

NOTE FOR WEDNESDAY MEETING

MARKETS: 12 MAY TO 18 MAY 1982

MONEY

Substantial shortages occurred on several days this week, most notably on Monday, but the week ended with a relatively easy day. Bill maturities continued to be the main factor regularly adverse to the market although the Exchequer position made a sizeable contribution to the shortage on Monday. An unwinding repurchase agreement and a rise in the note circulation contributed to Friday's shortage with the latter reversing on Monday to offset, in part, the adverse factors.

The Bank provided assistance every day by the outright purchase of bills.

The Falklands conflict continued to be the main influence on the interbank market but developments in US interest rates were also noted. On Wednesday interbank rates were fairly steady but thereafter, in marked contrast to the optimism previously evident, the lack of apparent progress in the diplomatic negotiations over the Falklands and the increased hostilities created thin and nervous markets. This, coupled with upward movements in US rates caused period interbank rates to firm. The three month rate closed at 13 7/16%, a rise of 3/8 over the week. Short rates, too, were firmer from Thursday in the tighter money conditions but fell back slightly on Tuesday when the market's cash position improved. The seven day rate rose 5/8 over the week, closing at 13 1/2%.

Eurosterling rates showed similar rises over the week and the three month rate also ended 3/8 up, at 13 7/16%.

At the Treasury bill tender on Friday the average rate of discount fell slightly to 12.5023%. This was rather against the market but, with only £100mn Bills on offer, the rate can be affected by the aggressiveness of only one or two bidders.

LOCAL AUTHORITY BORROWING

The rate for one year bonds rose by 1/4% to 13 3/8%. Issues amounted to £16.65mn (£21.25mn last week) against maturities of £21mn.

GILTS

After a good start on Wednesday, the market tone became more cautious as hopes of a peaceful solution to the Falklands crisis faded. Prices tended to ease back in thin trading, but against the general trend indexed stocks were firmer and it was possible to activate IG 1988 for the first time since March.

With revived hopes of a Falklands settlement and with sterling continuing firm against the dollar, prices rose on Wednesday by about 3/8 in shorts and 3/4 in longs. The FT Government Securities Index closed at 69.41, just short of its 1982 peak of 69.55 on 23 March.

The market gave up some of this rise the following day as the Falklands situation became more uncertain, money market rates firmed and sterling fell against the dollar. Against the general trend, the index-linked stocks improved slightly and a small amount of IG 1988 was sold at a price of 97 5/8 (1/8 about its issue price). On Friday, prices eased slightly further in very quiet trading, but there was again some interest in IG 1988 and a further small amount was sold at 97 5/8.

After the weekend, the market remained very quiet on Monday but the undertone was somewhat firmer with longs closing with gains of up to 1/2. There were further official sales, on a somewhat larger scale, of IG 1988 (again at 97 5/8).

Increasing nervousness about the Falklands crisis produced losses of up to 3/8 in shorts and 1/2 in longs in early trading yesterday. Thereafter, prices were little changed in very thin trade. The indexed stocks maintained their recent firmer tone and a small amount of IG 2006 was sold.

Over the week as a whole, yields on shorts rose slightly (to about 13 3/4-7/8% on five-year maturities) while those on longs

were broadly unchanged (at 13 1/2-13 7/8% on 20-year maturities). Yields on the IGs fell by 1/16-1/8% to range from 2.71% (IG 1988) to 3.08% (IG 1996).

EQUITIES

After continuing to hold up well prior to the weekend, prices fell back sharply on Monday on fears of an escalation of the Falklands crisis.

The market made a renewed, albeit cautious, advance on Wednesday with the FT 30-Share Index ending 5.8 higher at 590.9, only 6.4 short of the all-time peak reached at end-April 1981.

Prices eased back in quiet trading on Thursday, but recovered most of these losses late on Friday when dealing was allowed for the new account.

After the weekend, however, prices fell back sharply on Monday on fears of a collapse of the UN peace talks; the 30-Share Index shed 14.8 points (although some 6 points of this represented ex-dividend adjustments). The 500-Share Index fell by only 5.6 points.

