

NOTE FOR WEDNESDAY MEETING

MARKETS: 18 FEBRUARY 1981 TO 24 FEBRUARY 1981

MONEY

The market enjoyed relatively easy conditions on Wednesday and again after the weekend despite substantial gilt sales on Tuesday; the chief factors involved were a generally favourable net Exchequer position together with some effect from the redemption of 3 1/2% Treasury 1979/81 on 16 February and from purchases by the Bank of 9 3/4% Treasury 1981, the next maturing gilt. A small degree of tightness on Thursday, and a more substantial shortage the following day, were the result of Exchequer surpluses accompanied by a particularly sizeable maturity of commercial bills in the Bank's hands (Thursday) and on Friday a large increase in the note circulation.

The Bank gave assistance on a small scale on Thursday and a very large amount the following day, predominantly in the form of outright eligible bill purchases. In addition, in order to anticipate any upward pressure on rates in advance of the expected massive shortage, due to PRT payment on 2 March, it was announced on Tuesday that the Reserve Asset Ratio would be temporarily reduced to 8% for eight days from 2 March.

Apart from a temporary upward surge on Friday short interbank rates tended to easiness throughout the week, particularly on Monday when the movement was in line with that in longer rates. Rates at three months and over, after showing some easiness before the weekend, dropped very sharply on Monday and Tuesday following press speculation over a possible 3-4% MLR cut in the Budget. The three month rate ended the week 7/8% down at 12 3/8%.

Eurosterling rates showed a tendency to easiness throughout the week which gathered pace on Tuesday when six month rates fell by 1/2% and rates at one year by 3/16%. The three month rate finished 9/16% down on the week at 12 3/4%.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.2358 to 12.0575.

LOCAL AUTHORITY BORROWING

Although the rate for one year bonds fell by 3/8% to 12 3/8% there were large numbers of dropouts this week and issues amounted to only £13mn (£11 1/4mn last week) against maturities of £11.5mn. Newcastle, however, went ahead with the first five year issue we have seen in this market for about a year, raising £1mn at 13 3/8%.

GILTS

Most of the activity during the week has centred around short dated stocks, and hopes of a larger than expected cut in MLR in the Budget enabled the short tap to be activated last Wednesday and to be exhausted yesterday.

Last Wednesday the Government's decision to bring forward the discussions on pit closures, together with hopes for MLR on Thursday, encouraged brisk trading in shorter dated stocks and as a result the short tap, 12% Treasury 1986, was activated for the first time at 20 1/16. On Thursday the news of the Government's volte-face on the miners was surprisingly well received and firmness in shorts spread down the list; further sales of the short tap were made. However, an easier tendency developed on Friday on further consideration of the implications of the Government's move.

On Monday, press suggestions that MLR might be cut by three points in the Budget prompted renewed support for short dated issues and substantial sales of the short tap were made at 20 1/8 and 20 3/16 before the latter price was withdrawn. Yesterday this optimism continued and further substantial sales of the short tap were made leading to its exhaustion. Although later in the day shorts lost part of their early gains, longs, which have recently been very quiet, continued to edged ahead and closed up to 1/2 higher.

Over the week as a whole prices of shorts rose by up to 3/4, mediums by about 1 and longs by up to 1/2.

EQUITIES

Last Wednesday and Thursday the equity market rallied on the news of the defusing of the pit crisis but by Friday further consideration of the implications of the settlement together with a lack of investment interest caused prices to fall back. On Friday most activity was centred around the British Aerospace issue whose price eventually settled at a premium of 21 pence on the issue price of 150 pence, during a very brisk first day of trading. British Aerospace continued to be traded actively on Monday but the remainder of the market was subdued with fears that ICI might cut its final dividend. Clearing bank shares fell back after having improved on Friday following satisfactory full-year results from Lloyds, the first of the clearers to report. Yesterday selective investment interest and a lack of sellers helped prices to rise in most sectors, although bank shares remained dull after disappointing results from Nat West. Over the week as a whole the FT index rose by 9.0 points to 494.5.

NEW ISSUES

Queue

Three new issues were added to the queue: new equity offers for sale of £6mn each by English and Caledonian Investments Ltd (a subsidiary of European Ferries) and Ravenstone Securities Ltd; and a private placing of £25mn of shares in Jebsens Drilling Ltd (the UK drilling operation of the Norwegian shipping group). The queue now totals £566mn against £534mn last week.

The Electricity Supply Board of Ireland has asked to be placed on the waiting list for a bulldog issue of up to £30mn.

(Init EAJG)

25 February 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales + , purchases -)

1. Transactions (cash value)

	18 2.81 <u>- 24 2.81</u>	Cal.Qtr. to date	Fin.Year to date	21.2.80 to date
Issue Department				
Purchases/sales				
Next Maturities	- 227	- 454	- 1,928	- 2,009
Other short-dated	<u>+ 8</u>	<u>+ 648</u>	<u>+ 2,407</u>	<u>+ 2,487</u>
	- 219	+ 194	+ 479	+ 478
Mediums	+ 153	+ 911	+ 6,025	+ 6,077
Longs and undated	<u>- 20</u>	<u>+ 746</u>	<u>+ 4,669</u>	<u>+ 4,932</u>
Total Issue				
Department trans-				
actions	- 86	+ 1,851	+11,173	+11,487
CRND	+ 7	+ 73	+ 495	+ 496
Redemptions	- 79	- 312	- 1,084	- 1,373
	<u>- 158</u>	<u>+ 1,612</u>	<u>+10,584</u>	<u>+10,610</u>

2. Redemption Yields (tax ignored)

	17 February	24 February	Change
12 3/4% Exchequer 1981	12.42	12.14	-0.28
13 1/2% Exchequer 1983	12.97	12.65	-0.32
12% Treasury 1984	12.89	12.65	-0.24
13 1/4% Exchequer 1987	13.24	13.05	-0.19
13% Treasury 1990	13.65	13.48	-0.17
12 1/4% Exchequer 1999	13.95	13.88	-0.07
11 1/2% Treasury 2001/04	13.67	13.62	-0.05
12% Exchequer 2013/17	13.22	13.19	-0.03
3 1/2% War (Flat Yield)	11.51	11.51	-

Gilt edged yields (FT High coupon)

