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SECRET

NOTE FOR WEDNESDAY MEETING

MARKETS: 13 AUGUST 1980 TO 19 AUGUST 1980

MONEY

Money market conditions were again tight throughout the week. The market was adversely affected on Wednesday by the unwinding of a previous purchase of commercial bills by the Bank and on Friday by the call on 12% Treasury 1987. Conditions were tightest on Monday due to the simultaneous repayment of a large market advance, a substantial take-up of Treasury Bills, and the unwinding of the gilt purchase and resale facility taken up on 11 July (partly offset by a new facility detailed below). However the market benefited from the net Exchequer position which was consistently favourable.

Assistance by the Bank was necessary every day, in the form of overnight lending at MLR, and the Bank also provided small amounts of support through direct or indirect purchases of Treasury Bills or Local Authority Bills each day except Monday when the Bank provided exceptionally large commercial bill repurchase facilities (to unwind on 27 and 28 August after the next make-up date).

In addition, in order to reduce the expected continuing upward pressure on interbank rates, the Bank announced on Thursday that the gilt purchase and resale agreement due to unwind on Monday would be replaced by a similar facility to institutions observing the reserve ratio requirements. The facility would run to 15 September and would make available about £750mn of additional reserve assets. £710mn was taken up, compared to the £860mn of the expired facility.

Interbank rates eased slightly on Wednesday, but firmed, notably at the short end, following Thursday's publication of figures confirming the July increase in money supply. Rates tended to stabilise or even ease on Monday and Tuesday, however, influenced by the Bank's large-scale assistance, and the three-month rate ended the week only 1/16% up at 16 9/16%.

This morning rates much firmer at short-end.

Six- and twelve-month Eurosterling rates were generally firm throughout the week, but the shorter rates exhibited a slightly easier tendency before the weekend, and the three-month rate finished 3/16% lower at 16 5/8%.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.0473 to 14.9091.

#### LOCAL AUTHORITY BONDS

The coupon on fixed rate one year local authority bonds rose by a further 1/8% to 14 3/4%. Issues totalled £10.75mn (£11.35mn last week) against maturities of £12.75mn.

#### GILTS

The market fluctuated during the week in quiet trading with no clear trend: shorts ended slightly higher and longs slightly lower.

After a firm start on Wednesday morning, the market encountered some selling in the afternoon. This continued on Thursday, following the Bank's request to the banks to limit their purchases of over 1 year gilts, and by lunchtime longs had lost up to 7/8. However, following publication of the July money supply figures - which were no worse than expected - some cheap buyers appeared and most of the earlier losses were regained. The recovery was extended the following day, helped by official reassurances about monetary policy and by the slowdown in inflation revealed by the July RPI.

After the weekend the market displayed renewed uncertainty, reflecting concern at the prospects for US interest rates. Some recovery was seen in after-hours trading on Monday following the favourable July trade figures. But this improvement was not maintained yesterday and prices of longs slipped back slightly on continuing worries about US interest rates and some selling of recent partly-paid issues ahead of forthcoming calls. Shorts were more resilient and generally closed slightly higher.

Over the week as a whole prices of shorts rose by up to 5/8, while those on longs fell by about 1/2.

EQUITIES

The market opened lower on Wednesday, discouraged by the problems in the motor industry and the latest industrial production figures. Sentiment was further depressed by Woolworth's poor results. Prices initially continued to ease on Thursday but recovered in line with gilts after the money supply figures were announced. Further improvement was seen on Friday in quiet trading. Business remained on a small scale on Monday with prices little changed until after publication of the trade figures which provoked gains in leading industrials. Yesterday the market was quietly steady and the FT index closed at 0.5 higher at 488.1, an increase of 7.5 over the week as a whole.

NEW ISSUES

Queue

Two rights issues were added to the queue: £4mn for Kwit-Fit Holdings and £45mn for BTR. The queue now totals £362mn the longest it has been so far this year.

(Init ALC)

20 August 1980

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases - )

1. Transactions (cash value)

	13.8.80 <u>-19.8.80</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	- 17	- 118	- 744	- 840
Other short-dated	+ 10	+ 351	+ 1,415	+ 1,500
	- 7	+ 233	+ 671	+ 660
Mediums	+ 234*	+ 2,051	+ 2,970	+ 3,021
Longs and undated	+ 3	+ 460	+ 2,429	+ 2,696
Total Issue				
Department trans-				
actions	+ 230	+ 2,744	+ 6,070	+ 6,377
CRND	- 12	- 46	+ 44	+ 42
Redemptions	-	- 16	- 511	- 800
	+ 218	+ 2,682	+ 5,603	+ 5,619

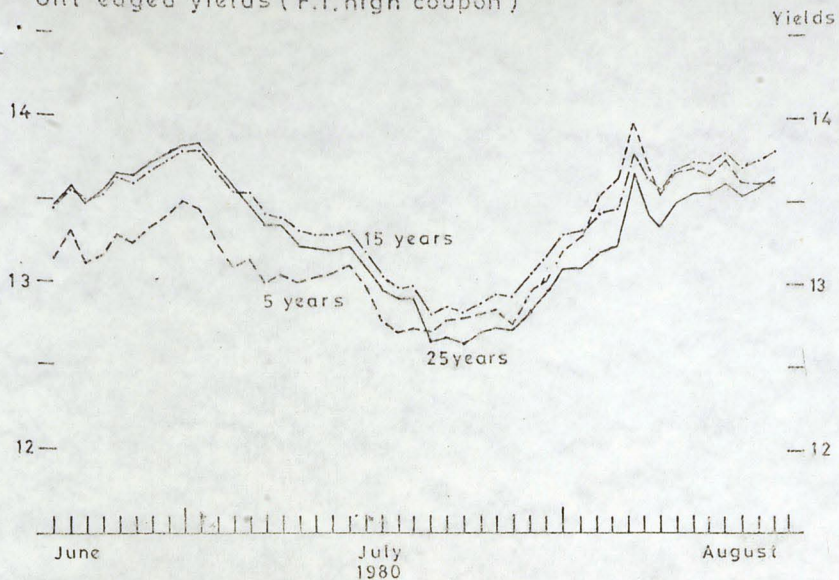
\* Includes + 234 from call on 12% Treasury 1987

