

## NOTE FOR WEDNESDAY MEETING

MARKETS: 29 JULY TO 4 AUGUST 1981

## MONEY

This report covers only four days owing to the Royal Wedding holiday.

Money market conditions were extremely tight before the weekend, the effect of the taking-up of five-week Treasury Bills being exacerbated on Thursday by commercial bill maturities in official hands, and on Friday by the unwinding of a repurchase agreement and by a substantial rise in the note circulation. Monday's shortage was more modest, further commercial bill maturities being largely offset by excess balances carried forward. The period ended with a day of very large surplus, for which an Exchequer swing favourable to the market and the redemption of 9 1/2% Exchequer 1981 were chiefly responsible.

The Bank assisted the market by the outright purchase of bills on Thursday and Monday; bills were also bought for future resale on both days before the weekend. On Tuesday surplus funds were absorbed by the sale of a large amount of Treasury bills.

The Bank's market operations continued to exert a stabilising influence on inter-bank rates up to seven days, and these moved little until Tuesday, when a sharp easing was evident in the wake of an unexpected HMG payment which produced a substantial surplus.

Sterling's continued weakness kept longer rates, especially at three months and over, generally steady to firm, though there was no sign of any further sharp rise. The three-month rate finished unchanged at 14 5/8%.

Euro-sterling rates were likewise generally steady and finished the period with little change at all maturities; the three-month rate was 1/16% lower at 14 11/16%.

At the Treasury Bill tender on Friday, following a reassessment of prospective money market flows, the number of regular bills allotted was reduced to £100mn from the £200mn on offer, and the number of

bills due on 1 September to £100mn from £250mn. The average rate of discount on regular bills rose by 0.0437 to 13.8014, while for 1 September bills tenders were accepted at a rate of 13.469 (against 13.625-13.969 at the tender on 24 July).

#### LOCAL AUTHORITY BONDS

The rate for one-year bonds rose by 1/4% to 14 1/2%. Issues amounted to £12.75mn (£15.5mn last week) against maturities of £19.75mn.

#### GILTS

Following last week's recovery the market has shown renewed weakness amid uncertainties about the outlook for interest rates and, following yesterday's banking figures, monetary growth.

Business was very slack before and after the Royal Wedding holiday and the market showed renewed weakness under the continuing influence of US interest rates. The tone improved marginally on Thursday afternoon helped by the announcement about national savings. On Friday the market was encouraged by the ending of the Civil Service strike and was quite firm all day, longs ending up to 1/2 higher. At the close it was announced that further tranches of £250mn of 12 1/2% Exchequer 1994 and 12 1/2% Treasury 2003-2005 had been issued direct to the Bank.

This prompted some easiness in after-hours trading which was reflected in Monday's opening. The market weakened further in line with sterling and on fears of higher domestic interest rates following the ending of the strike. By the close shorts were up to 1/2 lower and longs about 1 lower. Yesterday the market was quietly steady ahead of the announcement of the July banking figures. The indicated growth in  $EM_3$  was higher than expected and some selling developed leaving longs 1/2 lower by the close. Helped by easier conditions in the money markets shorts recorded gains of 1/8.

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

## EQUITIES

The market was very quiet ahead of the holiday and prices drifted lower after a firm start. Clearing bank shares fell back following disappointing half-yearly results from NatWest. The main feature on Thursday was the better than expected half-yearly results from ICI, but this failed to stimulate a dull market. Leading shares edged higher on Friday but trading remained extremely slow. Clearing bank shares improved after satisfactory results from Midland. After the weekend, the market failed to hold early gains on Monday in the face of the weakness in gilts. Yesterday prices fluctuated narrowly throughout the day, with trading again very thin. The FT Index ended 0.3 higher at 528.6, almost unchanged over the week as a whole.

## NEW ISSUES

## Queue

The slower pace of new issue activity continued with only one domestic issue of £10mn or more being added to the queue: an offer for sale of £10mn by Superdrug Stores Ltd. However, two bulldog issues were also added: £75mn for Mexico and £50mn for EIB (the latter has been planned for some time). The queue now totals £902mn against £835mn last week.

