

NOTE FOR WEDNESDAY MEETING

MARKETS: 1 SEPTEMBER TO 7 SEPTEMBER 1982

MONEY

The collection of Petroleum Revenue Tax over Wednesday and Thursday was followed by a substantial volume of unwinding assistance after the weekend to produce tight money conditions over most of this week. On Monday, payment for official sales of gilt edged stock also contributed to the shortage.

The Bank provided assistance each day through outright purchases of bills at rates unchanged from 27 August. On Thursday and Monday the days of the most severe shortages, bills were also bought for later resale.

Period interbank rates firmed at the start of the week under the influence of the recent rises in US rates but they began to show a slight easing from Thursday. Nervousness about the future course of US rates, following the larger than expected rise in the money supply, was reflected in a firm opening on Monday but this was short-lived and rates resumed their slightly easier trend on Tuesday as dollar rates softened. The 3 month rate fell $1/8$ over the week, closing at $10\ 13/16\%$. The persistent cash shortages kept short rates quite firm over most of the week although they eased noticeably on Tuesday. The 7 day rate showed a net fall of $1/16$ to close at $11\ 1/16\%$.

The uncertainty over the direction of US rates kept eurosterling rates generally firm and the 3 month rate rose $1/16$ over the week, ending at about $10\ 7/8\%$.

At the Treasury bill tender on Friday the average rate of discount fell 0.2222 to 9.6954% .

LOCAL AUTHORITY BORROWING

The rate for one-year bonds fell by $1/4\%$ to $10\ 1/2\%$. Issues amounted to $\pounds 21.75\text{mn}$ ($\pounds 17.25\text{mn}$ last week) against maturities of $\pounds 14.9\text{mn}$.

Take-up of the PWLB's new variable-rate facility remains minimal and fixed-rate borrowing from the Board has also fallen sharply off after one good week.

GILTS

With the profit-taking of the previous week largely accomplished, the market became progressively firmer prior to the weekend, absorbing sizeable official sales on the Friday. The latest rise in US money supply provoked some uncertainty on Monday, but the steadier undertone resumed yesterday with the August banking figures so far causing only a modest reaction.

The market was quiet on Wednesday but displayed a steadier tone with the recent profit-taking giving way to limited buying. At the close selected longs were up to $3/4$ better although mediums and shorts were generally little changed.

After another quietly firm day on Thursday, the upward trend gained momentum on Friday as the market responded to the renewed strength of US bonds and the firmness of sterling. Shorts closed the day with gains of up to $5/8$ with longs up to $1\ 3/8$ higher. Sizeable official sales of stock were made.

A more cautious attitude was apparent after the weekend following the latest increase in US M_1 which had led US bonds to ease from the best levels late on Friday. Prices opened up to $1/4-1/2$ lower on Monday but no selling pressure developed and part of the early losses was regained during the day.

This improvement continued yesterday in quiet trading with the market encouraged by a slight easing in money market rates and, later in the day, by a firm opening in US bonds. Publication of the August banking figures caused prices to slip back slightly, but net gains of $1/4-3/8$ were retained at the official close.

Over the week, yields on shorts fell by up to $3/8-1/2$ (to around $10\ 1/2-11\%$) while those on longs fell by over $1/4$ (to around $11\ 1/8-11\ 1/2\%$). Yields on the indexed stocks were unchanged or slightly higher and now range from 2.83% (IG 2011) to 3.17% (IG 1988).

EQUITIES

Supported by a renewed upturn in US equities, the market moved higher over the week with the All-Share Index recording successive all-time peaks. The upward trend lost some momentum after the weekend, however, with the narrower 30-Share Index failing to breach the 600-barrier.

The renewed strength on Wall Street brought a return to firmer conditions on Wednesday and some buying interest developed. With stock in short supply the FT 30-Share Index ended 8.9 higher.

The market paused on Thursday after an overnight setback on Wall Street, but moved ahead strongly on Friday as US equities resumed their upward trend. Defence and electrical stocks were particularly firm, but banking shares were overshadowed by the current international debt problems. The 30-Share Index closed 13.3 higher at 596.2, just short of the April 1981 all-time high.

