

## NOTE FOR WEDNESDAY MEETING

MARKETS: 9 SEPTEMBER TO 15 SEPTEMBER 1981

## MONEY

Conditions were fairly tight throughout the week. Before the weekend the main factors against the market were the unwinding of a repurchase agreement and the call on 2% Index-Linked Treasury Stock 2006. After the weekend the market was faced with maturities of bills in the Bank's hands and, on Tuesday, with the repayment of the previous day's overnight advance.

The Bank gave assistance to the market every day this week. This consisted of outright purchases on two days of bank, Treasury and local authority bills, a large sale and repurchase agreement, a small (unpublished) seven-day advance to three discount houses and, on Monday, overnight lending of £79mn to five or six houses at 13 3/4%.

Short-term inter-bank rates firmed slightly in the tight conditions before the weekend but showed some easiness on Monday morning. Following the Bank's action that afternoon, rates firmed sharply and the seven-day rate finished 1 7/8% up at 14 5/8%.

Having begun the week on a firm note, longer rates remained steady until Monday and then rose sharply in response to the Bank's signal at the short end. The three-month rate closed 1 1/16% up on the week at 14 3/4%.

Euro-sterling rates showed some firmness early in the week but tended steadier over the weekend. These rates too rose sharply on Tuesday, the three-month rate finishing 7/16% higher at 14 1/4%.

At the Treasury Bill tender on Friday, the average rate of discount rose by 0.1342 to 13.2110.

## LOCAL AUTHORITY BORROWING

The rate on yearling bonds (fixed conventionally on Tuesday mornings) rose by  $3/8\%$  to  $14\ 3/4\%$ . Issues amounted to £14.9mn (£8.55mn last week) against maturities of £19.5mn.

## GILTS

The market continued to lie dormant until the Bank's action on interest rates on Monday prompted a sharp downward adjustment.

The market opened slightly easier on Wednesday following comment on the banking figures and further weakness in US bonds. However, prices subsequently recovered and shorts went on to record small gains. An overnight improvement on Wall Street encouraged further limited buying on Thursday and longs gained about  $1/2$  in still thin trading. This tendency continued initially on Friday, but turnover remained very low and prices eased in line with sterling in the afternoon.

After the weekend, prices drifted lower on Monday prior to the announcement of the Bank's lending to the discount houses. Following this, prices fell away sharply and the market closed  $7/8$  down in shorts and  $1\ 1/4$  down in longs. This failed to deter sellers and by yesterday lunchtime shorts and longs had fallen by up to a further  $7/8$  and  $1\ 1/4$  respectively. An improvement in sterling and a decline in US prime rates brought in a few small buyers in the afternoon and the market closed slightly above the worst levels, though at its lowest since January 1977. But the undertone remained one of uncertainty.

Over the week as a whole shorts fell by about 1 and longs by about 2.

## EQUITIES

Prices fell sharply after the Bank's action on interest rates on Monday.

Wednesday saw some nervous selling after Wall Street's poor overnight performance and news of a rights issue of about £60mn by BICC.

Electrical shares were particularly weak. After a more confident start on Thursday leading shares fell back under the influence of the continuing decline in electricals; but the FT Index ended the day slightly higher helped by a late strengthening in ICI. The better tone on Wall Street encouraged some further improvement on Friday.

After the weekend, the market opened the new account on a firm note, but fell back sharply after the Bank's signal on interest rates with electrical shares again hardest hit; the Index lost 11.5 on the day. Heavy selling continued yesterday and by noon the Index had lost a further 12.8, though a rally later in the day trimmed the decline to 7.6 at the close with the Index at 534.3, a fall of 17.0 over the week as a whole.

#### NEW ISSUES

##### Queue

Three large issues were added to the queue this week: the offer for sale of £200mn of shares in Cable and Wireless and rights issues of £35mn by Vickers and £100mn by Lloyds Bank.

The queue now totals £999mn against £776mn last week.

The Government of Mexico's £50mn bulldog issue was launched this week. The yield will be fixed at a margin of 1 1/2% above this afternoon's yield on 13 1/2% Treasury 2004-08 (15.48% at last night's close).

(Init EAJG)

