u>+ 39</u>	<u>+ 2,007</u>	<u>+ 2,274</u>
Total Issue				
Department trans-				
actions	+ 164	+ 2,044	+ 5,370	+ 5,677
CRND	-	- 24	+ 65	+ 64
Redemptions	-	- 16	- 510	- 800
	<u>+</u> 164	<u>+</u> 2,004	<u>+</u> 4,925	<u>+</u> 4,941

* Includes + 334 from call on 12 1/4% Exchequer 1985 A

2. Redemption Yields (tax ignored)

	<u>29 July</u>	<u>5 August</u>
11 1/2% Treasury 1981	13.93	14.61
8 1/4% Exchequer 1981	13.34	14.20
12% Treasury 1984	12.49	13.27
13 1/4% Exchequer 1987	12.90	13.19
10% Treasury 1992	12.67	13.10
12 1/4% Exchequer 1999	12.85	13.30
11 1/2% Treasury 2001/04	12.62	13.05
12% Exchequer 2013/17	12.33	12.69
3 1/2% War (Flat Yield)	10.71	11.16

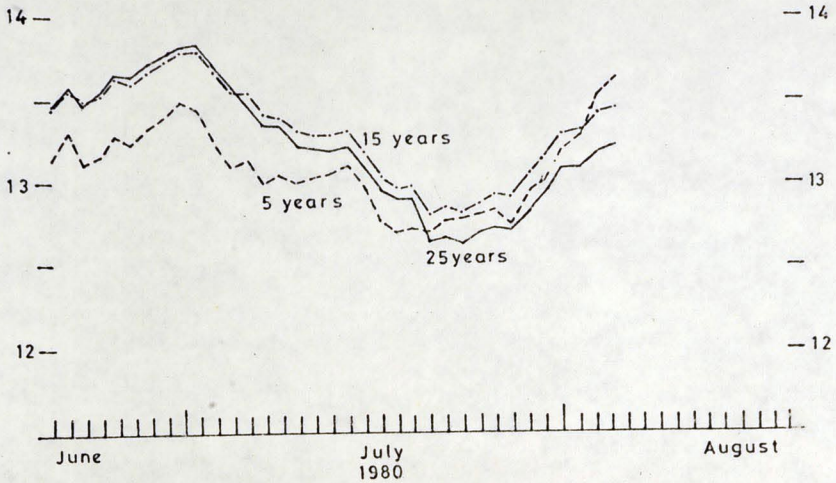
NEW ISSUES OF 3 OR OVER

Date	Government, etc.	Other Fixed Interest (excl. Convertibles)	Convertible Stocks	Others
1980				
Current week (6/8-8/8)				
Week 2 (11/8-15/8)				
Week 3 (18/8-22/8)				Pict Petroleum Ltd (rights) (20/8) 5
Week 4 (26/8-29/8)				Blue Circle Industries Ltd (rights) (27/8) 50
Week 5 (1/9-5/9)			Jusco Co Ltd (placing) (early Sept) 10	Law Land Company Ltd (rights) (2/9) 6
Week 6 (8/9-12/9)				British Vita Co Ltd (rights) (10/9) 5
				Electra Investment Trust Ltd (offer for sale) (11/9) 35
Week 7 (15/9-19/9)				
forthcoming		Lee Valley Water Company (tender) (7/10) 4	Orient Leasing Co Ltd (placing) (3/11) 12	Peachey Property Corporation Ltd (rights) (21/10) 7
		Essex Water Company (tender) (2/12) 7		Samuel Properties Ltd (rights) (30/10) 8
				Intersun Ltd (offer for sale) (3/12) 7
		TOTAL 11	TOTAL 22	TOTAL 123
*Issues announced:	1977 118	1977 118	1977 118	1977 815
	1978 60	1978 60	1978 60	1978 959
	1979 162	1979 162	1979 162	1979 946
	1980 to date 79	1980 to date 79	1980 to date 79	1980 to date 469
*Issues completed	1977 143	1977 143	1977 143	1977 784
	1978 63	1978 63	1978 63	1978 910
	1979 150	1979 150	1979 150	1979 979
	1980 to date 88	1980 to date 88	1980 to date 88	1980 to date 367

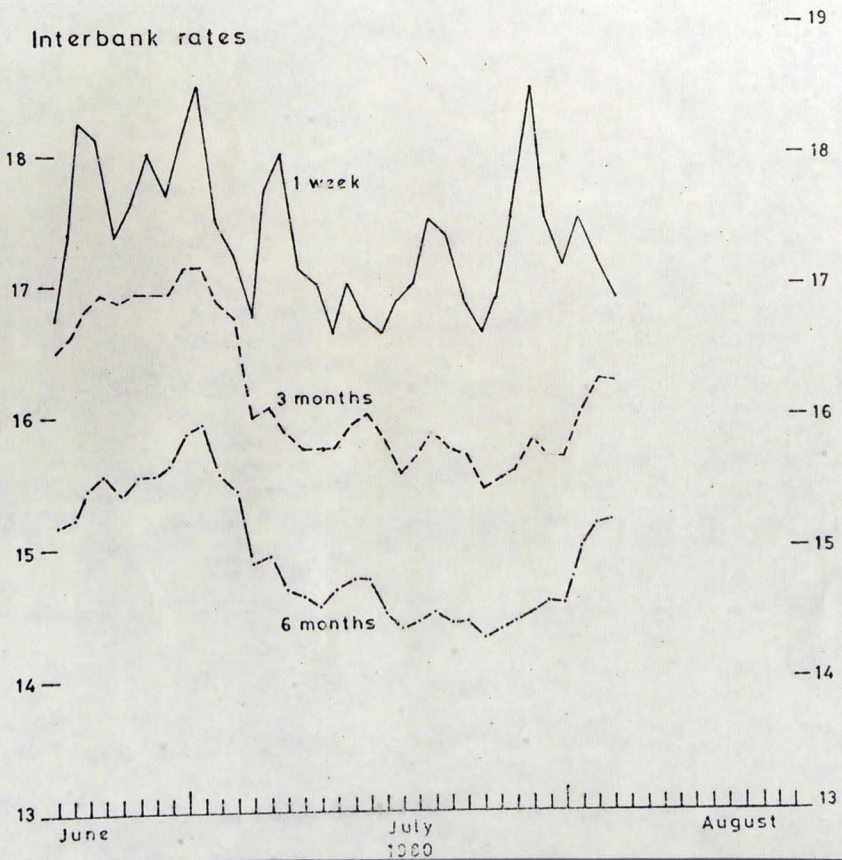
*Includes issues of less than 3.

Gilt edged yields (F.T.high coupon)

Yields



Interbank rates



Per cent *Time Yield Curves of British Government Stocks*

6th August 1980