After the weekend, the market marked time as it encountered profit-taking on Monday. However, selling was not heavy and the 30-Share Index ended only slightly lower while the All-Share Index rose to a new all-time high for the fourth successive trading session.

After a firm start yesterday when the 30-Share Index looked set to break through the 600-barrier, prices fell back later in the day following an easier opening on Wall Street and the news of the August banking figures. Defence stocks met some profit-taking, but gold shares continued to rise sharply. The 30-Share Index ended a net 4.7 down at 589.2, a rise of 16.5 over the week as a whole. However, as on previous days the All-Share Index continued to edge higher to a new peak of 359.10.

NEW ISSUES

Issues

Quebec Hydro's £50mn, 33-year bulldog issue was launched on Monday. The issue will be priced to yield 190 basis points over the 2004/08 reference gilt (ie about 13 1/4% on the basis of last

night's yields). This brings the total foreign off-take from the market this year to a monthly average of about £57mn.

The first stock issue of any issue by a domestic industrial company for over ten years is due to be launched tomorrow - a placing of (probably) £100 mn of unsecured loan stock by the British Oxygen Company, with a maturity of perhaps 35 years and a likely yield around 12 1/2% ie in the range of 1 1/4-1 1/2% over gilts.

Queue

No equity issues of significance were added to the queue. In the fixed interest sector, dates were allocated for October: the prospective issuers are Standard & Chartered Bank for £100mn; EIB (the sole bulldog) for £100mn; and two local authorities, Birmingham and Newcastle, for £100mn and £12mn respectively. With these additions the queue now totals £1,197mn against £937mn last week.

Two other banks - Barclays for £150mn and Lloyds for £100mn - are also contemplating issues of loan stock. These are likely to come forward in November but are not yet on the queue. Tentative enquiries have also been received from some industrial companies (including ICI) but there is nothing definite yet.

(init ALC)

8 September 1982

Official Stock Transactions and Gilt-Edged Yields

(£ million: sales +, purchases -)

