MKT 3/5 0005

Gilt-edged

SECRET

MARKETS

WEEK ENDED 6 AUGUST 1980

MONEY

Conditions in the money market continued tight, though there was some easing of last week's extreme stringency. The largest single factor involved was Friday's call on 12 1/4% Exchequer 1985 (A). However, the market was also affected on Thursday by the repayment of previous market advances and the monthly oil revenue payment to Nigeria, while on Monday and Wednesday the unwinding of previous purchases of Commercial Bills by the Bank further exacerbated the situation. Against this, the net Exchequer position was almost consistently in the market's favour.

Assistance by the Bank was necessary on every day, taking the form of purchases of Treasury Bills outright, together with Local Authority Bills on every day but Monday. Additional help was given in the form of lending overnight at MLR on Friday, Monday and Tuesday.

Interbank rates at three months and over were firm almost throughout the week, particularly on Wednesday after the unexpectedly poor July banking figures dampened hopes of an early cut in MLR. Shorter rates were firm on Friday which was the week's tightest day, but fell back sharply after the weekend before firming again slightly on Wednesday. The three month rate finished the week 13/16% up at 16 1/2%.

Short rates easier this morning: steady at three months and over.

At the Treasury Bill tender on Friday the average rate of discount rose by 0.2693 to 14.7076.

Gilts

The market, which had become more hesitant the previous week, weakened quite sharply in anticipation of adverse money and banking figures on Tuesday and suffered a major setback after they were announced.

The previous week's easier trend persisted on Thursday and there was fresh selling in the afternoon in the absence of a change in MLR: by the close shorts and longs had lost a further 1/2 and 1 respectively. Longs were steadier on Friday, helped by some bear closing, but high coupon shorts remained under pressure.

After the weekend the market displayed renewed weakness on Monday reflecting concern about the likely money supply outturn for July and disposals of recent issues by some holders in advance of the heavy calls due over the coming weeks. Initial weakness in shorts - reportedly due mainly to selling by the discount houses - soon spread down the list to longs and falls of 3/4 were widespread by lunchtime. A slight rally in the afternoon petered out following the increase in Chemical Bank's prime rate from 10 3/4% to 11%. On Tuesday, the market was initially somewhat firmer, but all the early gains were lost after publication of the July banking figures and by the close shorts showed net falls of about 1/4 and longs about 1/2. Further selling developed in after-hours trading - some of it from foreign sources - and this, together with adverse press comment on the banking figures, caused prices to open sharply lower on Wednesday. Longs bore the brunt of the selling, which persisted throughout the day, and by the close they had lost about 2 1/2-3 points. Shorts showed smaller losses of about 1 point.

Over the week as a whole yields on shorts rose by more than 1% and those on mediums and longs by around 3/4%.

This morning: steadier.

Equities

Initial firmness on Thursday was not sustained amid disappointment at the absence of a cut in MLR, and property shares in particular turned easier; electrical shares also encountered profit-taking after their recent firmness. Scattered selling continued on

Friday and the market eased further on Monday in line with gilts. On Tuesday the market was slightly firmer until the disappointing banking figures for July were announced, after which prices were marked lower. Yesterday further widespread falls were evident in most sectors with ICI, Unilever and other leading shares showing sizeable losses. By the close the FT index was down 7.8 at 473.1, a fall of 15.6 over the week.

This morning: steadier.

Foreign Exchange

The dollar remained strong until after the weekend when a sharp fall in the Federal Funds rate brought some reaction. Sterling, however, was firm throughout the period and gained support from an unchanged Minimum Lending Rate. The Banking Statistics had no impact and the pound finished the week around best levels. The ERI rose from 74.8 to 75.2.

This morning no new features.

Gold

Gold was a little better after the weekend, as the dollar declined, and traded up to $639 on Thursday. The announcement of Canadian plans to sell a further 1 mn ounces from reserves then depressed the metal and the final fixing of the week set a level of 627.75.

7 August 1980