

NOTE FOR WEDNESDAY MEETING

MARKETS: 19 AUGUST TO 25 AUGUST 1981

MONEY

Conditions were generally less difficult than in the preceding week, with only one day of very substantial shortage.

An excess on bankers' balances on Wednesday helped the week to an easy start, and the following day was little tighter thanks to the maturity of Treasury Bills sold to the market early in the month. Friday and Monday, however, saw the unwinding of very sizeable repurchase agreements, and while on the former day this was largely counterbalanced by the redemption of 3% Exchequer 1981, conditions immediately after the weekend were very tight. A more modest shortage on Tuesday was chiefly due to an Exchequer surplus and to the unwinding of further Bank assistance.

The Bank assisted the market on every day but Wednesday, by the purchase of bills both outright and to a smaller extent on a repurchase basis.

Short interbank rates were generally softer than in the preceding week, though Monday's large shortage led to some temporary firmness. There was also a temporary flurry late on Wednesday when, probably due to localised make-up day reserve asset needs, the overnight rate briefly touched 40%.

Longer rates showed a steady to soft tendency overall, perhaps influenced by sterling's temporary renewed strength. The three month rate finished 1/8% down at 14%.

Eurosterling rates were likewise generally easy, particularly at the shorter end. The three month rate ended the week 1/4% lower at 14 1/16%.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.2544 to 13.2463.

LOCAL AUTHORITY BORROWING

The rate for one year bonds was unchanged at 14 1/4%. Issues amounted to £11.25 mn (£14.6 mn last week) against maturities of £12.25 mn.

GILTS

The market remains dominated by US influences and by the performance of sterling. After optimism towards the end of last week that US rates were about to turn, gilts turned sharply easier after the weekend following substantial falls in US bond prices.

Last Wednesday the market hesitated on continued uncertainty on the future course of US interest rates and the somewhat erratic course of sterling. As a result prices of longs fell by up to 1/2. On Thursday, however, Volcker's statement that the next move in dollar interest would be downwards brought some limited investment and prices generally recovered their losses of the previous day. This quietly optimistic tone was maintained on Friday as sterling again recovered and as hope of the rail dispute being settled grew; late in the day, a moderate amount of the short-tap was sold.

This week, renewed doubts about US interest rates, bolstered by a sharp fall in US bond prices, brought falls of up to 3/4 in most medium and long dated stocks on Monday, and up to a further one point yesterday.

Over the week as a whole prices of shorts fell by around 1/4, those of mediums by up to 1 3/8 and longs by up to 1 3/4.

EQUITIES

Last Wednesday the market opened on an easy note and although a tentative recovery took place it was not sustained and prices drifted back. The easy conditions continued on Thursday with news of the likely settlement of the rail dispute coming too late to affect sentiment. Conditions remained quiet on Friday.

After the weekend, the implications of the outcome of the OPEC meeting and its failure to agree common pricing or an increase in prices, depressed oil shares and a general lack of investment enthusiasm led to small falls in most other prices. Yesterday

the sharp fall on Wall Street and US interest rate fears brought lower prices at the opening. A recovery in the middle of the day was not sustained and prices closed at the lowest levels with the FT Index down 8.9 points on the day at 549.1 a fall of 18 points over the week as a whole.

NEW ISSUES

Queue

One new equity issue for £10 mn was added to the queue, which now totals £837 mn against £890 mn last week.

(Init EAJG)

26 August 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

	19.8.81 <u>-25.8.81</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	- 12	- 228	- 1,364	- 1,783
Other short-dated	+ 80	+ 346	+ 903	+ 1,392
	+ 68	+ 118	- 461	- 391
Mediums	- 20	+ 171	+ 1,749	+ 2,482
Longs and undated	- 15	+ 810	+ 1,543	+ 2,581
Total Issue				
Department trans- actions	+ 33	+1,099	+ 2,831	+ 4,672
CRND	-	+ 5	+ 189	+ 240
Redemptions	- 307*	- 467	- 788	- 882
	<u>- 274</u>	<u>+ 637</u>	<u>+ 2,232</u>	<u>+ 4,030</u>

* Redemption of 3% Exchequer 1981

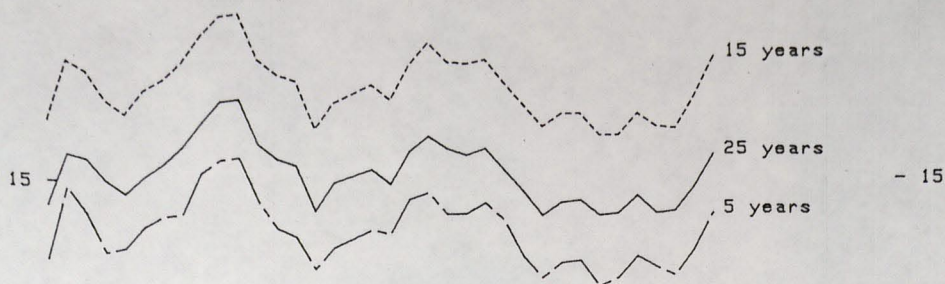
2. Redemption Yields (tax ignored)

