

Document 1624

[21624001]

Bond prices posted strong gains as investors went on a bargain hunt .

[21624002]

But while the overall market improved , the new-issue junk-bond market continued to count casualties , even as junk-bond prices rose .

[21624004]

And Donaldson , Lufkin & Jenrette Securities Corp. scrambled to restructure and improve the potential returns on a \$ 475 million debenture offering by Chicago & North Western Acquisition Corp. that was still being negotiated late last night .

[21624005]

The issue by Chicago & North Western is one of the so-called good junk-bond offerings on the new-issue calendar .

[21624006]

Some analysts said the restructuring of the railroad concern 's issue shows how tough it is for underwriters to sell even the junk bonds of a company considered to be a relatively good credit risk .

[21624007]

Since last week 's junk-bond market debacle , many new issues of high-yield , high-risk corporate bonds have either been scaled back , delayed or dropped .

[21624008]

On Wednesday , Drexel Burnham Lambert Inc. had to slash the size of Continental Airlines ' junk-bond offering to \$ 71 million from \$ 150 million .

[21624009]

Salomon Brothers Inc. has delayed Grand Union Co. 's \$ 1.16 billion junk-bond offering while it restructures the transaction .

[21624010]

Last week , the Grand Union offering was sweetened to include warrants that allow bondholders to acquire common stock .

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Prudential-Bache said the York issue was delayed because of market conditions .

