

NOTE FOR WEDNESDAY MEETING

MARKETS: 18 NOVEMBER TO 24 NOVEMBER 1981

MONEY

The week saw two days when funds were extremely short (Thursday and Friday) which had the effect that the shortages experienced on the other three days, though substantial, were accepted almost sanguinely in the market. Thursday's shortage (which amounted to nearly £700mn) was chiefly the result of maturing commercial bills and payment for the new gilt-edged issue, 14% Exchequer 1986, while Friday's (about £650mn) was due to a strongly adverse Exchequer position and an increase in the note circulation. Maturing commercial bills and Exchequer positions against the market also played a part in the shortages on two of the other three days but the unwinding of earlier repurchase agreements was also significant. On Monday, the Exchequer position was strongly favourable and 12 3/4% Exchequer 1981 was redeemed, but the maturing commercial bills and repurchase agreements more than outweighed these favourable effects.

The Bank provided assistance every day by the outright purchase of bills and on Thursday, Friday and Tuesday also by buying bills on a repurchase basis.

The week began fairly steady in the inter-bank market after last week's volatility and, indeed, period rates showed little change until the weekend. Short rates tightened on Thursday and remained high on Friday in response to the extreme shortages, but eased back after the weekend when conditions improved slightly. In contrast period rates showed some firming after the weekend as the decline in US rates seemed to have halted, but this trend was reversed on Tuesday afternoon when cuts in US prime rates were announced. The seven-day inter-bank rate fell about 1/2% over the week to close at 15 3/8%, having touched 16 3/4% on Friday, while the the three-month rate rose about 1/8% to close at 14 7/8%.

Euro-sterling rates largely mirrored movements in domestic rates and the three-month rate ended 1/16% up at 14 3/4%.

At the Treasury bill tender on Friday the average rate of discount fell by 0.03 to 13.8091.

LOCAL AUTHORITY BORROWING

The rate for one-year bonds rose by 3/8% to 14 5/8%. Issues amounted to £11.75mn (£15.75mn last week) against maturities of £9.85mn.

GILTS

After a good reception for the new issue on Thursday, the market became more hesitant after the weekend on fears that the downward trend in US and domestic interest rates might have stalled. Yesterday afternoon, however, the market revived on news of Chase Manhattan's 3/4% cut in prime rate.

After further weakness initially on Wednesday prices edged forward as sterling improved against the dollar. This trend gathered strength on Thursday following the Federal Reserve's action in supplying reserves to the market the previous day and the continuing decline in US rates. Sharp gains were seen at the long end during the morning with shorts more restrained in view of the tender for 14% Exchequer 1986 which attracted substantial applications. Publication of the full money supply figures for October had little impact on sentiment and longs closed with rises of up to 1 3/8. On Friday some of the new short tap was sold at 40 1/8 (40-paid), but prices eased slightly on balance during the day in line with sterling. The October trade figures were well received by the market at 3.30 pm, but prices were slightly easier in after-hours trading after the announcement of tranches of £250mn of 13% Treasury 1990, 12% Treasury 1995 and 13 1/2% Treasury 2004/2008.

The news from US markets over the weekend was disappointing and with domestic money market conditions still tight, gilt prices eased progressively during Monday with longs closing up to 1 lower. Yesterday, the market continued to weaken following the poor overnight performance of US bonds, but sentiment was transformed by news of Chase Manhattan's cut in prime rate from 16 1/2% to 15 3/4% and the early losses were more than recovered by the close.

Over the week as a whole, prices of shorts fell by about 1/4 (yields of about 15 1/4% to 15 1/2%) while those of longs rose by about the same amount (yields also generally 15 1/4% to 15 1/2%).

EQUITIES

Although moving in fits and starts, the market extended the gains of the previous three weeks.

Prices continued to drift lower on Wednesday with the main feature being the hectic trading debut of Exco which opened at about 50p premium before settling at 37p premium at the close. After initial weakness on Thursday, the market improved on good third quarter results from Shell and in line with the firmness in gilts. Trading was listless for much of Friday, but after-hours buying for the new Account and the influence of the latest trade figures caused the FT Index to close 8.5 higher.