	<u>18 August</u>	<u>25 August</u>	<u>Change</u>
13 1/2% Exchequer 1983	14.11	14.28	+0.17
12% Treasury 1984	14.39	14.48	+0.09
13 1/4% Exchequer 1987	14.14	14.49	+0.35
13% Treasury 1990	14.53	14.86	+0.33
2% Index-Linked Treasury 1996	2.71	2.76	+0.05
12 1/4% Exchequer 1999	14.99	15.32	+0.33
11 1/2% Treasury 2001/04	14.58	14.95	+0.37
12% Exchequer 2013/17	14.10	14.39	+0.29
3 1/2% War (Flat Yield)	12.79	13.13	+0.34

Gilt edged yields [F.T. High coupon]

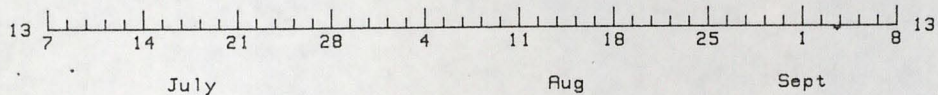
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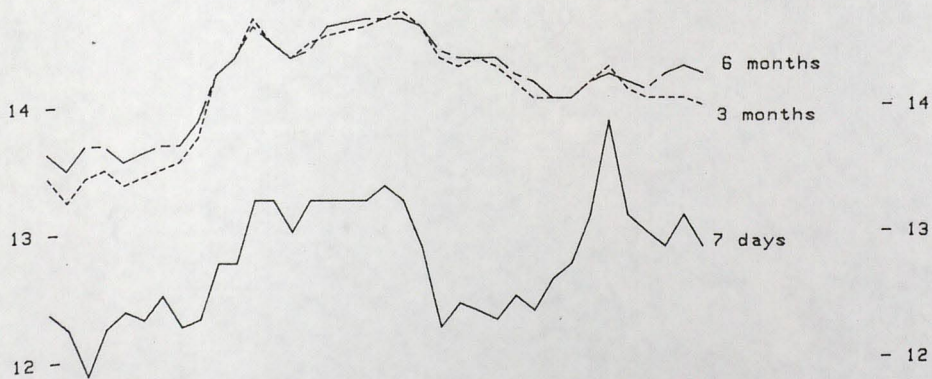
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Interbank rates

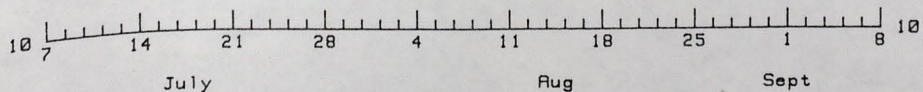
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Yields
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NEW ISSUES

Fixed interest
(excl convertibles)

	<u>Domestic borrowers</u>	<u>Foreign borrowers</u>	<u>Convertibles</u>	<u>Equities</u>
TOTAL QUEUE*	<u>12</u>	<u>125</u>	<u>89</u>	<u>611</u>
Of which issues of 10 or more:				
Current week (26/8-28/8)				
Week 2 (1/9-4/9)				Trusthouse Forte Ltd (rights) (1/9) 100 John Brown & Co Ltd (rights) (4/9) 25
Week 3 (7/9-11/9)			London Trust Company Ltd (8/9) 15 Nippon Electric ϕ (8/9) 40	BICC Ltd (rights) (9/9) 65
Week 4 (14/9-18/9)		Mexico (14/9) 75		A Japanese Investment Trust (offer for sale) (16/9) 10 Foseco Minsep Ltd (rights) (17/9) 35
Week 5 (21/9-25/9)				An Investment Trust (offer for sale) (21/9) 10 Babitat Design Holdings Ltd (offer for sale) (24/9) 15
Week 6 (28/9-2/10)		EIB (28/9 or 5/10) 50	Nippon Seiko ϕ (30/9) 30	Second Throgmorton Investment Co PLC (offer for sale) (28/9) 13 Guinness Peat Group Ltd (rights) (29/9) 15 Hadson Petroleum (International) PLC (offer for sale) (30/9) 10

Week 7
(5/10-9/10)

Forthcoming

Second Save & Prosper	
Linked Investment Trust PLC	
(offer for sale)	
(7/10)	30
Associated Biscuit Manufacturers Ltd (rights)	
(9/10)	10
Drayton Montagu Japan Trust	
(offer for sale)	
(16/10)	15
RIT Ltd (rights)	
(2/11)	25
Charterhouse Venture Capital Fund (private placing)	
(3/11)	10
Exco Securities (1979) Ltd (offer for sale)	
(5/11)	12
Houlder Offshore Ltd (offer for sale)	
(10/11)	25
Superdrug Stores Ltd (offer for sale)	
(13/11)	10
Kwik Save Discount Group Ltd (rights)	
(26/11)	15
J P M Machines Ltd (offer for sale)	
(3/12)	10
The Bowater Corporation Ltd (rights)	
(8/12)	80
<u>Norsk Data AS</u>	
<u>(offer for sale)</u>	
<u>(21/1)</u>	<u>10</u>

