

SECRET

NOTE FOR WEDNESDAY MEETING

MARKETS: 27 AUGUST 1980 TO 2 SEPTEMBER 1980

MONEY

Tight conditions continued to prevail in the money markets throughout the week, the largest single factor against the market being the very substantial PRF payment on Monday. The market was also affected on Wednesday by the repayment of previous market advances, and on both Wednesday and Thursday the unwinding of previous purchases of commercial bills by the Bank. Friday's shortage was chiefly due to the final call on 13% Treasury 2000 and to the monthly oil revenue payment to Nigeria.

Assistance was given by the Bank on every day of the week, taking the form of outright purchases of Treasury Bills on every day but Tuesday, together with Local Authority bills on Friday and Monday. In addition, eligible bills were bought on Monday for later resale, and the Bank lent at MLR on Friday, Monday and Tuesday; Monday's lending being for two days.

After an easier tendency in the early part of the week short interbank rates rose sharply in response to Monday's extreme shortage, to drop back again on Tuesday. Longer rates showed a firmer tendency for most of the week but these also softened on Tuesday. The three month rate finished 1/16% higher at 16 11/16%.

Eurosterling rates were easy before the weekend but have since firmed at all maturities. The three month rate ended the week 1/4% down at 16 3/4%.

At the Treasury Bill tender on Friday the average rate of discount rose by C.1492 to 14.9497.

LOCAL AUTHORITY BONDS

The coupon on fixed rate local authority bonds was unchanged at 15% (the first week since end July that the rate has not increased). Issues totalled £10.3 mn (£13.0 mn last week) against maturities of £12.8 mn.

Alliance Building Society is due to make the first issue of building society bonds (analogous to those issued by local authorities) on 3 September. The issue will be for £5 mn.

GILTS

Towards the end of the week there were signs that the market might be establishing a firmer base after its recent period of weakness.

Continuing pessimism about the market's short-term prospects and concern about rising US interest rates led to quite sharp falls at the beginning of the week - on Wednesday and Thursday combined longs lost about 1 5/8 points. A firmer tendency developed on Friday, however, and with the jobbers short of stock, longs initially regained about 3/4 while shorts rose by about 1/4. Some of these gains were lost following the announcement of the results of the Treasury bill tender. After the weekend, there were sighs of a more confident tone as the market responded to the strength of sterling. With the appearance of a few cheap buyers, prices rose quite sharply in thin trading on Monday, particularly at the long end where gains of up to 5/8 were seen. Yesterday the firmer trend continued amid reports of renewed foreign interest and rises of up to 7/8 were recorded with shorts this time sharing in the improvement.

Over the week as a whole, prices of shorts rose slightly while those on longs fell by about 1/4.

EQUITIES

The market was initially unsettled by news of a large rights issue for Blue Circle and by the latest unemployment figures. On Thursday prices slumped after the announcement of ICI's second quarter figures which were much worse than expected and the FT index lost 8.8 on the day. Conditions were steady on Friday, but prices were marked down following pessimistic forecasts of the economic and industrial outlook. Little actual selling materialised, however. Yesterday, the market remained generally dull but responded to the better tone in gilts to show an improvement in the FT index of 2.0 to 482.7, a fall of 13.1 over the week as a whole.

NEW ISSUES

Queue

Only one new issue was added to the queue: a rights issue of £13 mn for Brixton Estate Ltd. With the rights issue for Blue Circle having been announced, the queue now totals £351 mn compared with £388 mn last week.

So far as completed issues are concerned, the total for banking September seems likely to be well below that for July and August. Nevertheless, taking these three months together would give a provisional total of about £350mn compared with only £60mn in the period April-June.

Others

The Kingdom of Belgium may shortly wish to come to the London market for a "bulldog" issue. It would take the form of a totally private (ie unpublicised) and unquoted placing. Terms are likely to be £75mn for five years, yielding 14 1/2% (1/2%-3/4% over gilts).

(Init EAJG)

