

Made
Draft
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SECRET

29. 8. 80

THE GOVERNOR c/

MARKETS: 13 AUGUST TO 28 AUGUST 1980

MONEY

Tight money market conditions prevailed throughout most of the period from 13 to 28 August. The main factors included the unwinding of a large commercial bill repurchase facility on Wednesday 13, and calls on partly paid gilts on Friday 15 and 22. The unwinding on Monday 18 of the gilts sale and repurchase arrangement taken up on July 11 also adversely affected the market (but this was partly offset by a new facility detailed below). Although the repayment of a large market advance on Tuesday induced very stringent conditions at the start of this week, the market has been somewhat easier in the past two days. It has generally benefited from the net Exchequer position over the period (with the notable exception of Thursday last week when a substantial unfavourable net Exchequer balance contributed to extremely tight conditions).

The Bank gave large-scale assistance through overnight lending at MLR on all but the last two days of the period, as well as providing assistance through direct or indirect purchases of Treasury Bills and Local Authority Bills and, on four occasions, through commercial bill repurchase facilities.

In addition, in order to reduce the expected continuing upward pressure on inter-bank rates, the Bank replaced the gilts sale and repurchase facilities which unwound on Monday 18 by a similar arrangement. The new facilities run to 15 September and made available about £750 mn of additional reserve assets of which £710 mn was taken up (compared to the £860 mn of the expired facilities).

Inter-bank rates notably at the short end came under upward pressure following the publication on Thursday 14 of figures confirming the July increase in money supply, and again as banks bid for funds to meet make-up day requirements on 20 August (when

the overnight rate went over 22%). However, rates tended to fall back again reflecting Bank assistance to the markets, with seven-day and three-month rates respectively only 1/4% and 1/8% up over the period at 16 1/2% and 16 5/8%. Longer rates registered the largest rise overall with twelve-month money rising by 7/16% to 15 3/16%.

The average rate of discount at the Treasury Bill tender on Friday 15 fell by 0.0473 to 14.9091 and dropped further - by 0.1086 - to 14.8005 on Friday 22 (when the tender was set at £200 mn, compared with the weekly offer of £300 mn which had been the norm since February 1979).

GILTS

The market has remained generally unsettled in the wake of the July banking figures and prices have fallen quite sharply in the last two days reflecting pessimism about the short-term prospects.

The market eased at the beginning of the period, partly reflecting the Bank's request to the banks to limit their purchases of over 1 year gilts. However, after confirmation of the July money supply figures - which were no worse than expected - some cheap buyers appeared and sentiment was also helped by official reassurances about monetary policy and by the more favourable July RPI.

During the week beginning 18 August, the market displayed signs of renewed uncertainty, mainly due to concern at the prospects for US interest rates - heightened by an increase in Chase Manhattan's prime rate from 11% to 11 1/4% - and at the outturn in the PSBR for the first quarter of 1980/81. Trade was, however, very quiet prior to the bank holiday.

After the holiday weekend, the market lost further ground with quite sharp falls over the last two days (longs down about 1 5/8 points from Tuesday's close). US interest rates have remained a concern - Chase's prime rate was raised again to 11 1/2% - and the

market is displaying some apprehension about the money supply outturn for banking August.

Over the two weeks as a whole, yields in all sections have risen by around 1/2% (for details see table attached).

EQUITIES

Equities were also initially weak but quickly recovered in line with gilts in the first few days and then went on to make further gains with electrical shares in particular demand. The market remained generally firm until the holiday weekend although trade dropped to a very low level. After the weekend, the market turned easier with sentiment depressed by factors such as a large rights issue for Blue Circle and the latest unemployment figures. Yesterday prices slumped after the announcement of ICI's second quarter figures which were much worse than expected. Despite a late technical rally the FT index lost 8.8 to close at 482.7, a net rise of 2.1 over the two weeks.

29 August 1980

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MC

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

	13.8.80. <u>-28.8.80</u>	Fin.Year to date
Issue Department		
Purchases/sales		
Next Maturities	- 28	- 755
Other short-dated	+ 17	+ 1,422
	- 11	+ 667
Mediums	+ 378	+ 3,115
Longs and undated	+ 1	+ 2,427
Total Issue		
Department trans-		
actions	+ 368	+ 6,209
CRND	- 20	+ 36
Redemptions	-	- 511
	+ 348	+ 5,734

2. Redemption Yields (tax ignored)

	<u>12 August</u>	<u>28 August</u>
11 1/2% Treasury 1981	15.03	15.57
8 1/4% Exchequer 1981	14.33	14.80
12% Treasury 1984	13.50	13.88
13 1/4% Exchequer 1987	13.45	13.94
10% Treasury 1992	13.29	13.75
12 1/4% Exchequer 1999	13.55	13.87
11 1/2% Treasury 2001/04	13.25	13.66
12% Exchequer 2013/17	12.96	13.37
3 1/2% War (Flat Yield)	11.32	11.67