

## NOTE FOR WEDNESDAY MEETING

MARKETS: 21 OCTOBER TO 27 OCTOBER 1981

## MONEY

The week opened with a substantial market shortage and this continued to be the position until Tuesday which was roughly flat. An Exchequer position against the market was the main contributory factor on Wednesday and Thursday (with commercial bill maturities on Wednesday); this position turned in the market's favour for the remainder of the week but, except for Tuesday, this was outweighed by the unwinding of repurchase agreements and a rise in the note circulation.

The Bank provided assistance to the market every day. On the two shortest days the assistance took the form of outright purchases of bills whilst bills were bought on a repurchase basis on the other occasions, for periods between four and nine days.

The upward drift suggested in period inter-bank rates last week developed into a clear firming. Short rates, in contrast, showed a softer tone, reflecting the Bank's unchanged market assistance rates, and a marked differential opened up between one-week and one-month rates. After the weekend the upward trend halted and period rates steadied. The three-month rate rose  $5/8\%$  over the week to close at  $16\ 3/4\%$ , having touched  $17\%$ .

In a busy week in the euro-sterling market, last week's rising trend in rates continued uninterrupted. The three-month rate rose  $9/16\%$  to close at  $16\ 13/16\%$ .

Applications rose at the Treasury Bill tender on Friday; but the average rate of discount increased from 0.6088 to 15.9537.

## LOCAL AUTHORITY BORROWING

The rate for one-year bonds rose by  $1/2\%$  to  $16\ 3/8\%$ . Issues amounted to £9.375mn (£12mn last week) against maturities of £15.375mn. The week's total includes a variable rate issue of £0.5mn (the first since February 1980) with an initial rate of interest of  $17.95\%$ .

## GILTS

The unsettled money market and doubts about public expenditure plans disturbed the market for much of the week, sending it down to new five-year lows. Yesterday, however, saw the emergence of some buyers attracted by the high level of yields.

Reports of Cabinet disagreement over public expenditure plans for next year and the continued uncertainty over US and domestic interest rates deterred investment demand on Wednesday. Sentiment was further depressed the following day ahead of the Croydon by-election and the FT Government Securities Index reached a new, five-year low at 60.44. (This is still well above the post-war low of 49.18 on 3. 1.75.) Prices were little changed on balance on Friday.

After the weekend, the easier tone of US bonds after the latest US money supply figures was a further adverse influence on Monday. Fresh losses of up to 5/8 were sustained in shorts, taking yields up to nearly 17%, while longs lost about 3/8. With a slight easing in short-term rates yesterday and some improvement in sterling, the high yields brought in some buyers and small official sales of shorts were made. Shorts and mediums gained about 1/2-5/8, with longs relatively neglected but rising by about 3/8.

Over the week as a whole prices of shorts fell by up to 1 (yielding more than 16 3/4% on some stocks) and those of longs by 1 1/8 (yields of 16-16 3/16%).

## EQUITIES

The market held up quite well despite the adverse trend in interest rates, although conditions were very quiet after the weekend as investors awaited Friday's Cable and Wireless issue.

On Wednesday the market was largely preoccupied by the details of the Cable and Wireless offer for sale. However, the FT Index made a further small advance after good results from Hawker Siddeley. Prices initially held up on Thursday but later slipped in sympathy with gilts and the Index ended 9.2 lower on the day. Nervous selling continued initially on Friday but bear-closing and some cheap buying later reversed the trend.

After the weekend, the early tendency was for prices to drift lower on Monday in reduced trade ahead of the Cable and Wireless issue on Friday. Selective buying supported the market, however, with oil shares again particularly firm on hopes that a common pricing policy would emerge from Thursday's OPEC meeting. This firmer tendency continued yesterday, albeit in very thin trading, and the Index closed 3.2 higher at 465.0, a fall of 8.3 over the week as a whole.

#### NEW ISSUES

##### Queue

Some recovery in interest was evident this week with four rights issues (one of convertible stock) being added to the queue. These include an issue of £33mn by ICL. Following the announcement of the Cable and Wireless issue the queue now totals £810mn against £923mn last week. ...

