

## NOTE FOR WEDNESDAY MEETING

MARKETS: 8 JULY 1981 TO 14 JULY 1981

## MONEY

On Wednesday conditions were comfortable, the subscription to 2% Index-linked Treasury 2006 being offset by a moderate excess of Exchequer disbursements over revenue receipts and moderate maturities of Treasury Bills previously sold to the market. The favourable Exchequer position lasted throughout the week but this was outweighed by the tightening effects of other factors. Thursday saw the emergence of a small shortage as the market was faced with moderate maturities of commercial bills. Conditions tightened markedly on Friday as a result of the banks having brought forward balances moderately below target and then being faced with a moderate increase in the note circulation together with further sales of the index-linked gilt. These tighter conditions persisted after the weekend, partly as a result of the Bank's earlier operations, with the repayment on Monday of the money lent for seven days the previous Monday and the unwinding on Tuesday of the previous Friday's moderate repo.

No intervention was necessary on Wednesday. On Thursday it was possible to sell a large amount of Treasury Bills to the market. During the rest of the week the Bank relieved the shortages by purchasing commercial bills for resale at a future date, this assistance being complemented on Friday by the outright purchase of a combination of commercial and Local Authority bills. On Monday one house borrowed a small sum for seven days at a rate above Minimum Lending Rate.

Short-term interbank rates showed some easiness on Wednesday and Thursday reflecting the ample supply of day to day money early in the week. However these rates hardened over the weekend and by Monday had exceeded Wednesday's levels. Some softness, especially of very short rates, was again apparent on Tuesday.

After easing somewhat on Wednesday longer rates tended to harden over the rest of the week, particularly as the exchange market weakened. The three month rate finished  $3\frac{1}{16}\%$  up at  $13\frac{7}{16}\%$ .

Eurosterling rates were generally steady taking the week as a whole, the three month rate finishing unchanged at  $13\frac{3}{8}\%$ . These rates declined on Thursday by up to  $1/4\%$  but recovered on Friday reflecting the rise in domestic rates.

At the Treasury Bill tender on Friday the average rate of discount rose by 0.7526 to 12.7365. It was announced that the amount of Bills on offer the following Friday would be doubled to £200mn.

#### LOCAL AUTHORITY BONDS

The rate for one-year bonds was unchanged at  $13\frac{7}{8}\%$ . Issues amounted to £13.1 mn (£13.5 mn last week) against maturities of £13.5 mn.

#### GILTS

Prices fell sharply after the result of the index-linked tender but the losses were largely recovered before the weekend. Yesterday saw renewed weakness as sterling declined.

Conditions were quiet on Wednesday ahead of the result of the tender for the new index-linked stock (IG II), but prices were marked down sharply following news at 3.30 pm that the allotment price had been set at 86 (a real yield of about  $2\frac{13}{16}\%$ ). In after-hours trading prices of conventional long-dated stocks fell by around  $1\frac{1}{4}$  while IG I shed  $3\frac{3}{4}$  points to 92.

At the start of trading the following morning substantial demand for the new stock was apparent at the price level established by the tender and it was quickly exhausted at  $30\frac{3}{8}$  (30-paid), before moving ahead to close the day at  $31\frac{15}{16}$ . IG I also benefited, regaining around 1 point of the previous day's fall, while conventional stocks also attracted some support. The 1985 tap was reactivated at 91. With more optimistic reports about the prospects for US interest rates, the firmer tone was maintained on Friday.

Continued support was evident for the two index-linked stocks and more of the 1985 tap was supplied at 91 1/8 before that price was withdrawn. By the close the market generally was back to the levels ruling before the result of the IG tender was announced on Wednesday, though IG I at 94 1/8 was still 1 5/8 down.

After the weekend, the market initially extended its recovery before enthusiasm waned. Yesterday saw renewed weakness as the exchange rate fell. Though the market ended the day above the worst, shorts were generally about 1/8 lower with longs down about 5/8.

Over the week as a whole, prices of shorts fell by 1/4-1/2 and longs by up to 3/4; IG I ended 2 1/8 lower at 94.

#### EQUITIES

The market continued to decline on Wednesday amid fears that the BP rights issue would be substantially undersubscribed. At the close, with the BP share price at 286p, the nil-paid rights had dropped to 11p premium, with the HMG rights at no saleable value. Sentiment remained depressed on Thursday with the FT index dropping 3.4 to 519.0. Friday saw some recovery with property shares particularly firm on news of a GLC ban on new office development in Central London.

