

NOTE FOR WEDNESDAY MEETING

MARKETS: 25 MARCH 1981 TO 31 MARCH 1981

MONEY

Market conditions on the first two days of the week were relatively easy, the only substantial factors unfavourable to the market (repayment of earlier advances by the Bank and the maturity of commercial and local authority bills in official hands) being offset on Wednesday by excess bankers' balances and on the following day by a sizeable Exchequer deficit.

On Friday the tender for 2% Index-Linked Treasury Stock 1996 was expected to cause severe dislocation on a day when a substantial shortage was expected anyway. A large Exchequer swing in the market's favour (no doubt reflecting continued industrial action by the Civil Service) reduced the shortage, but the Bank was also ready to give ample assistance which, in the end, proved to have been overdone, because the bulk of the payments for the new issue were not presented owing to clearing difficulties.

The resulting excess on bankers' balances meant that there was very little pressure on Monday, despite the filtering through of the majority of new issue payments, the repayment of further market advances by the Bank and sizeable maturities of commercial bills in the Bank's hands. Tuesday saw an apparent surplus due to a very large Exchequer deficit, but despite this some houses experienced difficulty in obtaining funds late in the day and had recourse to their private borrowing facilities with the Bank.

The Bank gave assistance to the market every day. The help on Friday included a large purchase of bills on a resale basis, while on Tuesday a moderate amount of private facility lending was carried out.

Overnight inter-bank rates were easy at the beginning of the week, but there was some firmness at seven days and one month perhaps due to banks seeking funds to take them over Friday's anticipated shortage. On Friday overnight rates were initially firm but later dropped back as difficulties failed to materialise; the easier tendency in all short rates continued on Monday. Tuesday saw some renewed firmness.

Rates at three months were steady and at six and twelve months mildly firm, throughout the week except on Monday when they softened in line with short rates. The three month rate finished $1/8\%$ down at $12\ 9/16\%$.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.0516 to 11.5305.

LOCAL AUTHORITY BORROWING

The rate for one-year negotiable bonds rose by $1/8\%$ to $12\ 3/8\%$. Issues amounted to £11.6mn (£15mn last week) against maturities of £18.75mn.

GILTS

Prices tended to fluctuate before and after the index-linked tender but ended up little changed over the week as a whole.

The market was easier in quiet trading on Wednesday ahead of the index-linked tender. Although turnover remained at a low level on Thursday, sentiment at the long end was improved by the Chancellor's remarks before the Treasury Select Committee and prices rose by up to $7/8$. Some further buying of longs was seen on Friday while the short end remained neglected with earlier slight falls being extended after hours on news of the issue of £1bn of $11\ 1/2\%$ Treasury 1985. As expected the index-linked stock was well oversubscribed at Friday's tender though the allotment price of £100 was lower than most forecasts.

After the weekend the market was generally easier on Monday, partly reflecting sales of conventional gilts to pay for applications for the index-linked issue; mediums and longs ended up to 1 point lower. Yesterday these losses were partly regained as the market rallied in thin trading. In its first two days of trading, turnover in the index-linked stock has been very small with the price easing slightly to 34 7/8 (35 - paid).

Over the week as a whole prices of shorts were slightly lower while those on longs were generally unchanged or slightly higher.

EQUITIES

The market encountered some profit-taking on Wednesday after its previous large gains. However, widespread institutional demand was again apparent on Thursday following the Chancellor's optimistic statement about the economy. Helped by an underlying shortage of stock, the FT Index rose by 11.5 to 518.9, its highest level since its all-time high in May 1979 (558.6); building and engineering shares were in particular demand. The account closed on a quieter note on Friday, the Index having recorded a gain of over 44 points during the two-week period. After the weekend, sentiment was adversely affected by the latest CBI survey which painted a more gloomy picture of the economy and by the situation in Poland. Yesterday, however, the market cast off initial apprehension about events in the US to move steadily ahead; the Index ended the day 9.3 higher at 528.1, a rise of 16.2 over the week as a whole.

