Reed may join the battle for Macmillan

MARKET REPORT
By Simon Pincombe

ROBERT Maxwell's $2.2bn (£1.2bn) offer for **Macmillan,** the U.S. publishing house, has the City wondering whether the publishing sector might be seriously undervalued here in London.

Reed International jumped 9p to 429p as investors pondered the huge price difference and the possibility of a subsequent sector re-rating.

Maxwell's $80 a share offer prices Macmillan at 24 times earnings. By contrast Reed is trading on a multiple of less than 13.

Talk that Reed itself could be taken out was quickly scotched by analysts who point out that it would cost some £3.5bn. Some feel instead that Reed will enter the fray as a white knight and launch a counter bid for Macmillan at around $85 to $90 a share to ward off the attentions of Maxwell and the consortium bid from Texan Robert Bass.

Reed has £1bn in cash to spend and analysts are not

● Could George Davies' Next group be about to come back into fashion? The shares, down 3p to 241p yesterday, have badly underperformed the FT All Share Index all year. But Next will launch its new fashion directory in two weeks time. And the new megastore in Oxford Street could be open for business as early as September. The

Lawson keeps up a guessing game

By Andrew Alexander

IF BROWS were more than usually furrowed in the City yesterday it was because many found it hard to be sure what Mr Lawson was saying about monetary and exchange rate policy in his Thursday night speech.

His on-the-one-hand, on-the-other comments, no doubt designed to suit the economists in the audience, led to some differing conclusions. At brokers BZW, the economists concluded that he would not be raising interest rates further. At Savory Milln, Gerard Lyons concluded that the Chancellor was going for a tight monetary policy (with less concern for exchange rates to boot) and that a serious interest rate rise is in prospect.

The market pressure on interest rates was certainly abating yesterday but primarily because of the fall in the dollar, which central banks have been manoeuvring for in recent days.

Take the strain

The most surprising feature of the Lawson speech, which oscillated schizophrenically between *laisser faire* and interventionism, was his view that the current account deficit on the balance of payments will take care of itself because government finances are sound. If people spend more and save less then there is a deficit. When they turn round to saving more and spending less there will be a surplus.

It is all rather Panglossian. It is true that these imbalances tend to be self-rectifying — if the exchange rate is left to take the strain. But Mr Lawson is not prepared to allow that. He wants to manage sterling's exchange rate — not against the trade weighted index which would have the most economic logic — but against the mark, as much for political as economic reasons. And in this, he stressed, the interest rate weapon is fundamental.

Which certainly suggests in the wake of yesterday's showing by sterling that official policy will be to avoid another interest rate rise for exchange rate reasons. In turn this underlines that, in the continuing battle, the Thatcher-Walters axis is retreating and the Lawson-Lawson camp is in the ascendant.

It is true that the speech also contains tributes to the importance of monetary policy, and the value of interest rate changes plus the claim that the long-term target of zero inflation is in no doubt. But people should not be misled. He is *not* dedicated to stopping, only to curbing, inflation.

The most remarkable feature of his speech was his odd view that markets can safely be left to themselves — except where they are entirely made up of skilled professionals. For the foreign exchange markets are of course wholly professional. He sees the 'wild gyrations' there as 'destabilising and disruptive.' He does not actually call the market irrational but implies it. He cites the case of the rise and fall of the dollar since 1984.

But the truth is that foreign exchange markets fluctuate wildly not because of the dealers but because of politicians. With government sectors now so large and governments intervening so constantly in economic matters, dealers have all the time to double-guess what politicians are going to do next, and why.

The dollar soared in 1984/85 because the combination of a rising U.S. Budget deficit and trade deficit implied that the U.S. would have to go for higher interest rates (to be able to borrow enough) and would then feel obliged to correct the Budget deficit anyway. The U.S. government, in the event, did not follow such a sensible course.

Star gazing

Dealers these days also have to guess how far governments will coordinate exchange rate intervention, whether the Japenese finance minister is feeling helpful, whether Herr somebody-or-other is causing problems in the Federal government, whether Mrs Thatcher or Mr Lawson is in the ascendant where British policy is concerned — and perhaps even what Mrs Reagan's astrologer is advising.

Gyrations in foreign exchanges are, at bottom, the consequences of gyrations by politicians. Sometimes the trends will be exaggerated in the markets, sometimes underplayed. But it certainly comes rather curiously from a man who cut interest rates three times between March and June and then raised them six times in six weeks to accuse other people of being 'destabilising and disruptive.'

Building societies taxed to the limit

HOME buyers aiming to beat the taxman are causing building societies to burn the midnight oil to process a flood of mortgage applications before August 1.

After that, because of the Budget, mortgage tax relief is limited to £30,000 per property.

The Bradford and Bingley says: 'Mortgage applications went up by more than 50pc between March and June. We have taken on extra staff and are working a night shift.'

The Halifax, before the Budget, was getting 5,000 applications a month for mortgages. After, the figure rose to 8,000. The Revenue's rule is that there must be a valid contract for purchase of the property by midnight on July 31.

Says the Halifax: 'We are pulling out every stop to help people. In the end it will be up to the lawyers. There are bound to be a number of people who won't be able to clear legal snags and who miss the deadline.'

□ *COME 1992 when motor dealers are allowed to sell rival ranges from one garage, Appleyard Group plan to stock holograms — lifesize 3D images — instead of bulky and expensive cars. Meanwhile, June half-year profits jumped 77pc to £4.1m. Interim dividend is 5.5p (3.5p).*

Fruit for Cadbury

A few bob for Hoskyns

SIR JOHN CLARK is in a

Hoskyns directors expect an-