3 September 1980

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

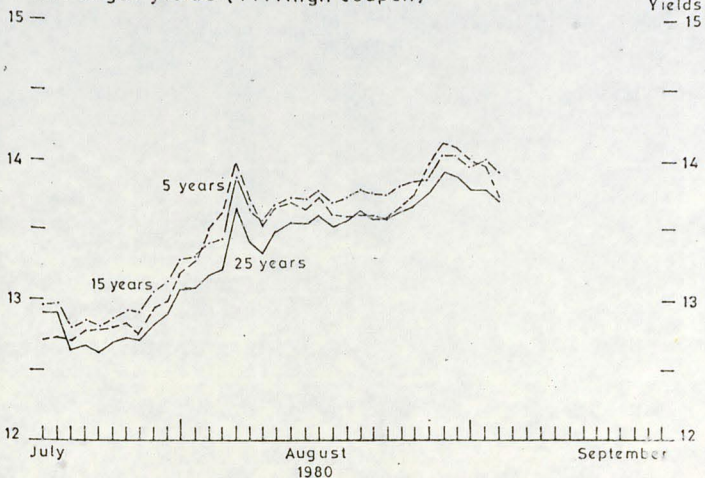
	27.8.80 <u>- 2.9.80</u>	Cal.Qtr. to date	Fin.Year to date	21.2.80 to date
Issue Department				
Purchases/sales	-	-	-	-
Next Maturities		130	755	851
Other short-dated	+ 6	+ 363	+ 1,427	+ 1,512
	+ 6	+ 234	+ 672	+ 661
Mediums	+ 4	+ 2,195	+ 3,115	+ 3,166
Longs and undated	+ 205	+ 665	+ 2,634	+ 2,900
Total Issue				
Department trans-				
actions	+ 215	+ 3,094	+ 6,421	+ 6,727
CRND	+ 8	-	+ 36	+ 35
Redemptions	-	-	-	-
		16	511	800
	+ 223	+ 3,024	+ 5,946	+ 5,962

* Includes + 207 from call on 13% Treasury 2000

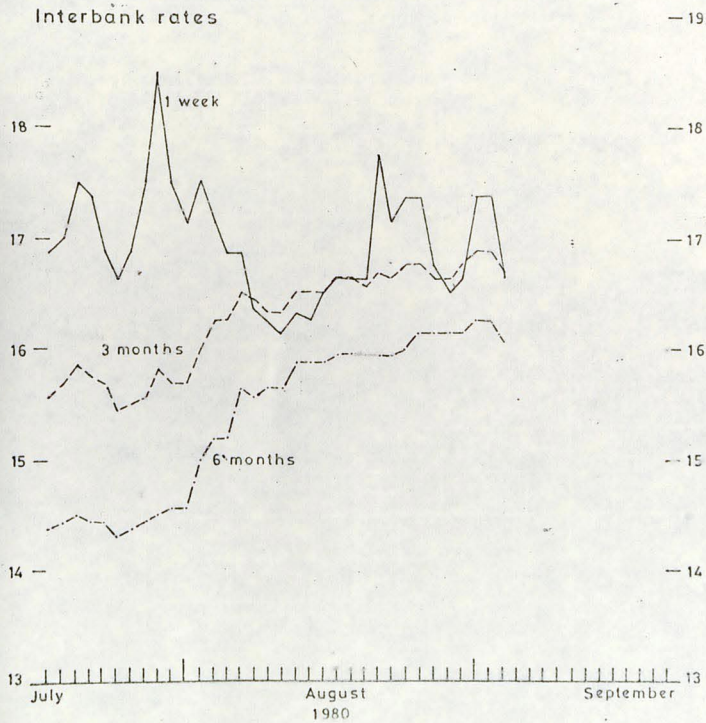
2. Redemption Yields (tax ignored)

	<u>26 August</u>	<u>2 September</u>
11 1/2% Treasury 1981	15.30	15.47
8 1/4% Exchequer 1981	14.53	14.77
12% Treasury 1984	13.62	13.58
13 1/4% Exchequer 1987	13.60	13.72
10% Treasury 1992	13.42	13.51
12 1/4% Exchequer 1999	13.60	13.68
11 1/2% Treasury 2001/04	13.37	13.45
12% Exchequer 2013/17	13.12	13.17
3 1/2% War (Flat Yield)	11.42	11.49

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 (3/9-5/9)				Kwit-Fit Holdings Ltd (rights) (5/9) 4			
Week 2 (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			
Week 3 (15/9-19/9)				Rio Tinto Zinc Corp Ltd (rights) (17/9) 125			
Week 4 (22/9-26/9)				Pict Petroleum Ltd (rights) (23/9) 4 Brixton Estate Ltd (rights) (25/9) 13			
Week 5 (29/9-3/10)				BTR Ltd (rights) (30/9) 45			
Week 6 (6/10-10/10)		Lee Valley Water Company (tender) (7/10) 4	Laing Properties Ltd (rights) 20 (8/10) 20 Cape Industries Ltd (?) (10/10) 13	Guinness Peat Group Ltd (rights) (7/10) 20			
Week 7 (13/10-17/10) Forthcoming		Essex Water Company (tender) (2/12) 7	Orient Leasing Co Ltd (placing) (3/11) 12	Peachey Property Corporation Ltd (rights) (21/10) 7 Samuel Properties Ltd (rights) (30/10) 8 Intasun Ltd (offer for sale) (3/12) 7			
		TOTAL	11	TOTAL	55	TOTAL	285
*Issues announced:	1977	118				815	
	1978	60				959	
	1979	162				946	
	1980 to date	88				523	
*Issues completed	1977	143				784	
	1978	63				910	
	1979	150				979	
	1980 to date	91				465	

*Includes issues of less than 3.