NEW ISSUES

Queue

Five new issues were added to the queue this week. Two of these were equity offers for sale by Electra Risk Capital (£20mn) and Hadson Petroleum (£10mn) postponed from earlier dates. Among foreign borrowers, Republic of Finland is to make a bulldog issue of £50mn by means of an offer for sale and Nissan Motor Co is planning a convertible issue, also of £50mn. The queue now totals £717mn against £606mn last week.

In the euro-sterling market, FFI has made a private placement of £15mn with a coupon of 14 3/8%. Swedish Export Credit is due to make a placement of £12.75mn with a coupon of 13 3/4%.

Waiting list

ECSC (£50mn), Reed (£40mn), British Nuclear Fuels. (£100mn), Rolls Royce (£175mn) and MEPC (£25mn) have been added to the waiting list for fixed interest issues, providing further indications of a possible revival of the corporate bond market.

Net capital issues

New money raised during banking March was £47mn (net) compared with £204mn in banking February. The total for the first quarter of the year was £330mn compared with £103mn for the same quarter of last year.

(Init EAJG)

1 April 1981

Official Stock Transactions and Gilt-Edged Yields

(\$ million: sales +, purchases -)

1. Transactions (cash value)

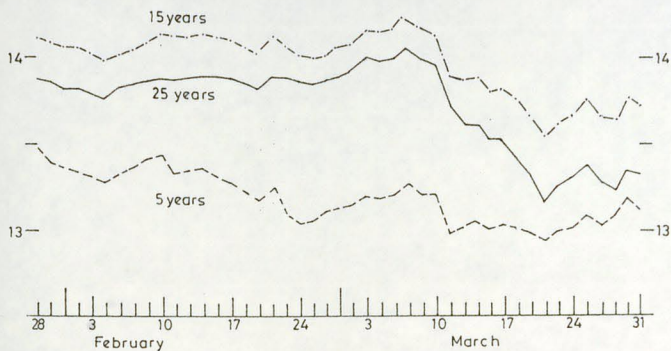
	25.3.81 <u>- 31.3.81</u>	Cal.Qtr. <u>to date</u>	Fin.Year <u>to date</u>	18.2.81 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 42	- 656	- 2,130	- 429
Other short-dated	<u>+ 5</u>	<u>+ 1,144</u>	<u>+ 2,903</u>	<u>+ 504</u>
	- 37	+ 488	+ 773	+ 75
Mediums	- 16	+ 1,436	+ 6,550	+ 677
Longs and undated	<u>+ 332*</u>	<u>+ 1,792</u>	<u>+ 5,715</u>	<u>+ 1,027</u>
Total Issue				
Department trans-				
actions	+ 279	+ 3,716	+13,038	+ 1,779
CRND	+ 12	+ 114	+ 536	+ 48
Redemptions	-	- 328	- 1,100	- 95
	<u>+ 291</u>	<u>+ 3,502</u>	<u>+12,474</u>	<u>+ 1,732</u>