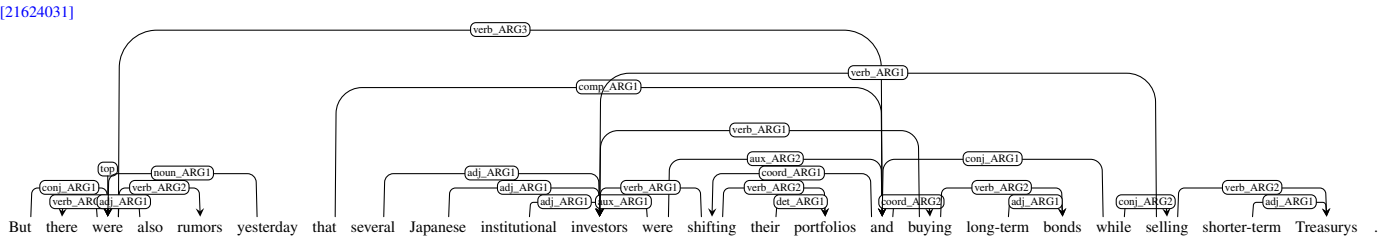
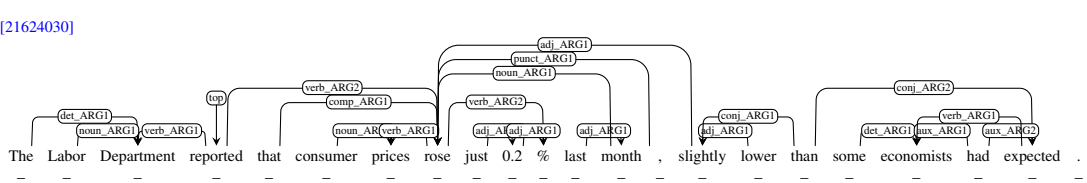
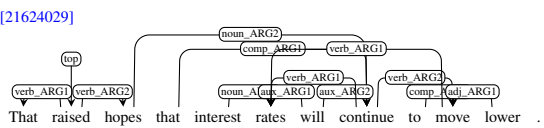
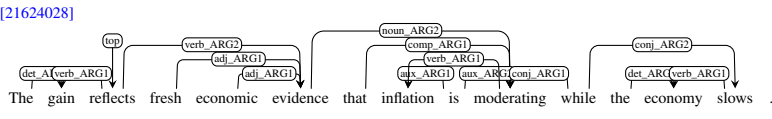
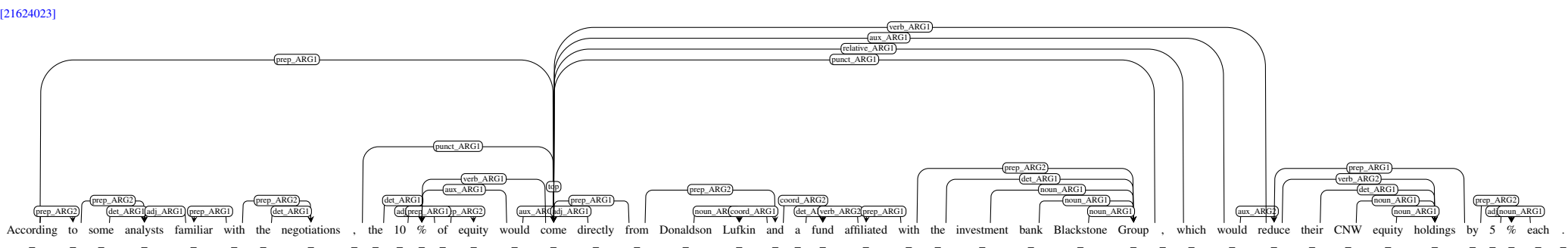
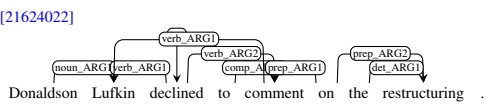
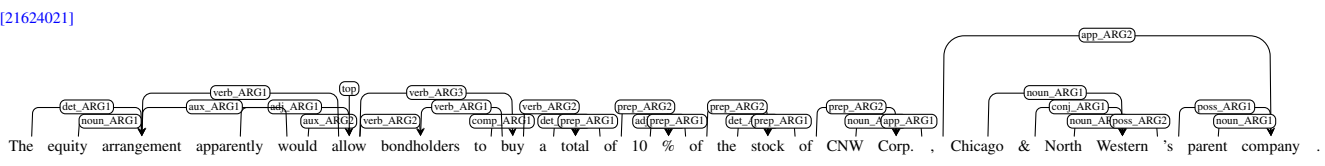
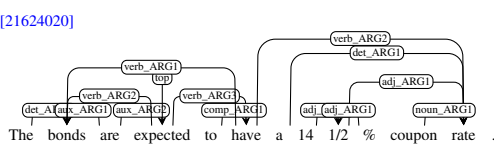
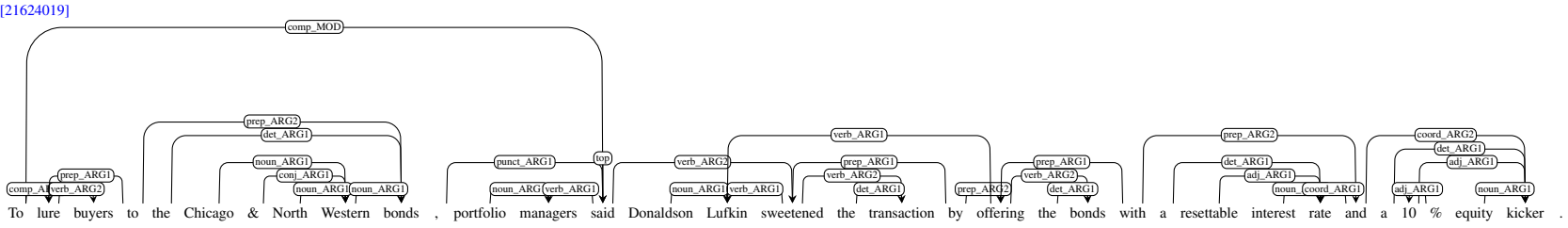
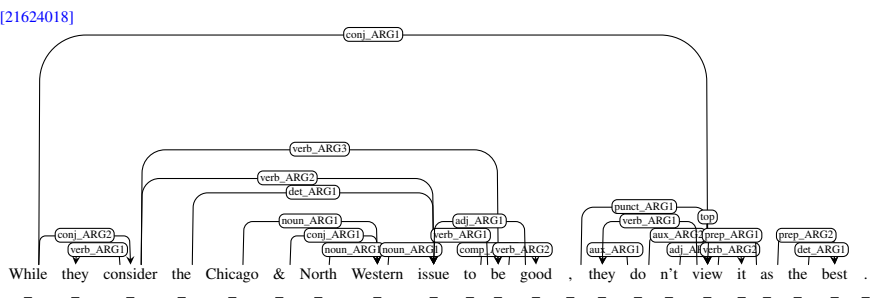
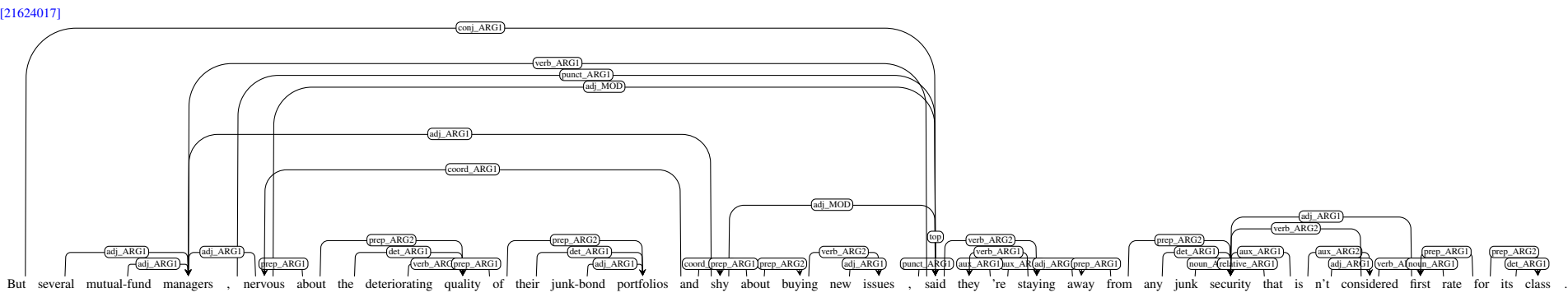
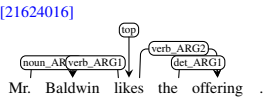
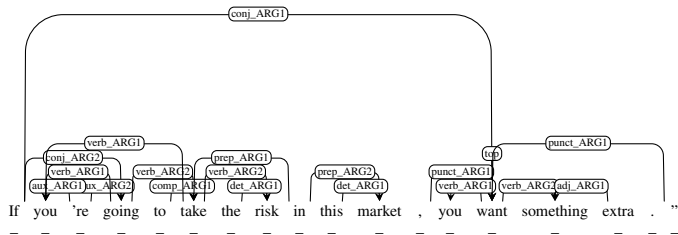
[21624013]

