

NOTE FOR WEDNESDAY MEETING

MARKETS: 26 MAY TO 1 JUNE 1982

MONEY

Three of the four days covered by this note saw moderate cash shortages; on Thursday funds were in surplus. A largely favourable Exchequer position moderated the impact of a sizeable volume of bill maturities on the market's cash position. These maturities greatly exceeded the shortages over the week as a whole. There were large rises in the note circulation on Wednesday and Friday, in advance of the long weekend, which were only partly reversed on Tuesday.

The Bank made outright purchases of bills each day. Although there was a surplus on Thursday this did not become apparent until late in the day, after the Bank's operations.

Interbank rates opened slightly firmer on Wednesday after the overnight news of the loss of two ships in the South Atlantic. Period rates then changed little until the middle of Thursday when they began to ease as military success was anticipated and sterling gained some ground against Continental currencies on the foreign exchanges. This easier trend persisted over the weekend and the 3 month rate closed on Tuesday at 13 5/16%, 1/8 lower over the week as a whole. Short interbank rates also rose early on Wednesday but thereafter largely reacted to the market's changing cash position. They dipped after the Bank's provision of cash on Thursday but had come back by the middle of Friday when funds were again in short supply. Over the week as a whole the seven day rate showed a net rise of 1/16, to close at 13 7/16%.

Eurosterling rates showed little change before the weekend but opened lower on Tuesday and traded slightly below corresponding domestic rates. The 3 month rate closed at 13 1/4%, a fall of 3/16 over the week.

At the Treasury bill tender on Friday, the average rate of discount fell slightly to 12.6675%.

LOCAL AUTHORITY BORROWING

The rate for one year bonds fell by $1/8\%$ to $13\ 1/4\%$. Issues amounted to £15.25mn (£14.8mn last week) against maturities of £14.25mn.

GILTS

Prior to the weekend the market was quietly firm and it was possible to launch an issue of tranchettes. Sizeable quantities of these were sold on Tuesday as the market, encouraged by the latest Falklands news, moved strongly ahead to reach a new 14-month high.

The market opened slightly lower on Wednesday following news of the latest attacks on the British task force, but thereafter recovered in quiet trading to close about $1/8$ down in shorts and $1/8$ higher in longs.

Conditions remained very quiet on Thursday, but the undertone was firm and it was possible to sell a small amount of stock.

Further gains were seen on Friday, shorts and longs closing up to $3/8$ and $1/2$ higher respectively. At 3.30 pm the issue was announced of £200 million tranchettes of three existing stocks: 12% Treasury 1987, 11% Exchequer 1991 and 12% Treasury 1995.

Following the weekend's news from the South Atlantic and the fall in US M_1 announced on Friday, the market opened firm on Tuesday and rather more active than the general level of recent weeks; a sizeable amount of the tranchettes was sold in early trading. Demand then eased off and prices reacted from the best levels, though shorts retained gains of up to $1/2$ at the close with longs up to 1 better. The FT Government Securities Index rose to 69.74, its highest level since 6 April 1981.

Over the week as a whole, yields on shorts fell by about $1/4\%$ (to about $13\ 1/2\%$ on five-year maturities) and those on longs fell by a similar amount (to $13\ 1/2\%$ - $13\ 3/4\%$ on up to 20-year maturities). The indexed stocks saw little activity during the week and yields were practically unchanged, ranging from 2.79% (IG 1988) to 3.06% (IG 1996).

EQUITIES

The market made further modest gains in quiet trading.

The mood on Wednesday was affected by the news from the Falklands and the 30-Share Index fell back by 6.8 points at one stage. During the afternoon more detailed news of the situation brought a steady recovery and the earlier losses were regained.

On Thursday and Friday the market made further modest advances in very quiet trading with defence stocks continuing to lead the way. By the close the Industrial and 500-Share Indices had moved to new all-time highs and over the week as a whole to Friday the 30-Share Index had recovered almost all of the previous week's 30 points loss.

After the holiday weekend, trading was dull on Tuesday and defence shares succumbed to profit-taking. After early gains the 30-Share Index ended unchanged at 587.3, a rise of 6.5 points over the week as a whole. The 500-Share Index closed at 369.76, up 6.41 points over the week.