16 September 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases - )

1. Transactions (cash value)

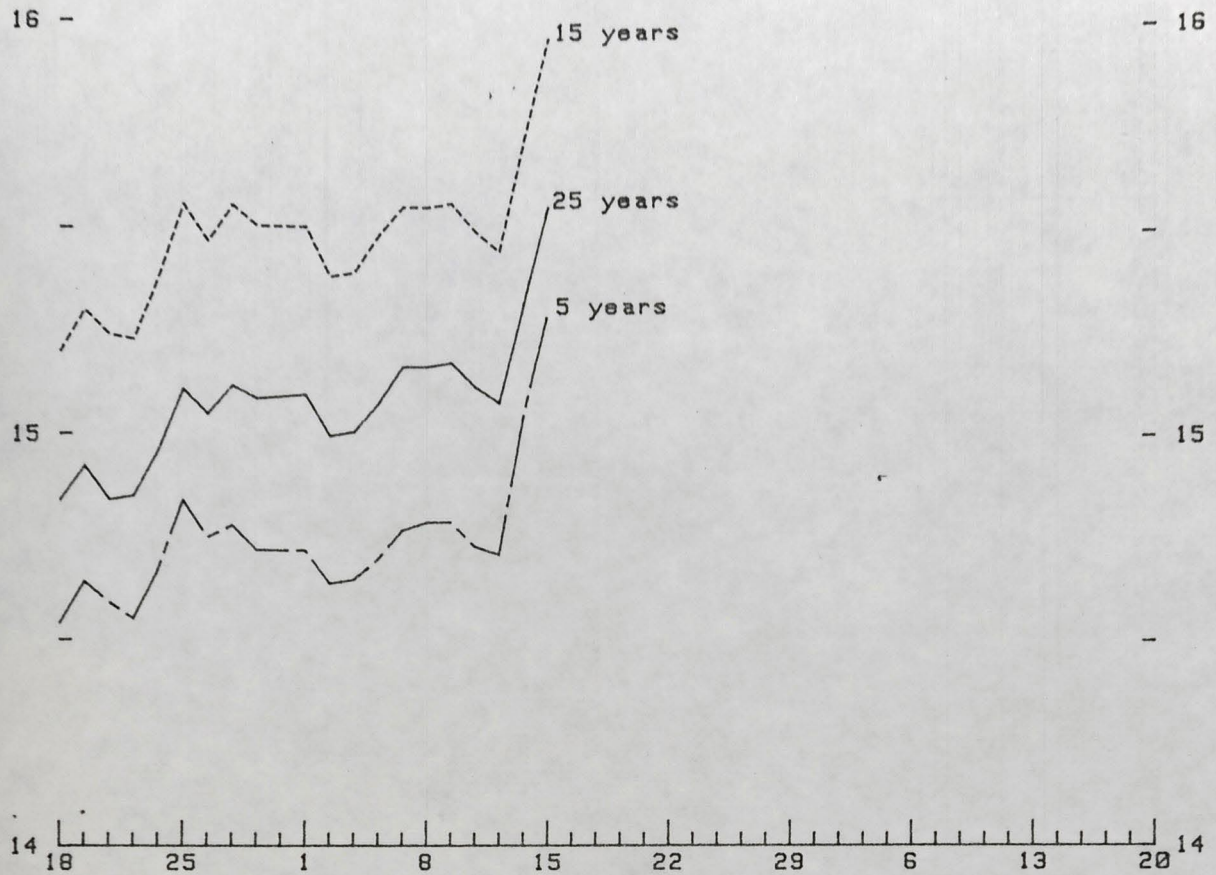
	3.9.81 <u>-15.9.81</u>	Cal Qtr <u>to date</u>	Fin Year <u>to date</u>	18.2.81 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	+ 1	- 198	- 1,334	- 1,753
Other short-dated	<u>+ 6</u>	<u>+ 385</u>	<u>+ 942</u>	<u>+ 1,431</u>
	+ 7	+ 187	- 392	- 322
Mediums	- 4	+ 180	+ 1,758	+ 2,491
Longs and undated	<u>+ 200*</u>	<u>+ 995</u>	<u>+ 1,728</u>	<u>+ 2,766</u>
Total Issue				
Department trans-				
actions	+ 203	+ 1,362	+ 3,094	+ 4,935
CRND	- 1	+ 2	+ 187	+ 238
Redemptions	- 2	- 521	- 842	- 937
	<u>+</u>	<u>+</u>	<u>+</u>	<u>+</u>
	<u>200</u>	<u>843</u>	<u>2,439</u>	<u>4,236</u>

\*Includes call of +254 on 2% Index-Linked Treasury 2006

2. Redemption Yields (tax ignored)

	<u>15 September</u>	<u>8 September</u>	<u>Change</u>
14% Treasury 1982	12.97	13.84	+0.87
13 1/2% Exchequer 1983	14.29	14.82	+0.53
12% Treasury 1984	14.42	14.89	+0.47
13 1/4% Exchequer 1987	14.36	14.79	+0.43
13% Treasury 1990	14.95	15.30	+0.35
2% Index-Linked	2.73	2.77	+0.04
Treasury 1996			
12 1/4% Exchequer 1999	15.36	15.79	+0.43
11 1/2% Treasury 2001/04	15.01	15.43	+0.42
12% Exchequer 2013/17	14.47	14.85	+0.38
3 1/2% War (Flat Yield)	13.19	13.55	+0.36

Gilt edged yields [F.T. High coupon]



Interbank rates

16 - - 16

15 - - 15

14 - - 14

13 - - 13

12 - - 12