*Includes +346 from issue of 2% Index-Linked Treasury Stock 1996

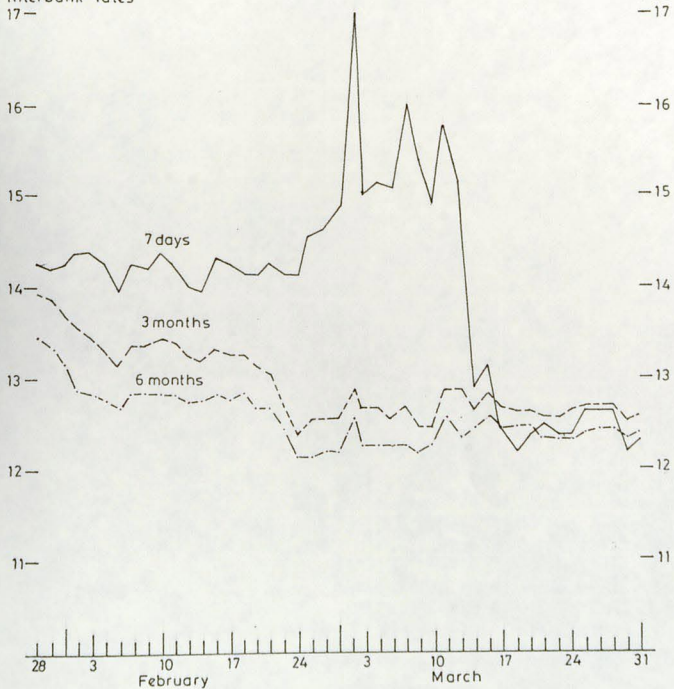
2. Redemption Yields (tax ignored)

	<u>24 March</u>	<u>31 March</u>	<u>Change</u>
12 3/4% Exchequer 1981	12.13	12.17	+0.02
13 1/2% Exchequer 1983	12.70	12.79	+0.09
12% Treasury 1984	12.63	12.70	+0.07
13 1/4% Exchequer 1987	13.02	13.14	+0.12
13% Treasury 1990	13.30	13.45	+0.15
12 1/4% Exchequer 1999	13.45	13.49	+0.04
11 1/2% Treasury 2001/04	13.12	13.15	+0.03
12% Exchequer 2013/17	12.77	12.78	+0.01
3 1/2% War (Flat Yield)	11.28	11.31	+0.03

Gilt edged yields (FT High coupon)



