

## NOTE FOR WEDNESDAY MEETING

MARKETS: 11 MARCH 1981 TO 17 MARCH 1981

## MONEY

The first four days of the week saw a series of extreme shortages which were at their most severe on Thursday and Monday.

Intense competition for funds in the interbank market on Tuesday, 10 March, as banks sought to restore their reserve asset ratios to 10%, left bankers' balances considerably depleted in the afternoon and thus contributed to a substantial shortage on Wednesday. On Thursday funds amounting to over £½ bn were drained from the market by the settlement of official gilt sales achieved in enthusiastic market conditions following the Budget, while on Friday further stringency resulted from the call on 12% Treasury 1986. The main factor in Monday's shortage was an unusually large volume of commercial bills maturing in official hands. Tuesday was an easy day, with further commercial and LA bill maturities being offset by an excess on bankers' balances and a net Exchequer position which favoured the market.

The Bank took action to relieve the severe stringency and resultant rate pressures chiefly by the announcement on Wednesday evening that there would be a further temporary 2% reduction in the Reserve Asset Ratio, to end this time on 30 April. In addition regular market assistance was required every day, that on Thursday and Monday being on an exceptionally large scale (over £1.5 bn in total). Bills were bought on a 'new-style' repurchase basis on Wednesday, Thursday and Monday and there was some one-week lending on the two latter days. Help on the first four days of the week was sufficiently large to leave bankers' balances over target, thus assisting with the relief of the following day's shortage.

Seven day and one month interbank rates were firm on Wednesday morning as banks sought to position themselves ahead of anticipated stringency. Thereafter, however, the Bank's massive assistance brought short

rates sharply down to a level more consistent with a 12% MLR; the decline was continuous apart from a brief firmness on Monday and took seven day rates from 15 $\frac{1}{4}$ % to 12  $\frac{7}{16}$ % at the end of the week.

Longer rates were also firm on Wednesday and thereafter moved indecisively, finishing at slightly reduced levels; the three month rate was 3/16% down at 12 11/16%.

Eurosterling rates were firm throughout at the beginning of the week but tended to fall away from Friday onwards. The three month rate finished 1/16% down at 12 11/16%.

At the Treasury Bill tender on Friday the average rate of discount rose (for the first time since December) by 0.2439 to 11.6351.

#### LOCAL AUTHORITY BONDS

The rate for one-year bonds rose by 1/8% to 13  $\frac{3}{8}$ %. Issues amounted to £17.35 mn (£10.95 mn last week) against maturities of £21.35 mn.

#### GILTS

Conditions have been firm, particularly at the long end, after the Budget.

Conditions were very firm at the opening on Wednesday following the Budget statement and the long tap (12 $\frac{1}{4}$ % Exchequer 1999B) was immediately exhausted at 90 $\frac{1}{4}$  (an increase of  $\frac{5}{8}$  on our previous price for the stock). Sizeable sales were also made of the low coupon tap and the market moved strongly ahead during the day, with gains of up to 2 points in longs, before slipping back slightly in the afternoon. At 3.30 pm it was announced that £1 bn of 12 $\frac{1}{2}$ % Exchequer 1990 had been issued directly to the Bank. Large demand for this stock built up on Thursday morning and large amounts were sold at prices concentrated mainly in longs where gains of up to a further point were seen. Friday morning saw renewed demand for the 1990 tap, but profit-taking developed later in the afternoon and prices ended the day slightly lower.

After the weekend the market again opened quietly firm and during Monday afternoon further demand developed for the 1990 tap; by the close prices at the long end showed rises of up to 1/2. Sentiment improved further after the announcement of the February trade figures and further sales of the 1990 tap were made (at 15 5/16) on Tuesday morning. A slightly easier tendency then developed and prices closed little changed on the day.

Over the week as a whole prices of all maturities were higher; shorts by nearly 1/2, mediums by 7/8-1 1/2 and longs by around 2 3/4.

