

SECRET

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LAC
MKT Doss
MARKETS

WEEK ENDED 4 JUNE 1980

Money

Conditions in the money market were easy this week, chiefly due to a net Exchequer position which was almost consistently, and on Friday very substantially, in the market's favour. The only major adverse factor was the unwinding on Wednesday of a previous purchase of commercial bills by the Bank which was largely counterbalanced by the maturing of Treasury Bills sold to the market on Monday and Tuesday.

Assistance by the Bank was necessary only on Thursday, when a small number of Treasury Bills were bought; on every other day, action to reduce market surpluses was taken, in the form of small to moderate Treasury Bill sales.

With easy conditions prevailing rates at up to seven days fell steadily over the week. Longer rates generally showed a firmer tendency, but softened on Wednesday following the Prime Minister's indication that MLR might be cut as a result of the agreement to reduce Britain's EEC budget contribution. The three month rate finished 3/16% down at 16 15/16%.

Rates this morning firmer at seven days and under: otherwise little changed.

At the Treasury Bill tender on Friday the average rate of discount fell by 0.339 to 16.0608.

Gilts

With foreign buying appearing at least temporarily to have dried up and with growing caution among domestic investors, the market became unsettled. On the last two days, however, a firmer tone re-emerged.

The market was generally steady on Thursday and shorts improved slightly on further evidence of falling US interest rates. Tenders for the new low coupon stock, 3% Treasury 1985, were minimal. Business was on a small scale and remained so on Friday when prices tended to drift lower. Further losses were seen in mediums and longs in after-hours trading following the announcement of a new medium dated stock, £1,000 mn. of 13 1/2% Exchequer 1994. This easier tendency was given further impetus on Monday by unfavourable press comment over the weekend about the industrial and monetary outlook. On Tuesday, however much of these losses were regained with the market firm from the outset and taking further encouragement in the afternoon from the Prime Minister's remarks about the possible effects on interest rates of the EEC settlement. Although the implication of an early cut in MLR was subsequently denied, the market remained quietly firm yesterday with slight gains, concentrated mainly at the short end. There were minimal applications for the new stock. Sentiment improved in after-hours trading on news of reductions in US prime rate to 13%.

Over the week as a whole yields on shorts fell by up to 1/16%, while those on medium and longs rose by about 1/8%.

This morning: quietly firm.

Equities

The downward drift in prices was checked briefly on Thursday by better than expected results from Beechams and Courtaulds, but continued thereafter with the FT index reaching a 1980 low of 412.7 on Monday. On Tuesday, however, there was a revival of investment demand amid hopes of a relaxation of monetary policy and the index gained 7.3 on the day. Although the optimism about interest rates was dispelled yesterday, the market made further modest gains and the index closed at 423.0, a rise of 6.4 over the week.

This morning: quietly firm.

Foreign Exchange

The role high UK interest rates have played in the recent strength of the pound was revealed on Tuesday when fears of a decline led to very heavy selling of sterling. The ERI fell to 72.9 before recovering to 73.4, a loss of 1.2 points over the period. The dollar had an uneven week but, overall, was little changed.

This morning markets are quiet and sterling is firmer against a slightly stronger dollar.

Gold

Gold was an active market. News of the sabotage attacks on the oil plants in South Africa caused the price to leap by \$40 on Monday. Although the highest levels were not at first maintained, good demand prevented the price falling through \$550 and it ended the period firm, fixing at \$571 1/2 on Wednesday afternoon, for a rise of \$45 over the week.

5 June 1980