After the weekend, the firmer tone continued, particularly in after-hours trading following indications of a better than expected response to the BP issue; by the close, in a generally firm oil sector, the BP share price had risen to 296p. This trend was initially extended yesterday before prices drifted back in thin trading; BP finished at 298p. The FT index closed 0.2 down at 531.9, a rise of 2.4 over the week as a whole.

#### NEW ISSUES

##### Queue

No new issues of £10 mn or more were added to the queue. The bulldog issues scheduled for IBRD (July) and Credit Foncier (August) have been postponed. The queue now totals £845 mn against £986 mn last week.

(init EAJG)  
15 July 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

	8.7.81 <u>-14.7.81</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	- 117	- 184	- 1320	- 1,738
Other short-dated	<u>+ 189</u>	<u>+ 152</u>	<u>+ 708</u>	<u>+ 1,196</u>
	+ 72	- 32	- 612	- 542
Mediums	+ 42	+ 42	+ 1,620	+ 2,333
Longs and undated	<u>+ 309</u>	<u>+ 289</u>	<u>+ 1,022</u>	<u>+ 2,060</u>
Total Issue				
Department trans- actions	+ 423	+ 299	+ 2,030	+ 3,851
CRND	-	+ 5	+ 189	+ 241
Redemptions	-	-	- 321	- 417
	<u>+</u>	<u>+</u>	<u>+</u>	<u>+</u>
	<u>423</u>	<u>304</u>	<u>1,898</u>	<u>3,675</u>

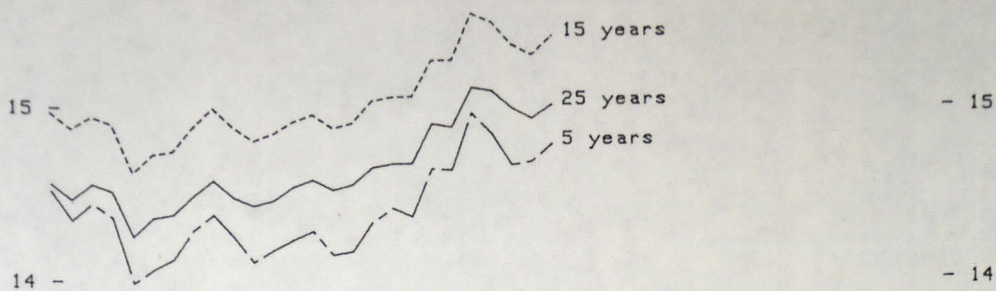
2. Redemption Yields (tax ignored)

	<u>7 July</u>	<u>14 July</u>	<u>Change</u>
12 3/4% Exchequer 1981	12.75	12.82	+0.07
13 1/2% Exchequer 1983	13.96	14.09	+0.13
12% Treasury 1984	14.11	14.32	+0.21
13 1/4% Exchequer 1987	14.31	14.34	+0.03
13% Treasury 1990	14.92	14.97	+0.05
2% Index-Linked Treasury 1996	2.50	2.63	+0.13
12 1/4% Exchequer 1999	15.07	15.27	+0.20
11 1/2% Treasury 2001/04	14.76	14.92	+0.16
12% Exchequer 2013/17	14.21	14.33	+0.12
3 1/2% War (Flat Yield)	12.50	12.70	+0.20

Gilt edged yields [F.T. High coupon]

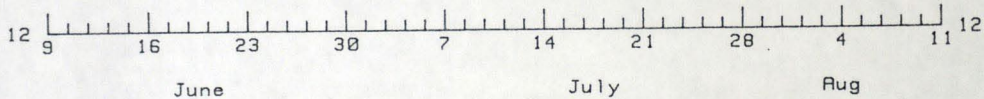
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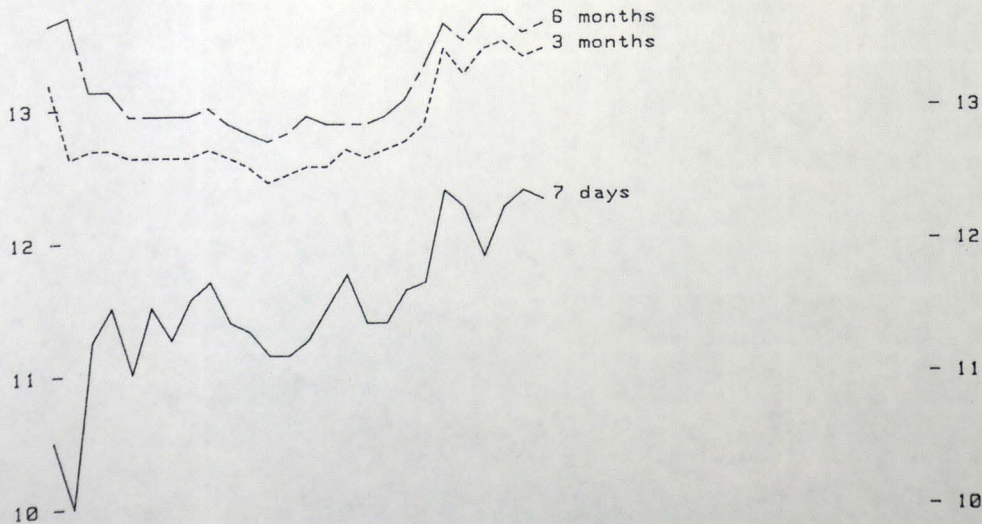