#### EQUITIES

Prices fell sharply on Wednesday following the Budget with the disappointing results (and dividend cuts) announced by Tube Investments and Turner and Newall an additional adverse factor. Most of these losses were recovered the following day, however, as the market extended an earlier technical rally; oil shares were particularly active on good results from BP and Shell, and banking shares regained some of their recent losses. Lack of follow-through on Friday saw prices slip lower. After the weekend the market was quietly firm on Monday (the first day of the new account) and extended the improvement yesterday with electrical stocks leading the rally. Bid sensitivity following the news that Standard Chartered and Royal Bank of Scotland had agreed terms together with Wall Street firmness were also factors leading to a rise in the FT index of 7.8 on the day to close at 487.6, a rise of 3.3 over the week as a whole.

#### NEW ISSUES

Only one new issue was added to the queue: an offer for sale of £30 mn by the Split Level Investment Trust. The queue now totals £469 mn against £583 mn last week.

The Kingdom of Sweden bulldog issue of £50 mn for five years was launched this week. Unlike the previous issues by Denmark and Iceland the issue is by public offer and will be traded in the gilts

market. The issue has been underwritten at a yield of  $3\frac{3}{4}\%$  higher than on a comparable gilt.

On 11 March, following the Budget cut in MLR, Finnish Export Credit announced a £15 mn Euro-sterling issue for 5 years at  $13\frac{3}{4}\%$  at par (the same terms as had been achieved by Swedish Export Credit on 2 March). Several other issues are in consideration for announcement later this week after the Sweden bulldog issue is completed.

(init EAJG)

18 March 1981.

Official Stock Transactions and Gilt-Edged Yields

(\$ million: sales + , purchases - )

1. Transactions (cash value)

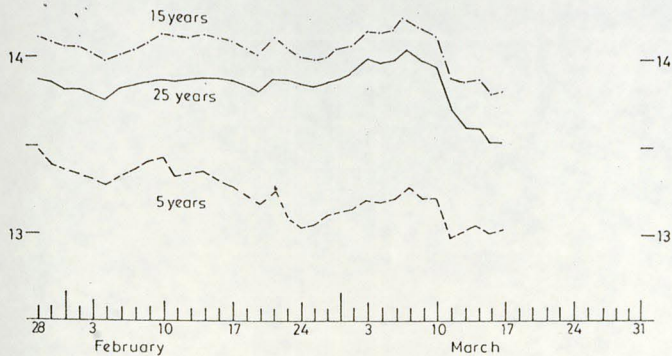
	11.3.81 <u>- 17.3.81</u>	Cal.Qtr. <u>to date</u>	Fin.Year <u>to date</u>	18.2.81 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 133	- 597	- 2,071	- 370
Other short-dated	- 33	+ 1,122	+ 2,881	+ 482
	- 166	+ 525	+ 810	+ 112
Mediums	+ 486*	+ 1,421	+ 6,536	+ 663
Longs and undated	+ 715	+ 1,500	+ 5,422	+ 734
Total Issue				
Department trans-				
actions	+1,035	+ 3,446	+12,768	+ 1,509
CRND	+ 6	+ 99	+ 521	+ 34
Redemptions	-	- 328	- 1,100	- 95
	<u>+1,041</u>	<u>+ 3,217</u>	<u>+12,189</u>	<u>+ 1,448</u>

\* Including +274 from final call on 12% Treasury 1986

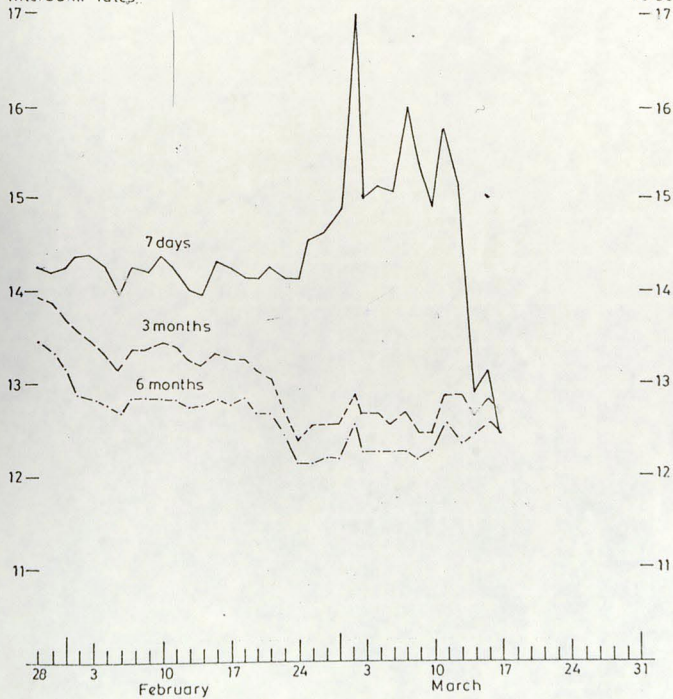
2. Redemption Yields (tax ignored)