After the weekend, the market failed to consolidate these gains on Monday and though rallying later in the day closed slightly lower on balance. Yesterday, trading remained dull until fresh enthusiasm was generated by the US prime rate cuts and the Index recovered earlier losses to close 2.2 up at 520.0, a rise of 11.7 over the week as a whole.

NEW ISSUES

Queue

Only one new issue was added to the queue this week: a rights issue of £25mn for Clyde Petroleum PLC. With the postponement of EIB's £100mn bulldog issue, the total stands at £854mn compared with £934mn last week.

(Init EAJG)

25 November 1981

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

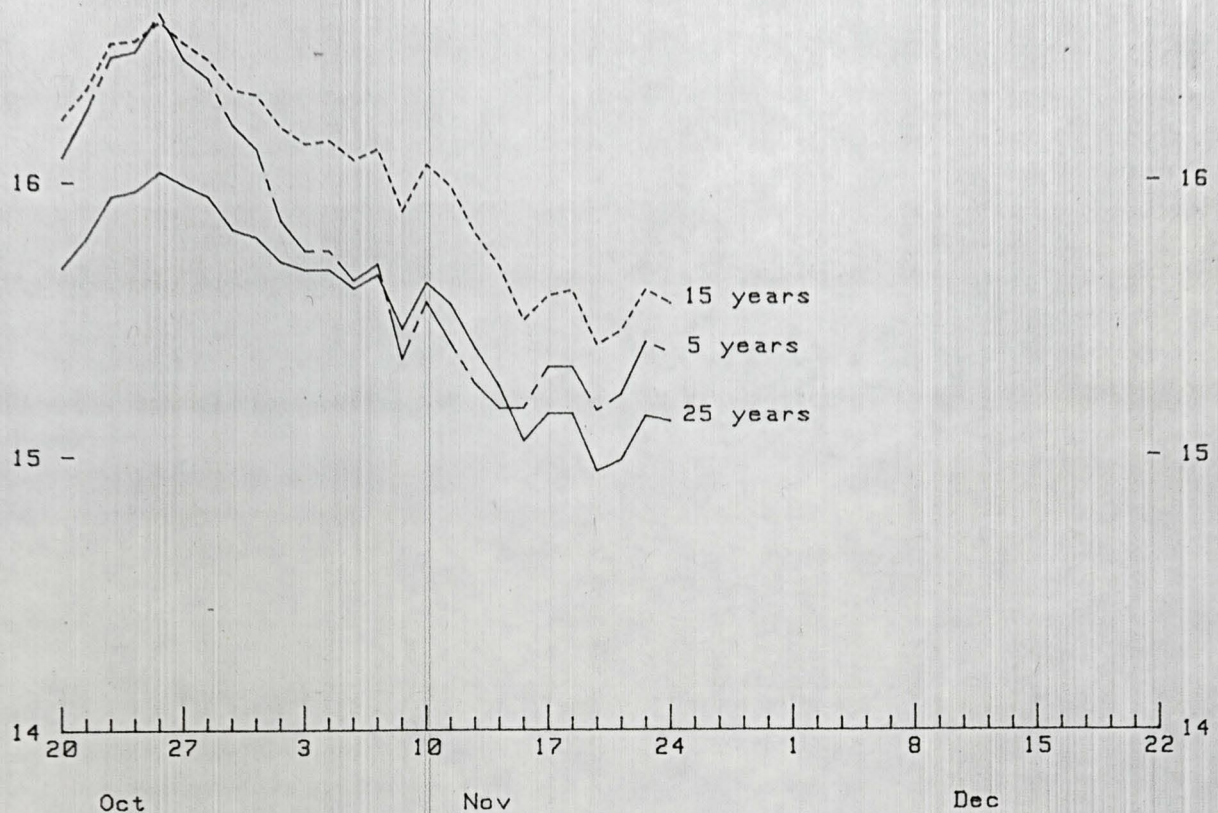
	<u>18.11.81</u> <u>-24.11.81</u>	<u>Cal Qtr</u> <u>to date</u>	<u>Fin Year</u> <u>to date</u>	<u>18.2.81</u> <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	- 31	- 404	- 1,833	- 2,252
Other short-dated	<u>+ 203</u>	<u>+ 1,241</u>	<u>+ 2,159</u>	<u>+ 2,648</u>
	+ 172	+ 837	+ 326	+ 396
Mediums	+ 13	+ 528	+ 2,369	+ 3,103
Longs and undated	<u>+ 12</u>	<u>+ 1,236</u>	<u>+ 3,040</u>	<u>+ 4,078</u>
Total Issue				
Department trans-				
actions	+ 197	+ 2,601	+ 5,735	+ 7,577
CRND	+ 5	+ 103	+ 279	+ 331
Redemptions	- 200	- 333	- 1,176	- 1,272
	<u>+</u>	<u>+</u>	<u>+</u>	<u>+</u>
	<u>2</u>	<u>2,371</u>	<u>4,838</u>	<u>6,636</u>