NEW ISSUES

Queue

Three new issues of £10mn or more were added to the queue including a vendor placing of £50mn by Standard Chartered and an offer for sale of £22mn by Mercantile House Holdings, both in connection with acquisitions. With the cancellation of the proposed offer for sale of £100mn by Allied Suppliers and the postponement of Australia's £100mn bulldog (likely to rejoin the queue in July), the queue now totals £1,095 against £1,147 last week.

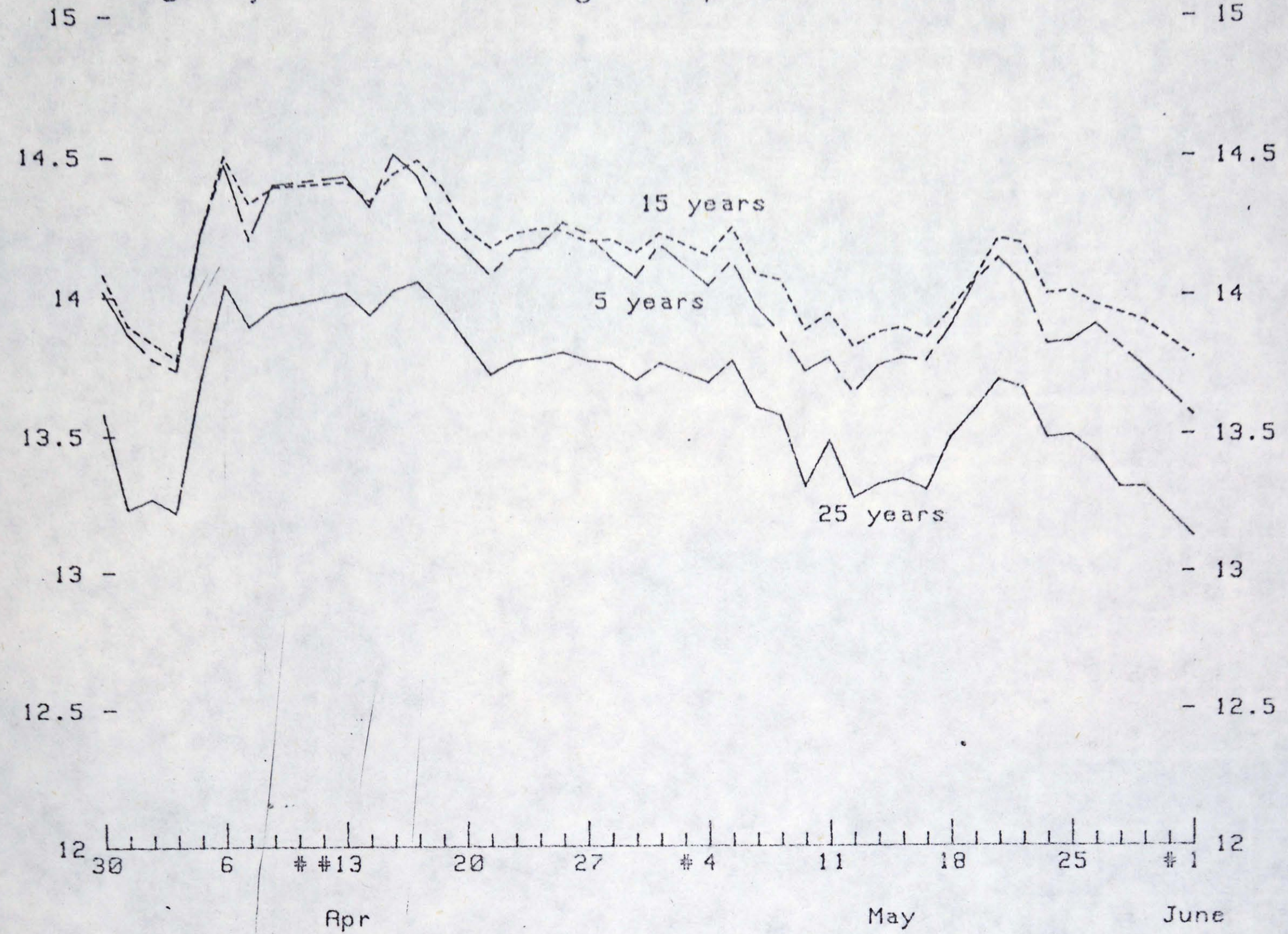
Net capital issues

The net amount of new money raised in banking May was £136mn compared with £49mn in April. The total so far this year is £391mn compared with £441mn in the same period of 1981.