(Init EAJG)

28 October 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases - )

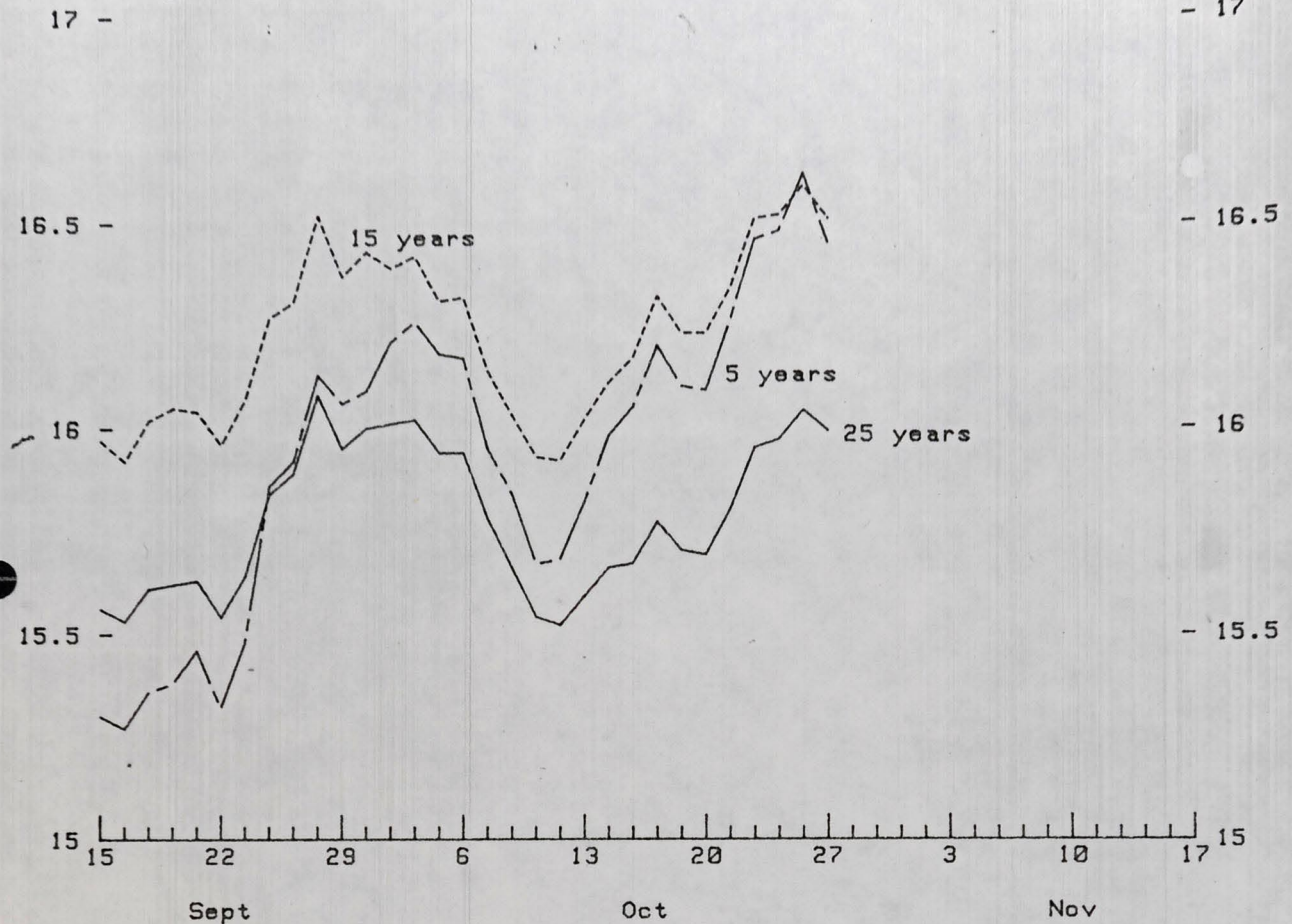
1. Transactions (cash value)