	10 March	17 March	Change
12 3/4% Exchequer 1981	12.11	12.15	+0.04
13 1/2% Exchequer 1983	12.87	12.66	-0.21
12% Treasury 1984	12.85	12.65	-0.20
13 1/4% Exchequer 1987	13.14	12.93	-0.21
13% Treasury 1990	13.50	13.38	-0.12
12 1/4% Exchequer 1999	14.00	13.62	-0.38
11 1/2% Treasury 2001/04	13.73	13.32	-0.41
12% Exchequer 2013/17	13.35	12.98	-0.37
3 1/2% War (Flat Yield)	11.70	11.49	-0.21

Gilt edged yields (FT High coupon)



Interbank rates



SECRET

£ millions

## NEW ISSUES OF 3 OR OVER

Date	Government, etc.	Other Fixed Interest (excl. Convertibles)	Convertible Stocks	Others
1981				
Current week (18/3-20/3)				
Week 2 (23/3-27/3)	City of Leeds (offer for sale) (23/3) 50			County & New Town Properties (rights) (25/3) 6
Week 3 (30/3-3/4)				G T Global Recovery Investment Trust (offer for sale) (31/3) 10 Spirax-Sarco Engineering Ltd (rights) (1/4) 10 English & Caledonian Investments Ltd (offer for sale) (3/4) 6
Week 4 (6/4-10/4)		Continental Corp (8/4) 25		Intasun Group Ltd (offer for sale) (9/4) 5 Anglo International Mining Corp Ltd (rights) (10/4) 5
Week 5 (13/4-16/4)	Swansea (offer for sale) (13/4) 10			Advent Technology plc (offer for sale) (13/4) 10 Laing Properties Ltd (rights) (14/4) 20 Floyd Oil Participations Ltd (rights) (15/4) 3
Week 6 (21/4-24/4)				Rowntree Mackintosh Ltd (rights) (23/4) 35 Split Level Investment Trust (Offer for sale) (27/4) 30
Week 7 (27/4-1/5)		BOC International Ltd (placing) (28/4) 50		Horizon Travel Ltd Ltd (rights) (29/4) 6 John Mowlem & Co Ltd (rights) (30/4) 5
Forthcoming		Newcastle and Gateshead Water Company (offer for sale by tender) (6/5) 7 Sunderland and South Shields Water Company (offer for sale by tender) (27/5) 6		Habitat Design Holdings Ltd (offer for sale) (7/5) 15 Cambridge Electronic Industries Ltd (offer for sale) (13/5) 20 Ravenstone Securities Ltd (offer for sale) (14/5) 20

SECRET

	Mid Southern Water Company (offer for sale by tender) (9/6)	8		Murray Technology Investments plc (offer for sale) (21/5)	8
	The Mid Kent Water Company (offer for sale by tender) (23/6)	3		Hamilton Brothers Oil Company (Great Britain) Ltd (offer for sale) (28/5)	20
	Allied Breweries Ltd (placing) (14/7)	50		Memec Holdings Ltd (offer for sale) (25/6)	20
	Portsmouth Water Company (offer for sale by tender) (2/9)	6			
TOTAL	60	TOTAL	155	TOTAL	254

*Issues announced:	1978	60	959
	1979	162	946
	1980	290	1,066
	1981 to date	23	164
*Issues completed	1978	63	910
	1979	150	979
	1980	284	945
	1981 to date	27	350

\*Includes issues of less than 3

18 March 1981