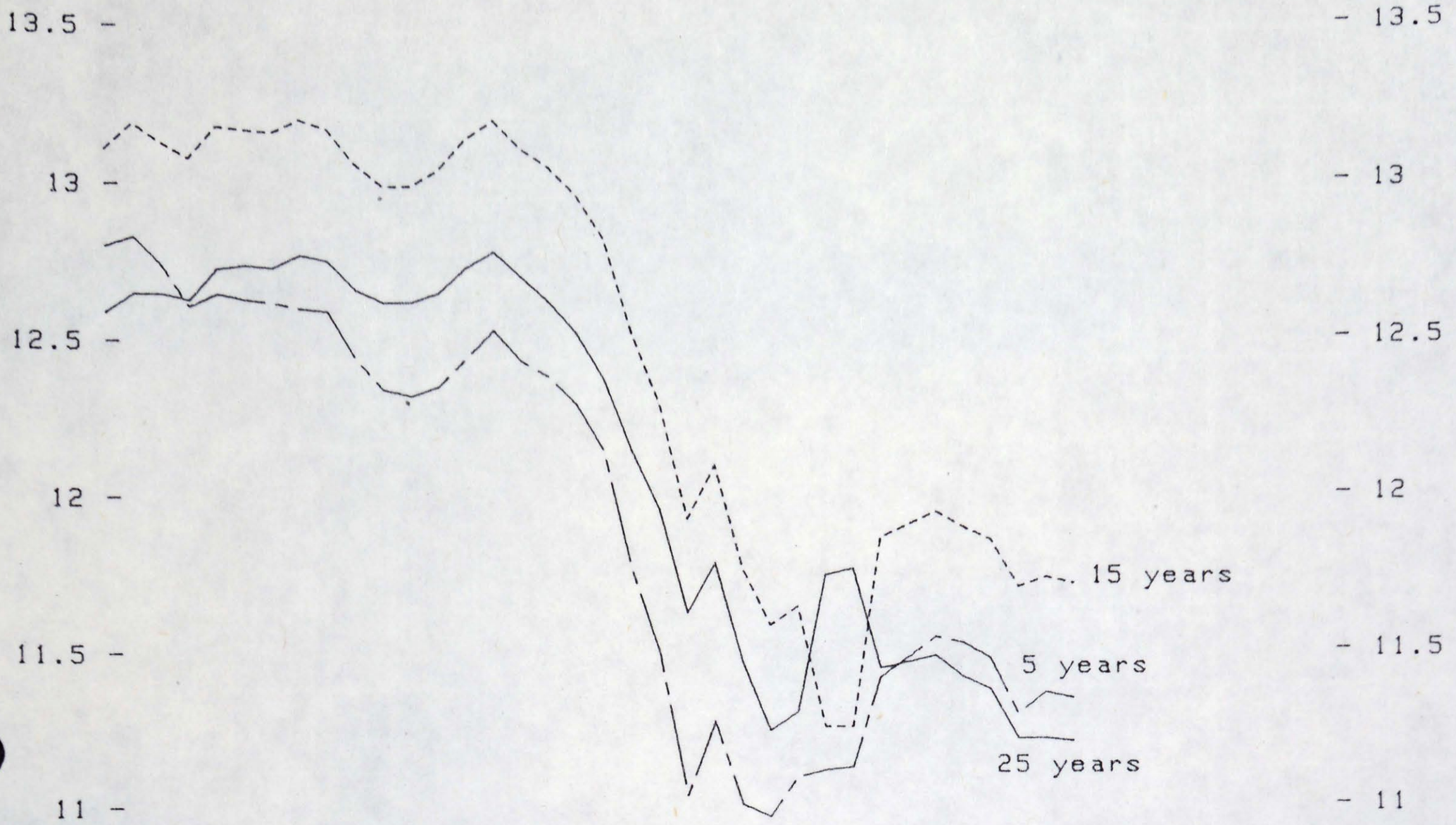
1. Transactions (cash value)

	1. 9.82 <u>- 7. 9.82</u>	Cal Qtr <u>to date</u>	Fin year <u>to date</u>	17. 2.82 <u>to date</u>
Issue Department				
Purchases/sales				
Next Maturities	-	- 819	-1,073	- 1,280
Other short-dated	+ 45	+ 997	+1,130	+ 1,499
	+ 45	+ 178	+ 57	+ 219
Mediums	+ 116	+ 1,895	+2,955	+ 3,432
Longs and undated	+ 38	+ 576	+ 641	+ 924
Total Issue				
Department trans- actions	+ 199	+ 2,649	+3,653	+ 4,575
CRND	- 4	- 40	+ 199	+ 294
Redemptions	-	- 490	- 550	- 950
	<u>+</u> 195	<u>+</u> 2,119	<u>+</u> 3,302	<u>+</u> 3,919