	21.10.81 <u>-27.10.81</u>	Cal Qtr to date	Fin Year to date	18.2.81 to date
Issue Department				
Purchases/sales				
Next Maturities	-	329	- 1,759	- 2,177
Other short-dated	- 19	+ 432	+ 1,351	+ 1,839
	- 19	+ 103	- 408	- 338
Mediums	-	+ 387	+ 2,227	+ 2,961
Longs and undated	-	+ 298	+ 2,102	+ 3,141
Total Issue				
Department trans-				
actions	- 19	+ 788	+ 3,921	+ 5,764
CRND	+ 1	+ 82	+ 259	+ 310
Redemptions	-	-	- 843	- 938
	- 18	+ 870	+ 3,337	+ 5,136

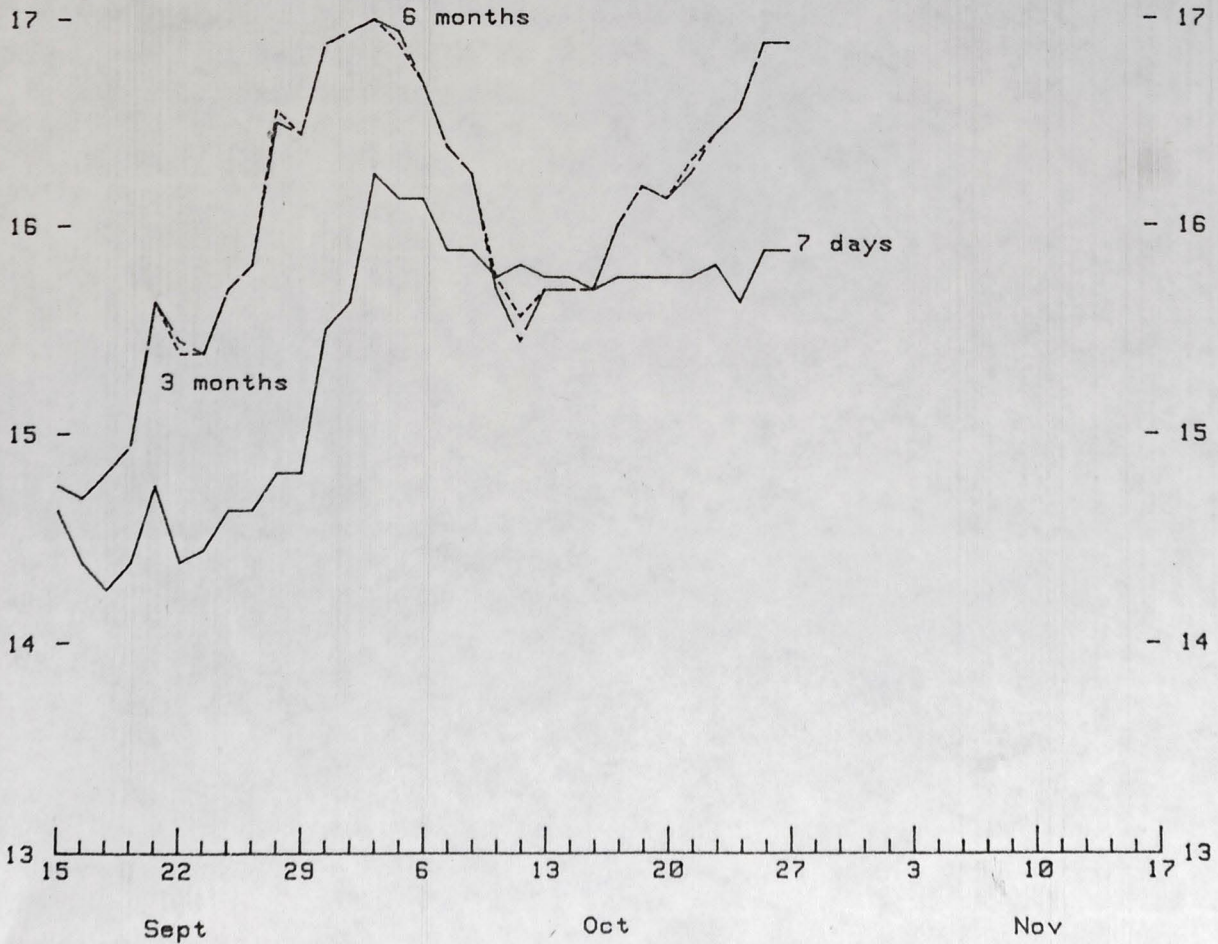
2. Redemption Yields (tax ignored)