Yesterday, the market opened with further losses and fluctuated narrowly during the rest of the day to close 3.4 lower at 572.4, a fall of 12.7 over the week. The 500-Share Index ended at 359.01, a fall of 6.82 over the week.

NEW ISSUES

Queue

No new issues were added to the queue which now totals £1,308mn against £1,351mn last week.

(Init EAJG)

19 May 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

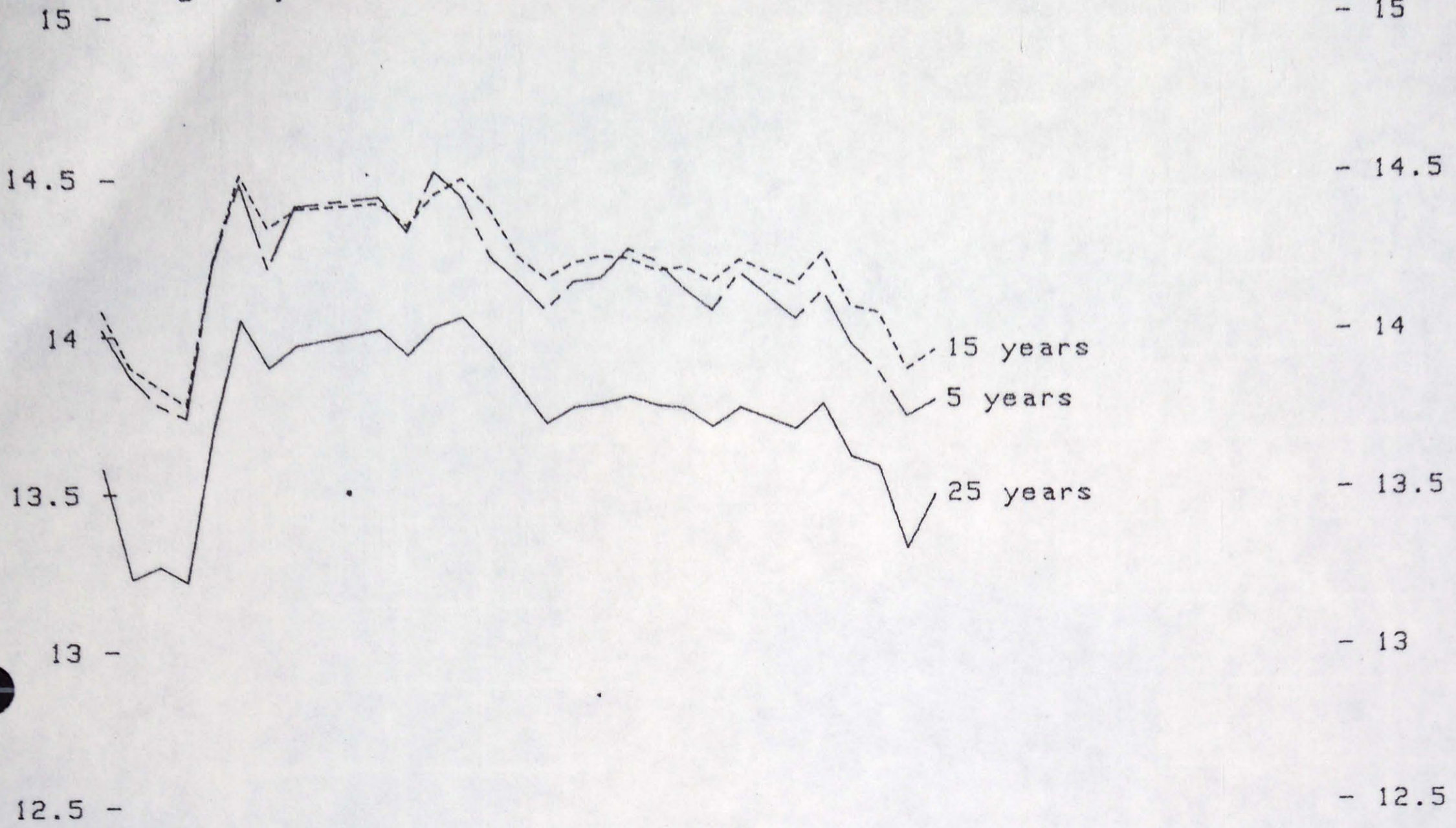
1. Transactions (cash value)