2. Redemption Yields (tax ignored)

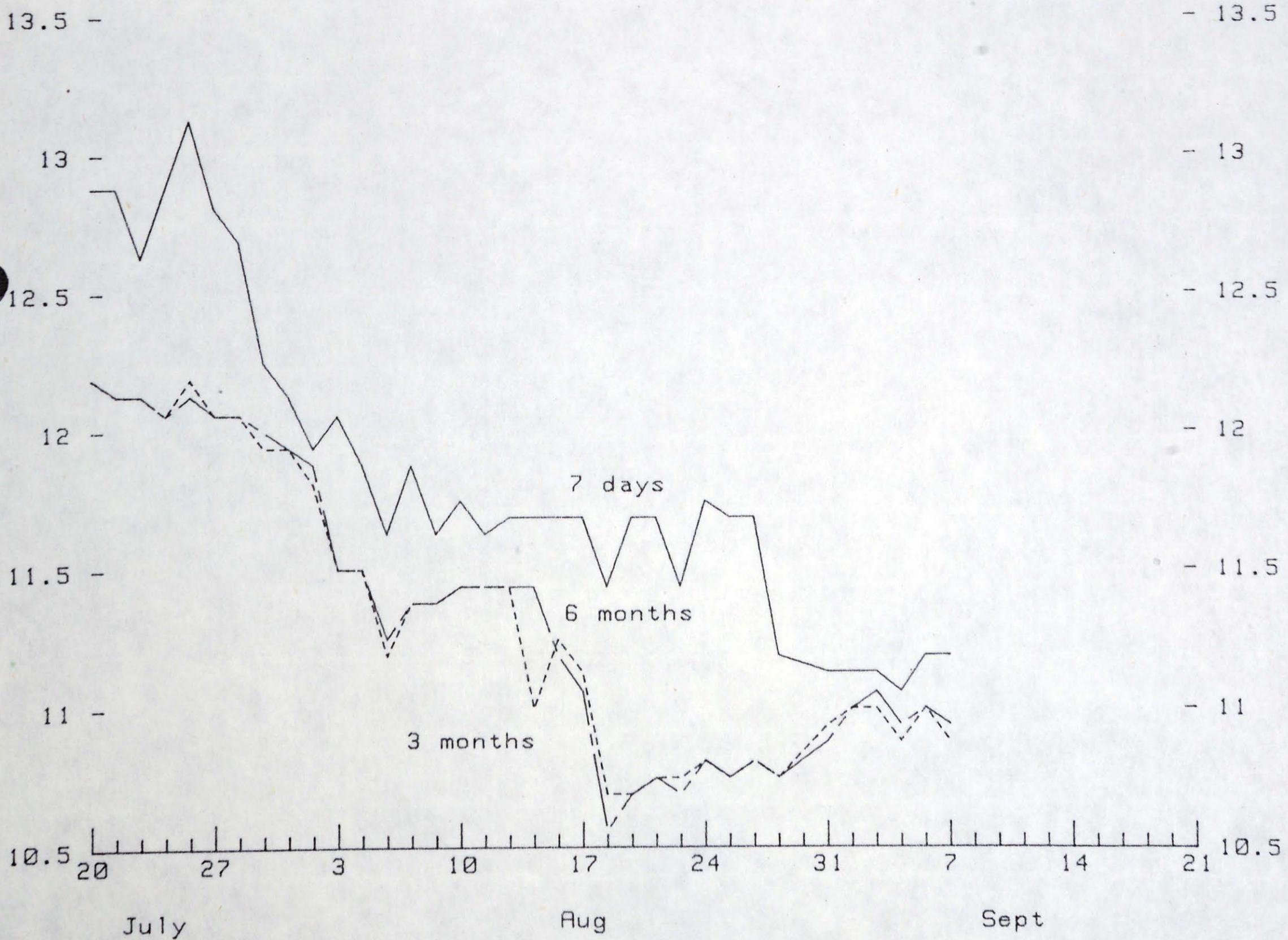
	<u>31 August</u>	<u>7 September</u>	<u>Change</u>
11 1/2% Treasury 1985	10.98	10.49	-0.49
12% Treasury 1987	11.45	11.06	-0.39
11 3/4% Treasury 1991	12.01	11.86	-0.15
12 1/2% Exchequer 1994	12.03	11.88	-0.15
2% Index-Linked			
Treasury 1996	3.06	3.06	N/C
12 1/4% Exchequer 1999	11.76	11.49	-0.27
14% Treasury 1998/01	11.82	11.56	-0.26
12% Exchequer 2013/17	11.12	10.89	-0.23
3 1/2% War Loan (Flat Yield)	10.94	10.67	-0.27

Gilt edged yields [F.T. High coupon]