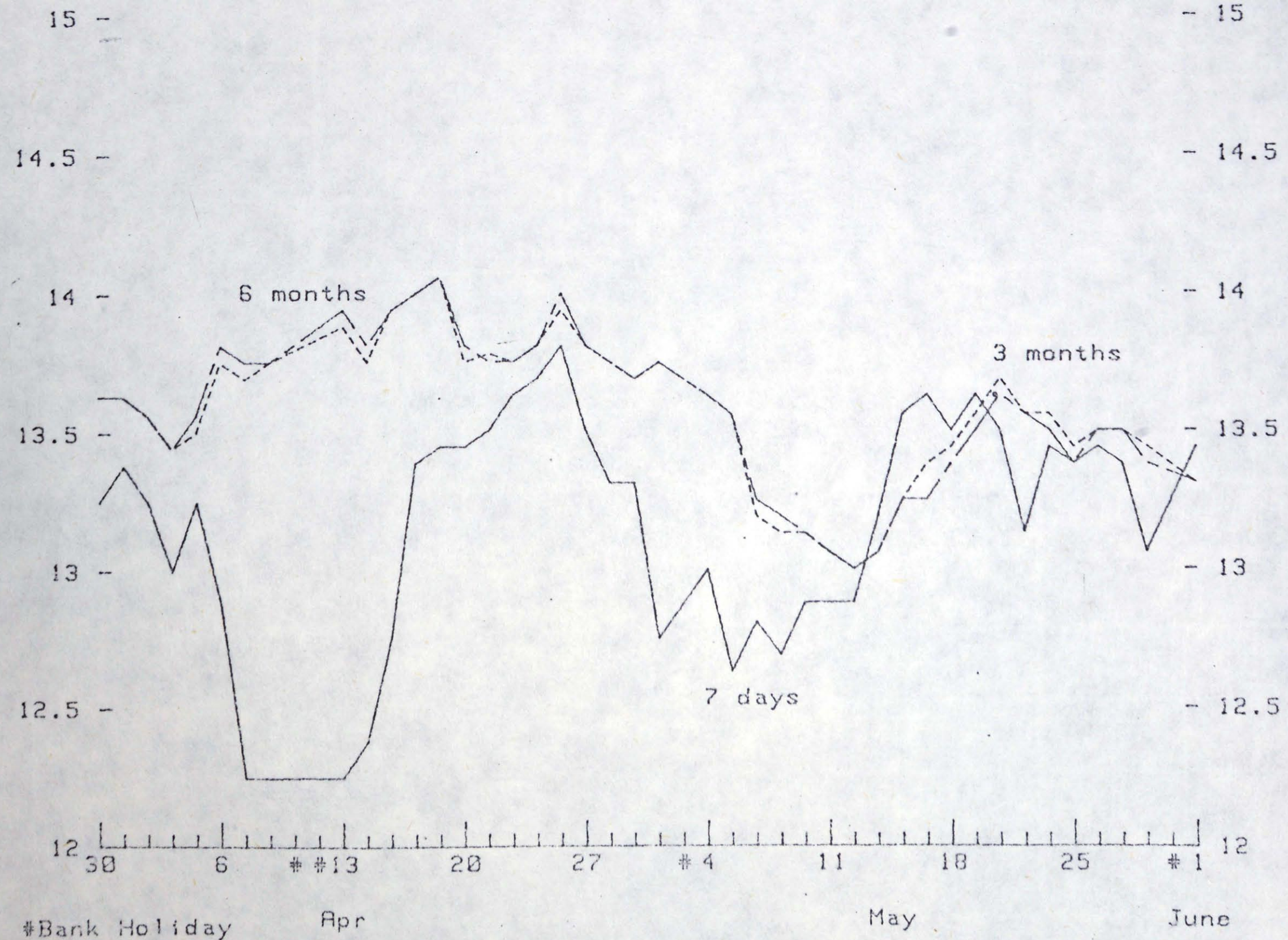
(Init EAJG)

2 June 1982

Gilt edged yields [F.T. High coupon]