Interbank rates



NEW ISSUES

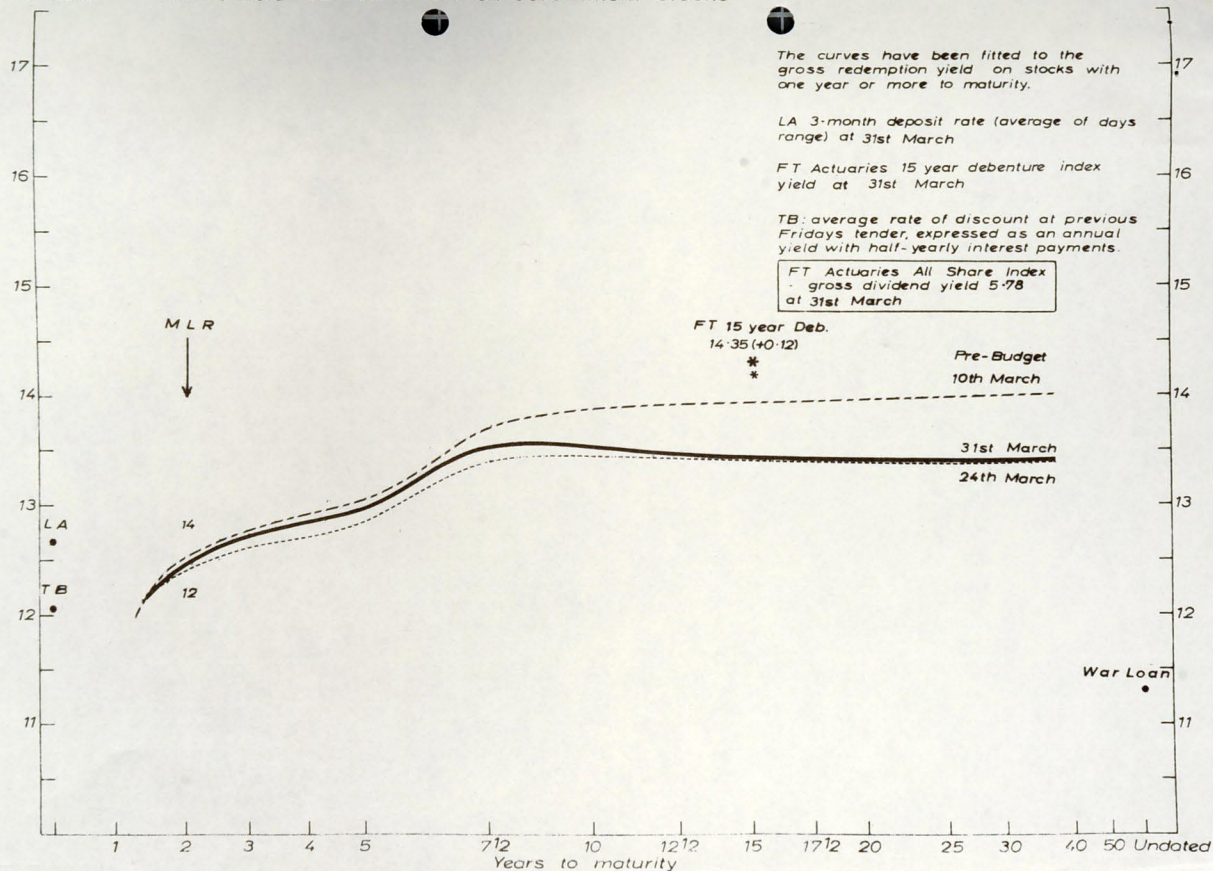
	<u>Fixed interest</u> (excl convertibles)			
	<u>Domestic borrowers</u>	<u>Foreign borrowers</u>	<u>Convertibles</u>	<u>Equities</u>
TOTAL QUEUE*	<u>172</u>	<u>230</u>	<u>78</u>	<u>237</u>
Of which issues of 10 or more:				
Current week (1/4-3/4)				Spirax-Sarco Engineering Ltd (rights) (1/4) 10
Week 1 (6/4-10/4)		Pemex (8/4) 75		
Week 3 (13/4-16/4)	Swansea (offer for sale) (13/4) 10			Advent Technology plc (offer for sale) (13/4) 10 <u>Electra Risk Capital Ltd (offer for sale)</u> (13/4) 20 Laing Properties Ltd (rights) (14/4) 20
Week 4 (21/4-24/4)				Rowntree Mackintosh Ltd (rights) (23/4) 25
Week 5 (27/4-1/5)	BOC International Ltd (placing) 50 (28/4)			Split Level Investment Trust (Offer for sale) (27/4) 30
Week 6 (5/5-8/5)		<u>Republic of Finland offer for sale)</u> (5/5) 50		Habitat Design Holdings Ltd (Offer for sale) (7/5) 15
Week 7 (11/5-15/5)	Sunderland (11/5) 25		<u>Nissan Motor Co Ltd</u> ϕ (12/5) 50	Cambridge Electronic Industries Ltd (Offer for sale) (13/5) 20

Forthcoming.	Allied Breweries Ltd (Placing) (14/7) 50	Hydro Quebec (18/5) 75 Gaz de France (28/5) 30	Percy Bilton Ltd (27/5) 16	Hamilton Brothers Oil Company (Great Britain) Ltd (offer for sale) (28/5) 20 <u>Hudson Petroleum (UK) Ltd (offer for sale) (4/6) 10</u>
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/Issues announced:	1978	60	959
	1979	162	946
	1980	290	1,066
	1981 to date	29	205
/Issues completed	1978	63	910
	1979	150	979
	1980	284	945
	1981 to date	33	350

*Includes issues of 3 or more
 /Includes issues of less than 3
 /Foreign borrower

1 April 1981



The curves have been fitted to the gross redemption yield on stocks with one year or more to maturity.

LA 3-month deposit rate (average of days range) at 31st March

FT Actuaries 15 year debenture index yield at 31st March

TB: average rate of discount at previous Fridays tender, expressed as an annual yield with half-yearly interest payments.

FT Actuaries All Share Index - gross dividend yield 5.78 at 31st March

FT 15 year Deb.
14.35 (+0.12)

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Pre-Budget
10th March

31st March
24th March

War Loan