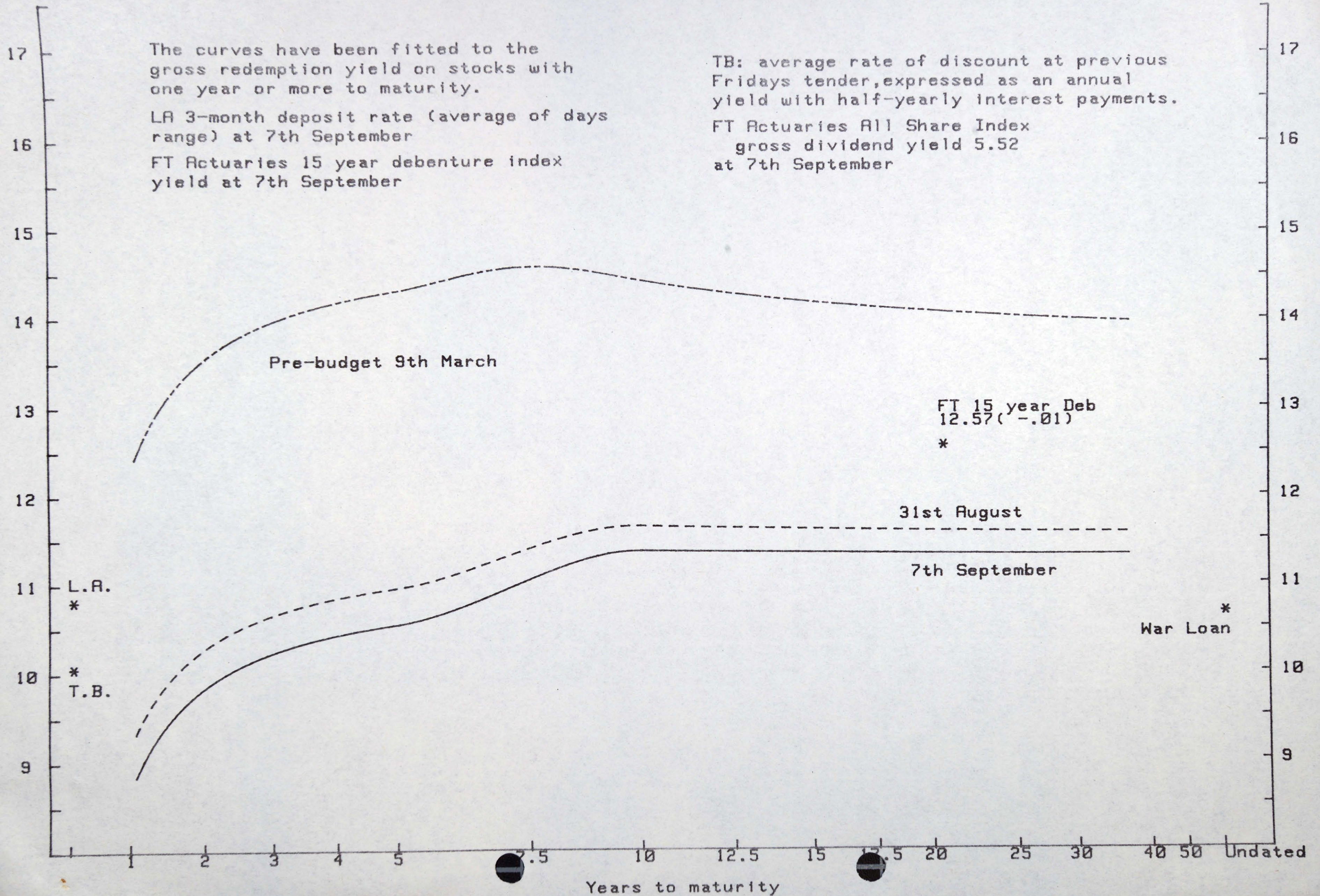


July Interbank rates
 13.5 -
 13 -
 12.5 -
 12 -
 11.5 -
 11 -
 10.5

July Aug Sept Yields



July Aug Sept Yields



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 7th September

FT Actuaries 15 year debenture index yield at 7th September

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 5.52 at 7th September

Pre-budget 9th March

FT 15 year Deb
12.57 (- .01)

*

31st August

7th September

L.A.
*

*
T.B.

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War Loan

Years to maturity