	20 October	27 October	Change
12% Treasury 1983	15.18	15.71	+0.53
15% Treasury 1985	16.10	16.47	+0.37
12% Treasury 1987	16.46	16.82	+0.36
11 3/4% Treasury 1991	16.52	16.82	+0.30
13 1/2% Treasury 1994	16.44	16.72	+0.28
2% Index-Linked			
Treasury 1996	3.05	3.10	+0.05
12 1/4% Exchequer 1999	16.02	16.33	+0.31
14% Treasury 1998/01	16.09	16.36	+0.27
12% Exchequer 2013/17	15.06	15.33	+0.27
3 1/2% War Loan (Flat Yield)	13.99	14.10	+0.11

Gilt edged yields [F.T. High coupon]



Interbank rates



## NEW ISSUES

Fixed interest  
(excl convertibles)

	<u>Domestic borrowers</u>	<u>Foreign borrowers</u>	<u>Convertibles</u>	<u>Equities</u>
TOTAL QUEUE*	<u>6</u>	<u>100</u>	<u>54</u>	<u>650</u>
Of which issues of 10 or more:				
Current week (28/10-30/10)				
Week 2 (2/11-6/11)			Nippon Seiko (2/11?) 30	Exco Securities (1979) Ltd (offer for sale) (5/11) 12
Week 3 (9/11-13/11)				<u>Northern Foods Ltd</u> <u>(rights)</u> <u>(10/11) 30</u> Vickers Ltd (rights) (12/11) 35
Week 4 (16/11-20/11)		EIB (offer for sale) (16/11?) 100		
Week 5 (23/11-27/11)				Kwik Save Discount Group Ltd (rights) (26/11) 15
Week 6 (30/11-4/12)				Great Portland Estates PLC (rights) (1/12) 40 J P M Machines Ltd (offer for sale) (3/12) 10
Week 7 (7/12-11/12)				Japanese Investment Trust (offer for sale) (7/12) 10 The Bowater Corporation Ltd (rights) (9/12) 80

Forthcoming

<u>Haslemere Estates Ltd</u>	<u>ICL PLC</u>	
(rights)	(rights)	33
<u>(14/12)</u>	<u>(15/12)</u>	
	20 Split Level Investment Trust (offer for sale)	20
	(11/1)	
	<u>United Engineering Ltd (rights)</u>	10
	<u>(13/1)</u>	
	Associated Biscuit Manufacturers Ltd (rights)	10
	(14/1)	
	MEPC Ltd (rights)	70
	(19/1)	
	The Throgmorton Finsbury Trust PLC (offer for sale)	13
	(20/1)	
	Drayton Montagu Japan Trust (offer for sale)	15
	(27/1)	
	Davy Corp Ltd (rights)	30
	(28/1)	
	Norsk Data AS (offer for sale)	10
	(17/2)	
	Lloyds Bank Ltd (rights)	100
	(19/2)	
	Amersham International (offer for sale by Atomic Energy Authority)	50
	(25/2)	
	Powell Duffryn Ltd (rights)	20
	(23/6)	
	Superdrug Stores Ltd (offer for sale)	10
	(9/7)	

/Issues announced:	1978	60	959
	1979	162	946
	1980	364	1,066
	1981 to date	586	1,503
/Issues completed	1978	63	910
	1979	150	979
	1980	358	945
	1981 to date	486	1,270

\*Includes issues of 3 or more

/Includes issues of less than 3

øForeign borrower

# Per cent Time / Yield Curves of British Government Stocks

28th October 1981