Interbank rates

Yields

14 -

- 14



9

9

June

July

Aug

## NEW ISSUES

Fixed interest  
(excl convertibles)

	<u>Domestic borrowers</u>	<u>Foreign borrowers</u>	<u>Convertibles</u>	<u>Equities</u>
TOTAL QUEUE*	<u>90</u>		<u>62</u>	<u>693</u>
Of which issues of 10 or more:				
Current Week (15/7-17/7)				F & C Enterprise Trust PLC (offer for sale) (17/7) 10
Week 2 (20/7-24/7)			Central Finance Co Ltd ø (20/7) 10	Venture Capital Fund (private placing) (20/7) 10 Hanson Trust Ltd (rights) (21/7) 30
Week 3 (27/7-31/7)				Japanese Assets Trust PLC (offer for sale) (28/7) 10 United Scientific Holdings Ltd (rights) (30/7) 25
Week 4 (3/8-7/8)			Kyowa Hakko Kogyo Co Ltd ø (3/8) 15	Ladbroke Group Ltd (rights) (6/8) 20
Week 5 (10/8-14/8)			Carrington Viyella (13/8) 15	Hadson Petroleum (International) PLC (offer for sale) (11/8) 10 The Ailsa Investment Trust Ltd (12/8) 14 The Laird Group (rights) (14/8) 14 Burnett & Hallamshire Holdings Ltd (rights) (18/8) 20 HAT Group Ltd (rights) (19/8) 10
Week 6 (17/8-21/8)	City of Birmingham (17/8) 75			

Week 7  
(24/8-28/8)

Forthcoming

London Trust  
Company Ltd  
(rights)  
(8/9)

15

The Morgan Crucible  
Co Ltd  
(rights)  
(20/8) 10

London and Scottish  
Marine Oil Company  
Ltd (rights)  
(26/8) 75

Trusthouse Forte  
Ltd (rights)  
(1/9) 100

John Brown & Co Ltd  
(rights)  
(4/9) 25

BICC Ltd (rights)  
(9/9) 65

Legal and General  
(15/9) 20

Poseco Minsep Ltd  
(rights)  
(17/9) 35

J P M Machines Ltd  
(offer for sale)  
(19/9) 10

Split Capital  
Investment Trust  
(offer for sale)  
(16/9) 20

An investment trust  
(offer for sale)  
(21/9) 10

Habitat Design  
Holdings Ltd  
(offer for sale)  
(24/9) 15

Second Throgmorton  
Investment Co  
PLC (offer for sale)  
(28/9) 13

Guinness Peat Group  
Ltd (rights)  
(29/9) 15

Second Save & Prosper  
Linked Investment  
Trust PLC  
(offer for sale)  
(7/10) 30

Associated Biscuit  
Manufacturers Ltd  
(rights)  
(9/10) 10

Exco Securities  
(1979) Ltd  
(offer for sale)  
(5/11) 12

Kwik Save Discount  
Group Ltd  
(rights)  
(12/11) 15

/Issues announced:	1978	60	959
	1979	162	946
	1980	364	1,066
	1981 to date	447	1,169
/Issues completed	1978	63	910
	1979	150	979
	1980	358	945
	1981 to date	377	983

\*Includes issues of 3 or more  
 /Includes issues of less than 3  
 øForeign borrower

15 July 1981



# Per cent Time / Yield Curves of British Government Stocks

15th July 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 14th July

FT Actuaries 15 year debenture index yield at 14th July

FT 15 year Deb  
15.95(+.36)

\*

\*

14th July

7th July

Pre-budget 10th March

T.B.  
\*  
L.A.

War Loan  
\*

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 5.76 at 14th July

MLR=12.00% (previously 14.00% at 10th March) Years to maturity