Portfolio managers say sweeteners like equity kickers and stricter protective covenants may increasingly be required to sell junk-bond deals .

[21624014]

Dan Baldwin , managing director of high-yield investments at Chancellor Capital Management , said the Chicago & North Western offering was restructured in part because " several large insurance buyers right now are demanding equity as part of the package .

[21624015]



Short-term Treasury securities ended narrowly mixed , with two-year notes posting slight declines while three-year notes were slightly higher .

Yesterday , the Fed executed four-day matched sales , a technical trading operation designed to drain reserves from the banking system .

The move was interpreted by some economists as a sign that the Fed does n't want the federal funds rate to move any lower than the 8 3/4 % at which it has been hovering around during the past week .

It is considered an early signal of Fed credit policy changes .

" The fact that they did four-day matched sales means they are not in a mood to ease aggressively .

Treasury Securities

Short-term rates rose yesterday .

The discount rate on three-month Treasury bills rose to 7.56 % from 7.51 % Wednesday , while the rate on six-month bills rose to 7.57 % from 7.53 % .

Meanwhile , the Treasury sold \$ 9.75 billion of 52-week bills yesterday .

The average yield on the bills was 7.35 % , down from 7.61 % at the previous 52-week bill auction Sept. 21 .

Yesterday 's yield was the lowest since 7.22 % on July 27 .

Here are details of the auction :

Rates are determined by the difference between the purchase price and face value .

Thus , higher bidding narrows the investor 's return while lower bidding widens it .

The percentage rates are calculated on a 360-day year , while the coupon-equivalent yield is based on a 365-day year .

Corporate Issues

Junk bond price climbed yesterday despite skittishness in the new-issue market for high-yield securities .

Investment-grade bonds were unchanged .

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Municipals

[21624057]

Activity was brisk in the high-grade general obligation market, as a series of sell lists hit the Street and capped upward price movement in the sector.

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Traders estimated that more than \$ 140 million of high-grade bonds was put up for sale via bid-wanted lists circulated by a handful of major brokers.

[21624059]

There was speculation that the supply was coming from a commercial bank's portfolios.

[21624061]

Away from the general obligation sector, activity was modest.

[21624064]

The debt of some California issuers pulled off lows reached after Tuesday's massive earthquake, although traders said market participants remained cautious.

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California expects to rely on federal emergency funds and its \$ 1.06 billion in general fund reserves to meet the estimated \$ 500 million to \$ 1 billion in damages resulting from the quake, according to a state official.

[21624066]

It's also unclear precisely how the state will rebuild its reserve, said Cindy Katz, assistant director of California's department of finance, although she noted that a bond offering for that purpose is n't anticipated.

[21624067]

Meanwhile, new issuance was slow.

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The largest sale in the competitive arena was a \$ 55.7 million issue of school financing bonds from the Virginia Public School Authority.

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A balance of \$ 25.8 million remained in late order-taking, according to the lead manager.

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Mortgage-Backed Securities

[21624071]

Mortgage securities generally ended 6/32 to 9/32 point higher, but lagged gains in the Treasury market because of a shift in the shape of the Treasury yield curve and rumored mortgage sales by thrifts.

[21624073]

Ginnie Mae 13 % securities were down about 1/4 at 109 30/32.