2. Redemption Yields (tax ignored)

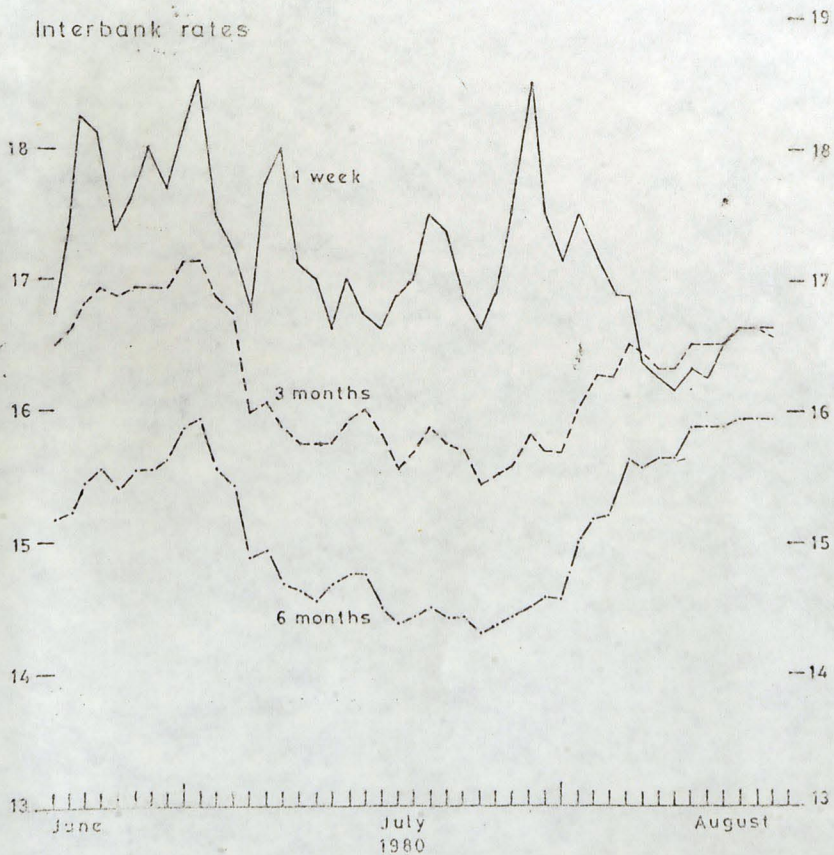
	<u>12 August</u>	<u>19 August</u>
11 1/2% Treasury 1981	15.03	15.08
8 1/4% Exchequer 1981	14.33	14.30
12% Treasury 1984	13.50	13.34/
13 1/4% Exchequer 1987	13.45	13.54
10% Treasury 1992	13.29	13.38
12 1/4% Exchequer 1999	13.55	13.53/
11 1/2% Treasury 2001/04	13.25	13.36
12% Exchequer 2013/17	12.96	13.07
3 1/2% War (Flat Yield)	11.32	11.39

/ Went ex-dividend during week

Gilt edged yields (F.T. high coupon)



Interbank rates



## NEW ISSUES OF 3 OR OVER

Date	Government, etc.	Other Fixed Interest (excl. Convertibles)	Convertible Stocks	Others
1980				
Current week (20/8-22/8)				Pict Petroleum Ltd (rights) (20/8) 5
Week 2 (26/8-29/8)				Blue Circle Industries Ltd (rights) (27/8) 50
Week 3 (1/9-5/9)				Law Land Company Ltd (rights) (2/9) 6 Kwit-Fit Holdings Ltd (rights) (5/9) 4
Week 4 (8/9-12/9)			Jusco Co Ltd (placing) (8/9) 10	British Vita Co Ltd (rights) (10/9) 5 Electra Investment Trust Ltd (offer for sale) (11/9) 35 Burnett & Hallamshire Holdings Limited (rights) (12/9) 12 Rio Tinto Zinc Corp Ltd (rights) (17/9) 125
Week 5 (15/9-19/9)				BTR Ltd (rights) (30/9) 45 Guinness Peat Group Ltd (rights) (7/10) 20
Week 6 (22/9-26/9)				Peachey Property Corporation Ltd (rights) (21/10) 7
Week 7 (29/9-3/10)				Samuel Properties Ltd (rights) (30/10) 8 Intasan Ltd (offer for sale) (3/12) 7
Forthcoming		Lee Valley Water Company (tender) (7/10) 4 Essex Water Company (tender) (2/12) 7	Orient Leasing Co Ltd (placing) (3/11) 12	
		TOTAL	11	TOTAL
				22
				TOTAL
				329

*Issues announced:	1977	118	815
	1978	60	959
	1979	162	946
	1980 to date	85	471
*Issues completed	1977	143	784
	1978	63	910
	1979	150	979
	1980 to date	89	428

\*Includes issues of less than 3.