2. Redemption Yields (tax ignored)

		<u>17 November</u>	<u>24 November</u>	<u>Change</u>
12%	Treasury 1983	14.58	14.55	-0.03
15%	Treasury 1985	15.26	15.38	+0.12
12%	Treasury 1987	15.51	15.55	+0.04
11 3/4%	Treasury 1991	15.77	15.77	-
13 1/2%	Treasury 1994	15.74	15.76	+0.02
2%	Index-Linked			
	Treasury 1996	2.91	2.97	+0.06
12 1/4%	Exchequer 1999	15.33	15.33	-
14%	Treasury 1998/01	15.50	15.50	-
12%	Exchequer 2013/17	14.41	14.41	-
3 1/2%	War Loan (Flat Yield)	12.97	12.94	-0.03

Gilt edged yields [F.T. High coupon]

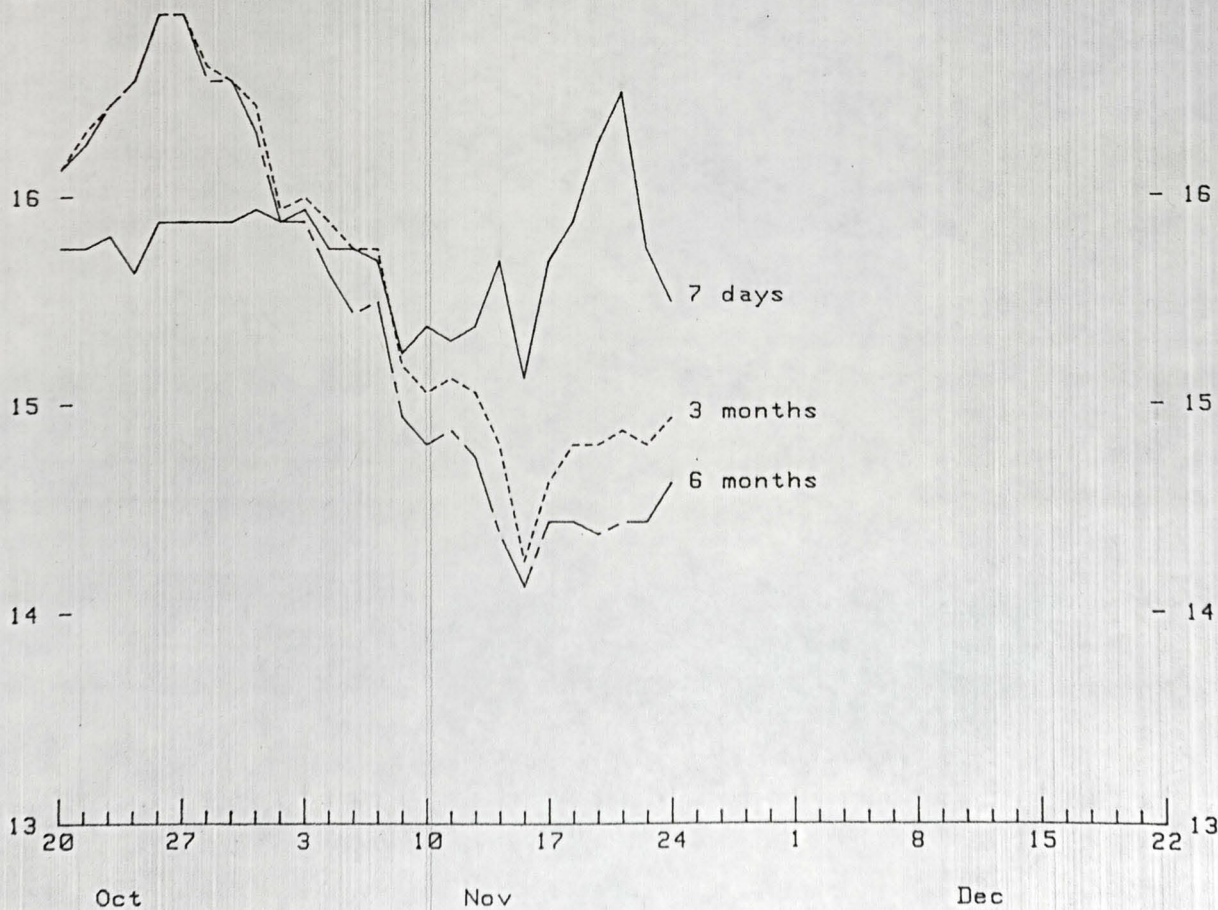
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Interbank rates