/Issues announced:	1978	60	959
	1979	162	946
	1980	364	1,066
	1981 to date	500	1,268
/Issues completed	1978	63	910
	1979	150	979
	1980	358	945
	1981 to date	420	991

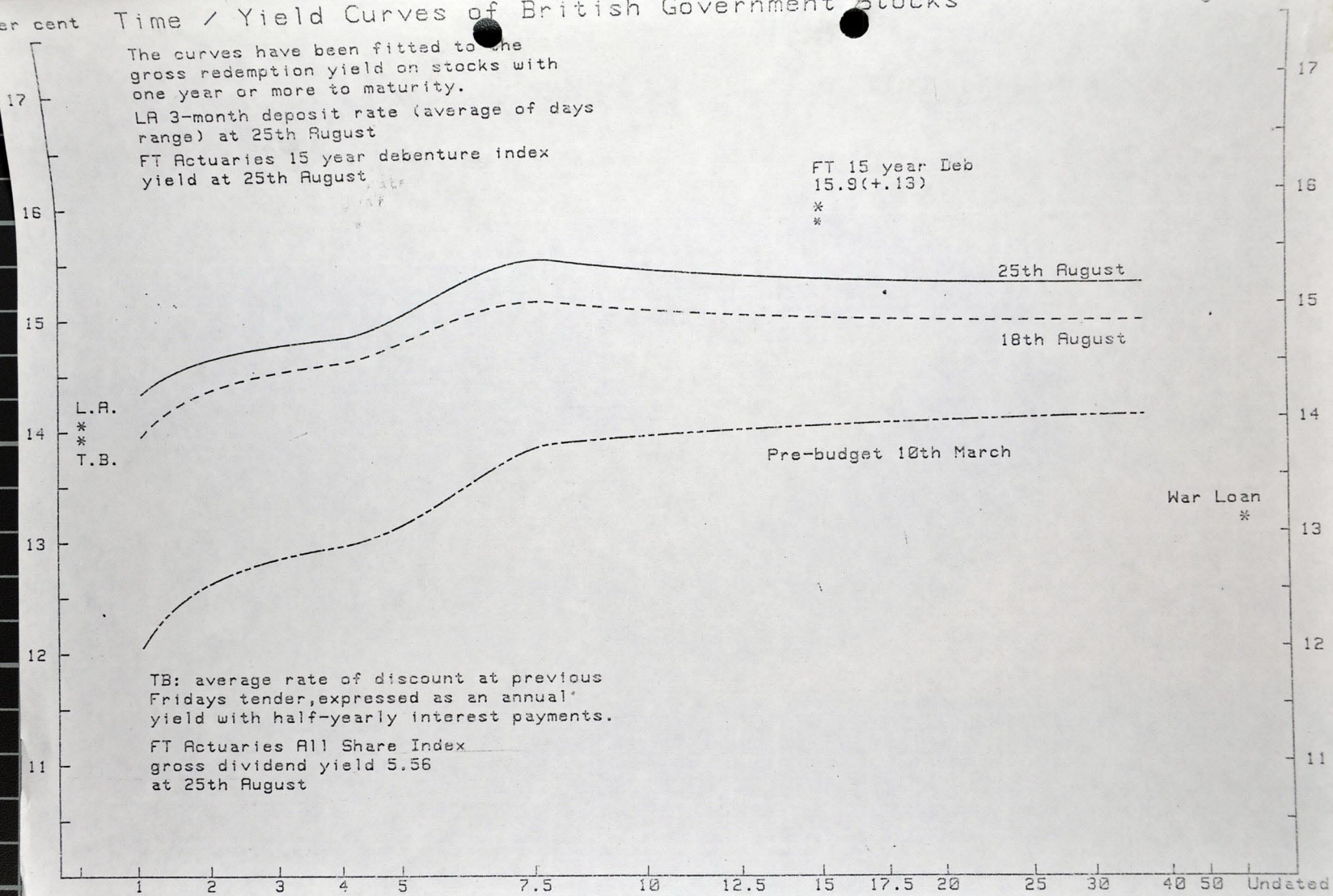
*Includes issues of 3 or more
/Includes issues of less than 3
ØForeign borrower

26 August 1981

Per cent Time / Yield Curves of British Government Stocks

The curves have been fitted to the gross redemption yield on stocks with one year or more to maturity.
 LR 3-month deposit rate (average of days range) at 25th August
 FT Actuaries 15 year debenture index yield at 25th August

FT 15 year Deb
 15.9(+.13)
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L.R.
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 *
 T.B.

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 5.56 at 25th August

MLR=12.00% at 18th Aug, 14.00% at 10th March Years to maturity