	12. 5.82 <u>-18. 5.82</u>	Cal Qtr and Fin Year to date	17. 2.82 <u>to date</u>
Issue Department			
Purchases/sales		- 127	- 314
Next Maturities	-	+	+
Other short-dated	+ 13	+ 32	+ 390
	+ 13	- 95	+ 76
Mediums	+ 32	+ 514	+ 1,022
Longs and undated	+ 9	+ 23	+ 284
Total Issue			
Department trans-			
actions	+ 54	+ 442	+ 1,382
CRND	+ 29	+ 64	+ 159
Redemptions	-	-	- 353
	<u>+</u> 83	<u>+</u> 506	<u>+</u> 1,188

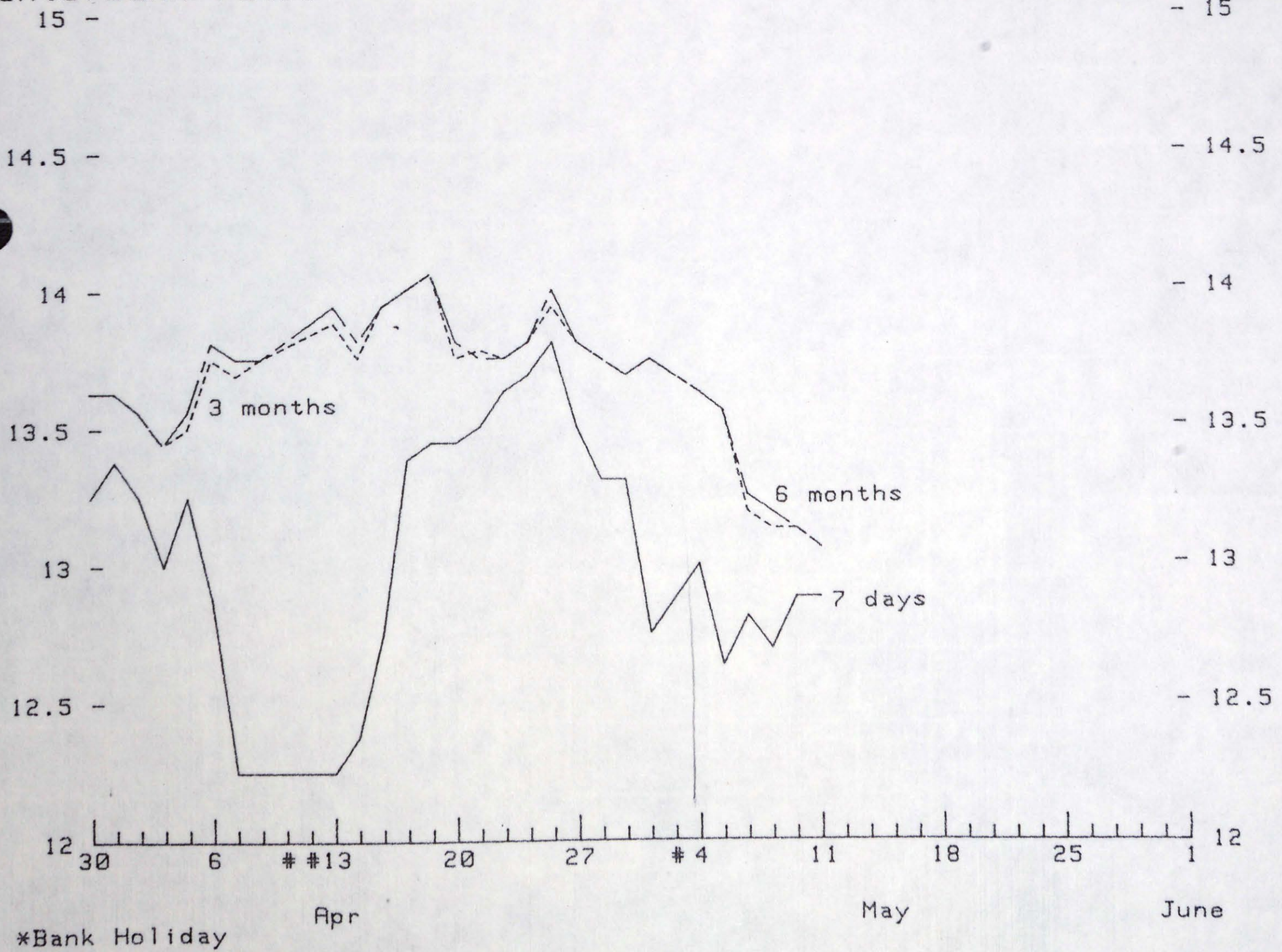
2. Redemption Yields (tax ignored)