(Init ALC)

5 August 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases - )

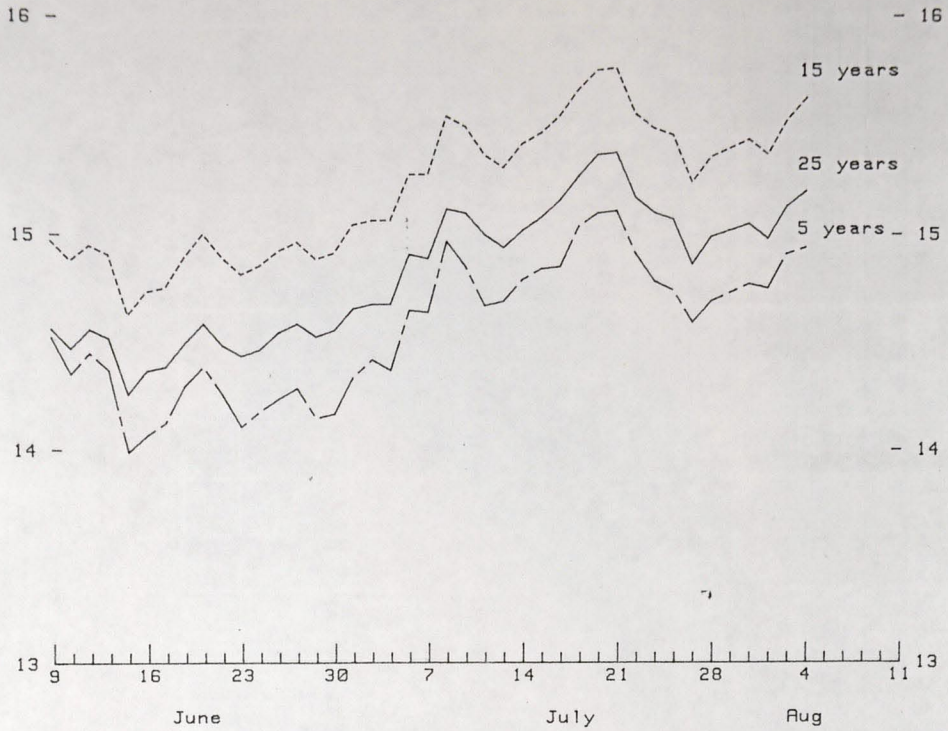
1. Transactions (cash value)

	28.7.81 <u>- 4.8.81</u>	Cal Qtr to date	Fin Year to date	18.2.81 to date
Issue Department				
Purchases/sales				
Next Maturities	- 23	- 216	- 1,353	- 1,771
Other short-dated	<u>- 3</u>	<u>+ 201</u>	<u>+ 758</u>	<u>+ 1,246</u>
	- 26	- 15	- 595	- 525
Mediums	- 19	+ 114	+ 1,692	+ 2,425
Longs and undated	<u>- 6</u>	<u>+ 372</u>	<u>+ 1,106</u>	<u>+ 2,144</u>
Total Issue				
Department trans- actions	- 51	+ 471	+ 2,203	+ 4,044
CRND	- 1	+ 8	+ 192	+ 243
Redemptions	<u>- 142</u>	<u>- 143</u>	<u>- 464</u>	<u>- 559</u>
	<u>- 194</u>	<u>+ 336</u>	<u>+ 1,931</u>	<u>+ 3,728</u>

2. Redemption Yields (tax ignored)

	<u>27 July</u>	<u>4 August</u>	<u>Change</u>
12 3/4% Exchequer 1981	13.09	14.17	+1.08
13 1/2% Exchequer 1983	14.06	14.33	+0.27
12% Treasury 1984	14.43	14.76	+0.34
13 1/4% Exchequer 1987	14.17	14.66	+0.49
13% Treasury 1990	14.78	15.00	+0.22
2% Index-Linked Treasury 1996	2.74	2.77	+0.03
12 1/4% Exchequer 1999	15.05	15.46	+0.41
11 1/2% Treasury 2001/04	14.74	15.08	+0.34
12% Exchequer 2013/17	14.20	14.51	+0.31
3 1/2% War (Flat Yield)	12.76	13.03	+0.27

Gilt edged yields [F.T. High coupon]



Interbank rates

Yields

