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MARKETS

WEEK ENDED 28 MAY 1980

Money

Conditions in the money market were very short on Thursday and Friday of this week, but eased after the weekend. The unwinding of earlier foreign exchange swaps was the chief adverse factor, while the net Exchequer position has been consistently in the market's favour.

Help was given by the Bank on every day but Wednesday, taking the form of purchases of Treasury and Local Authority bills outright and of purchases of Local Authority and Eligible bills for resale on 4 June. In addition, small amounts were lent on Friday and Tuesday overnight at MLR, and an exceptionally large amount on the same terms on Thursday.

Interbank rates were generally firm until the weekend but some easing has since been evident, most markedly at the short end as conditions have become less stringent. The three month rate finished 1/16% up at 17 1/8%.

Rates this morning firm at all maturities.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.048 to 16.0947.

Gilts

After an uncertain start the market was strong - with reported overseas interest drawing in domestic investors - until profit-taking developed at the end of the week.

Prices tended to ease back in very light trading on Thursday. But a firmer trend emerged on Friday aided by the overnight news of a relaxation of credit curbs by the Federal Reserve and the continuing strength of sterling. Sizeable amounts of the medium tap, 13 1/2% Exchequer 1992, was sold at 20 1/4 and 20 5/16 before the latter price was withdrawn. The market was further encouraged in the afternoon by Citibank's 2% reduction in prime rate to 14 1/2% and by the close prices had risen by up to 1 1/8. A new low coupon tap stock, 3% Treasury 1985 at a minimum price of 69, was announced at 3.30 pm.

After the holiday weekend the market continued very firm with reports of strong overseas buying interest. The medium tap was quickly exhausted on Tuesday morning at 20 3/8. This prompted further gains which reached 1/2 in shorts and 3/4 in longs before being trimmed by profit-taking by the close. With sterling weaker more profit-taking occurred yesterday and by the close longs had lost up to 1/2.

Over the week as a whole yields on shorts were little changed, while those on medium and longs fell by 3/16 and 1/8 respectively.

This morning quiet and steady.

#### Equities

Prices drifted lower throughout the week reflecting concern at the economic outlook, prompted in particular by pessimistic statements on Thursday by the chairmen of GKN and ICI about current trading conditions and gloomy reports by the NIESR and CBI.

Over the week as a whole the FT index fell by 15.0 to 416.6.

This morning quiet and slightly easier.

#### Foreign Exchange

The widening differential between UK and US interest rates led to strong demand for sterling throughout most of the period. The ERI rose to 74.6, after touching 74.9 on Tuesday, the highest level since the index was rebased. Although it closed above its worst levels, the dollar weakened in all centres and required sizeable support.

This morning sterling is a little lower against a firmer dollar.

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Gold

Gold strengthened over the period as the silver price recovered. After testing \$499 on Thursday afternoon, it improved steadily to touch \$527 on Wednesday, fixing at \$526 1/2 for a rise of \$13 on the week.

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