Yields

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NEW ISSUES

	Fixed interest (excl convertibles)		Convertibles	Equities
	Domestic borrowers	Foreign borrowers		
TOTAL QUEUE*	<u>9</u>	<u>50</u>	<u>24</u>	<u>771</u>
Of which issues of 10 or more:				
Current week (25/11-27/11)				
Week 2 (30/11-4/12)		Caisse Nationale des Autoroutes (2/12?) 50		Great Portland Estates PLC (rights) (1/12) 40 J P M Machines Ltd (offer for sale) (3/12) 10
Week 3 (7/12-11/12)				Japanese Investment Trust (offer for sale) (7/12) 10
Week 4 (14/12-18/12)			Haslemere Estates Ltd (rights) (14/12) 20	ICL PLC (rights) (15/12) 33
Week 5 (21/12-24/12)				
Week 6 (28/12-31/12)				
Week 7 (4/1-8/1)				
Forthcoming				Split Level Investment Trust (offer for sale) (11/1) 20 Candecca Resources Ltd (rights) (12/1) 10 United Engineering Ltd (rights) (13/1) 10 Associated Biscuit Manufacturers Ltd (rights) (14/1) 10

Forthcoming

MEPC Ltd (rights) (19/1)	70
The Throgmorton Finsbury Trust PLC (offer for sale) (20/1)	13
<u>Clyde Petroleum PLC (rights)</u> (26/1)	25
Drayton Montagu Japan Trust (offer for sale) (27/1)	15
Davy Corp Ltd (rights) (28/1)	30
Norsk Data AS (offer for sale) (17/2)	10
Lloyds Bank Ltd (rights) (19/2)	100
Amersham International (offer for sale by Atomic Energy Authority) (25/2)	50
Ultramar Company Ltd (rights) (3/3)	100
The Bowater Corporation Ltd (rights) (10/3)	80
Vickers Ltd (rights) (24/3)	35
British Transport Docks Board (offer for sale) (24/5-4/6?)	50
Powell Duffryn Ltd (rights) (23/6)	20
Superdrug Stores Ltd (offer for sale) (9/7)	10

/ Issues announced:	1978	60	959
	1979	162	946
	1980	364	1,066
	1981 to date	595	1,572
/ Issues completed	1978	63	910
	1979	150	979
	1980	358	945
	1981 to date	549	1,323

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