Interbank rates



Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

1. Transactions (cash value)

| | 26. 5.82 <u>- 1. 6.82</u> | <u>Cal Qtr and Fin Year to date</u> | 17. 2.82 <u>to date</u> |
|------------------------------|------------------------------|---|----------------------------|
| Issue Department | | | |
| Purchases/sales | | | |
| Next Maturities | - 126 | - 253 | - 440 |
| Other short-dated | + 62 | + 79 | + 438 |
| | - 64 | - 174 | - 2 |
| Mediums | + 147 | + 688 | + 1,196 |
| Longs and undated | - | + 38 | + 298 |
| Total Issue | | | |
| Department trans- actions | + 83 | + 552 | + 1,492 |
| CRND | - 1 | + 58 | + 163 |
| Redemptions | - | - | - 353 |
| | <u>+</u> 82 | <u>+</u> 610 | <u>+</u> 1,302 |

2. Redemption Yields (tax ignored)

| | <u>25 May</u> | <u>1 June</u> | <u>Change</u> |
|------------------------------|---------------|---------------|---------------|
| 12% Treasury 1983 | 13.37 | 13.05 | -0.32 |
| 15% Treasury 1985 | 13.44 | 13.24 | -0.20 |
| 12% Treasury 1987 | 13.96 | 13.64 | -0.32 |
| 11 3/4% Treasury 1991 | 14.25 | 14.00 | -0.25 |
| 13 1/2% Treasury 1994 | 14.25 | 14.03 | -0.22 |
| 2% Index-Linked | | | |
| Treasury 1996 | 3.05 | 3.06 | +0.01 |
| 12 1/4% Exchequer 1999 | 13.77 | 13.54 | -0.23 |
| 14% Treasury 1998/01 | 13.89 | 13.67 | -0.22 |
| 12% Exchequer 2013/17 | 12.89 | 12.70 | -0.19 |
| 3 1/2% War Loan (Flat Yield) | 12.31 | 12.13 | -0.18 |

SECRET

£ millions

NEW ISSUESOther loan stock*

| | <u>Equities</u> | <u>Convertible loan stock</u> | <u>Domestic borrowers</u> | <u>Foreign borrowers</u> |
|--------------------------------------|---|-----------------------------------|--|---------------------------|
| TOTAL QUEUE ^o | <u>805</u> | = | <u>110</u> | <u>100</u> |
| Of which issues of 10 or more: | | | | |
| Current week (2/6-4/6) | | | | |
| Week 2 (7-11/6) | Sketchley plc (rights) (8/6) 10 Hill Samuel Group Ltd (rights) (10/6) 15 | | Midland Bank (placing) (8/6) 100 | |
| Week 3 (14/6-18/6) | | | | |
| Week 4 (21/6-25/6) | BSR Ltd (rights) (21/6) 20 Advent Eurofund Ltd (offer for sale) (22/6) 10 Powell Duffryn Ltd (rights) (23/6) 20 | | | New Zealand (21/6) 100 |
| Week 5 (28/6-2/7) | | | | |
| Week 6 (5/7-9/7) | Standard Chartered Bank plc (vendor placing) (5/7) 50 Gas & Oil Acreage Ltd (rights) (8/7) 12 Superdrug Stores Ltd (offer for sale) (9/7) 30 | | | |
| Week 7 (12/7-16/7) | Bowater Corp Ltd (rights) (13/7) 80 | | | |

SECRET

| Forthcoming | | | The South Staffordshire Waterworks Co (Offer for sale) (13/10) 10 |
|-------------|--|-----|---|
| | <u>Mercantile House Holdings plc</u> (offer for sale) (20/7) | 22 | |
| | 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 | |