		<u>11 May</u>	<u>18 May</u>	<u>Change</u>
12%	Treasury 1983	12.99	13.26	+0.27
15%	Treasury 1985	13.49	13.56	+0.07
12%	Treasury 1987	13.79	13.82	+0.03
11 3/4%	Treasury 1991	14.15	14.14	-0.01
13 1/2%	Treasury 1994	14.17	14.19	+0.02
2%	Index-Linked			
	Treasury 1996	3.18	3.08	-0.10
12 1/4%	Exchequer 1999	13.76	13.75	-0.01
14%	Treasury 1998/01	13.85	13.85	N/C
12%	Exchequer 2013/17	12.88	12.86	-0.02
3 1/2%	War Loan (Flat Yield)	12.34	12.23	-0.11

Gilt edged yields [F.T. High coupon]



Interbank rates



SECRET

£ millions

NEW ISSUES

Other loan stock*

	<u>Equities</u>	<u>Convertible loan stock</u>	<u>Domestic borrowers</u>	<u>Foreign borrowers</u>
TOTAL QUEUE [∅]	<u>993</u>	=	<u>115</u>	<u>200</u>
Of which issues of 10 or more:				
Current week (19/5-21/5)				
Week 2 (24/5-28/5)	Grand Metropolitan Ltd (rights) (25/5) 100			
Week 3 (1/6-4/6)				Australia (offer for sale) (1/6) 100
Week 4 (7/6-11/6)	Sketchley plc (rights) (8/6) 10 Hill Samuel Group Ltd (rights) (10/6) 15		Midland Bank (placing) (8/6?) 100	
Week 5 (14/6-18/6)	Allied Suppliers Ltd (offer for sale) (17/6) 100			
Week 6 (21/6-25/6)	BSR Ltd (rights) (21/6) 20 Powell Duffryn Ltd (rights) (23/6) 20 Aberdeen American Petroleum Co Ltd (offer for sale) (24/6) 20			New Zealand (21/6) 100
Week 7 (28/6-2/7)				

SECRET

Forthcoming

Gas & Oil Acreage Ltd (rights) (8/7)	12
Superdrug Stores Ltd (offer for sale) (9/7)	30
Bowater Corp Ltd (rights) (13/7)	80
Dowty Group Ltd (rights) (20/7)	50
Anglian Windows Ltd (rights) (22/7)	10
Lloyds Bank Ltd (rights) (27/7)	100
Breville Europe plc (offer for sale) (28/7)	10
Hadson Petroleum International plc (offer for sale) (3/8)	10
Ultramar plc (rights) (12/8)	100
The Caledonian Aviation Group plc (placing) (6/9 or 15/9)	20
Midland Bank plc (rights) (11/10)	150
Granada Group plc (rights) (14/12)	75

The South Staffordshire Waterworks Co (Offer for sale) (13/10)	10
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Memorandum

		<u>Equities</u>	<u>Loan Stock*</u>
Issues announced: †	1979	946	162
	1980	1,066	364
	1981	1,835	626
	1982 to date	364	190
Issues completed: †	1979	979	150
(ie gross amounts of cash raised)	1980	945	358
	1981	1,720	561
	1982 to date	275	200

*Includes preference shares
†Includes issues of 3 or more
‡Includes issues of less than 3
**Foreign borrower

19 May 1982

Per cent Time / Yield Curves of British Government Stocks

19th May 1982