Memorandum

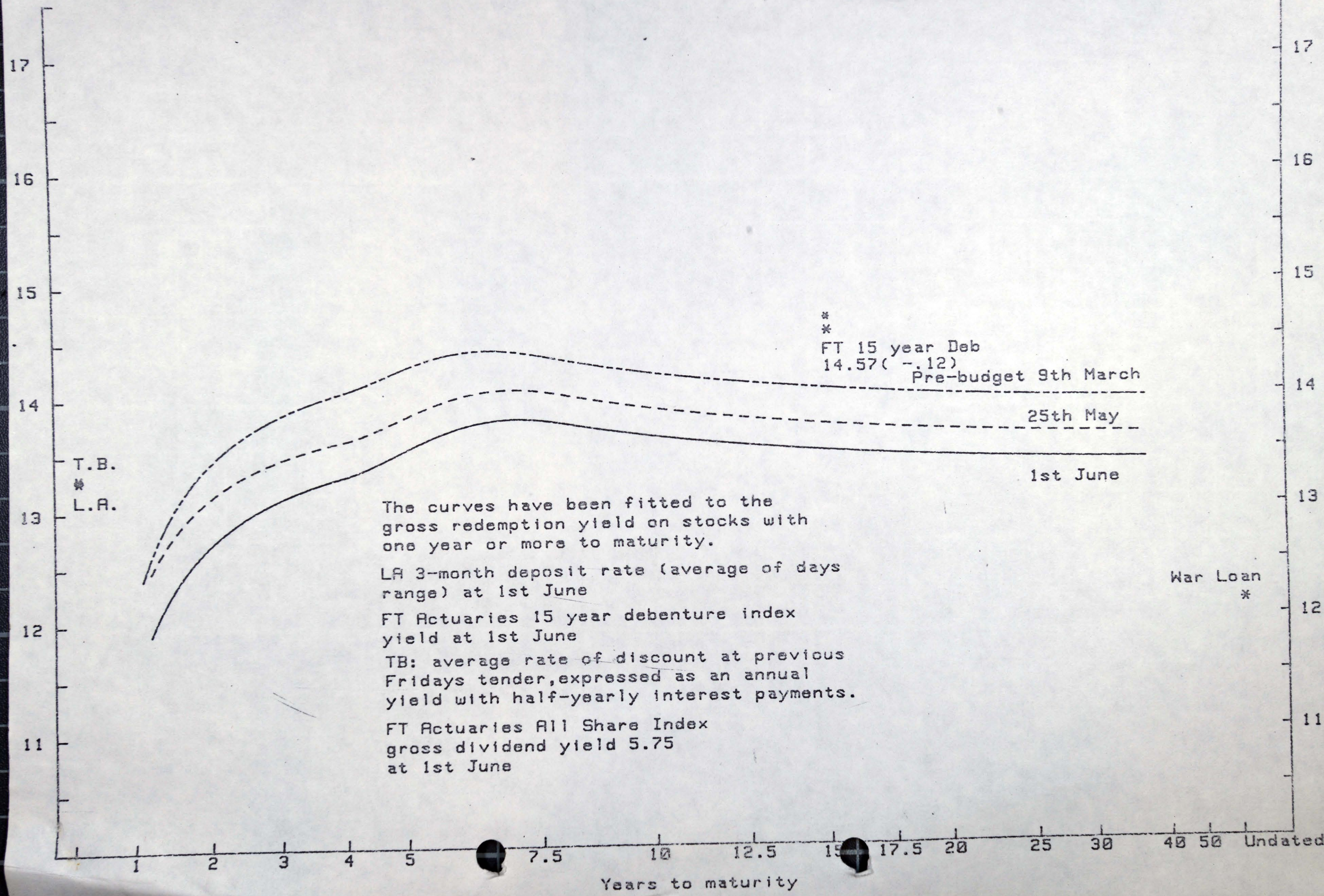
| | | <u>Equities</u> | <u>Loan Stock*</u> |
|---|--------------|-----------------|--------------------|
| Issues announced: † | 1979 | 946 | 162 |
| | 1980 | 1,066 | 364 |
| | 1981 | 1,835 | 626 |
| | 1982 to date | 536 | 193 |
| Issues completed: † (ie gross amounts of cash raised) | 1979 | 979 | 150 |
| | 1980 | 945 | 358 |
| | 1981 | 1,720 | 561 |
| | 1982 to date | 370 | 229 |

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

2 June 1982

Per cent Time / Yield Curves of British Government Stocks

2nd June 1982



*
*
FT 15 year Deb
14.57 (-.12)
Pre-budget 9th March

25th May

1st June

War Loan
*

T.B.
*
L.A.

The curves have been fitted to the gross redemption yield on stocks with one year or more to maturity.
 LA 3-month deposit rate (average of days range) at 1st June
 FT Actuaries 15 year debenture index yield at 1st June
 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 5.75 at 1st June

Years to maturity