

DOMESTIC MARKETS: 7 July - 4 September

MONEY MARKETS

Money has generally remained tight throughout the period. Assistance from the Bank was necessary on most days taking the form of purchases of Treasury Bills, Local Authority Bills and, on several occasions, eligible bank bills for subsequent resale to the market; on most days the Bank also lent overnight at MLR.

The gilt-edged purchase and resale facility was extended on 4 July to all listed banks and deposit taking finance houses for unwinding on 11 August (later extended to 8 September and then to 6 October). A further facility, was made available on 11 July for unwinding on 18 August (later extended to 15 September). The amount available to each institution under the two facilities combined is now a maximum of 2 1/2% of eligible liabilities.

INTEREST RATES

After the cut in MLR from 17% to 16% on 3 July, Clearing Banks' base rates followed suit on 4 July.

7. 7.80

4. 9.80

Interbank

| | | |
|----------|---------------------|------------------|
| 7 days | 17 3/8 - 18 1/4 | 16 - 16 1/2 |
| 1 month | 16 3/4 - 17 1/8 | 16 1/2 - 16 5/8 |
| 3 months | 16 - 16 3/16 | 16 1/4 - 16 7/16 |
| 6 months | 14 13/16 - 14 15/16 | 15 9/16 - 15 3/4 |

Local Authority

| | | |
|----------|-------------------|-----------------|
| 7 days | 17 3/8 - 17 1/2 | 15 5/8 - 16 3/4 |
| 1 month | 16 7/8 - 17 | 16 1/2 - 16 3/4 |
| 3 months | 16 - 16 1/8 | 16 3/8 - 16 1/2 |
| 6 months | 14 15/16 - 15 1/8 | 15 5/8 - 15 7/8 |

Sterling CD's

| | | |
|----------|--------------------|-----------------|
| 1 month | 16 5/16 - 17 | 16 1/2 - 16 5/8 |
| 3 months | 15 11/16 - 15 7/8 | 16 1/4 - 16 3/8 |
| 6 months | 14 9/16 - 14 13/16 | 15 3/8 - 15 1/2 |

GILT EDGED

The July banking figures were a watershed for the market. Prior to their announcement conditions had been generally firm although the market began to display some apprehension as the publication date approached. After the announcement prices dropped very sharply and although some of the losses were immediately regained the market then suffered a period of weakness amid pessimism about its short-term prospects and doubts about the outlook for US interest rates. Towards the end of the period, however, there were signs that the market was re-establishing a firmer base.

A new issue of medium dated stock, £800 mn of 12% Treasury 1987, was made on 9 July and was exhausted within a week. Two further issues by tender were made: another tranche of £400 mn of 3% Exchequer 1983 on 17 July and £1,000 mn of 11 3/4% Treasury 1991 on 23 July.

YIELDS BASED ON OFFICIAL CLOSING PRICES

| | 11 1/2% Treasury 1981 | 12 3/4% Exchequer 1981 | 12% Treasury 1983 | 13% Treasury 1990 | 15 1/2% Treasury 1998 |
|-------------|-----------------------------|------------------------------|-------------------------|-------------------------|-----------------------------|
| 7 July | 14.27 | 13.09 | 12.88 | 12.95 | 13.68 |
| 9 July | 14.42 | 13.19 | 13.03 | 12.87 | 13.59 |
| 14 July | 14.21 | 13.29 | 13.15 | 12.90 | 13.57 |
| 16 July | 14.02 | 12.88 | 12.86 | 12.55 | 13.31 |
| 21 July | 14.07 | 12.83 | 12.72 | 12.46 | 13.06 |
| 23 July | 14.01 | 12.88 | 12.87 | 12.45 | 13.06 |
| 28 July | 13.92 | 12.77 | 12.76 | 12.51 | 13.12 |
| 30 July | 14.08 | 12.99 | 13.08 | 12.72 | 13.31 |
| 4 August | 14.59 | 13.95 | 13.80 | 13.06 | 13.55 |
| 6 August | 14.93 | 14.35 | 14.35 | 13.52 | 14.03 |
| 11 August | 15.01 | 13.92 | 13.69 | 13.29 | 13.83 |
| 13 August | 14.89 | 14.01 | 13.66 | 13.33 | 13.93 |
| 18 August | 15.14 | 13.94 | 13.61 | 13.39 | 13.96 |
| 20 August | 15.09 | 13.72 | 13.52 | 13.40 | 13.97 |
| 26 August | 15.30 | 14.01 | 13.64 | 13.51 | 13.93 |
| 28 August | 15.57 | 14.37 | 13.93 | 13.86 | 14.21 |
| 1 September | 15.72 | 14.26 | 13.90 | 13.70 | 14.11 |
| 4 September | 15.39 | 13.28 | 13.38 | 13.52 | 13.98 |

7 - 11 July

The week opened with sharp gains in the long-dated issues, while shorter dated stocks remained steady. The money supply figures announced on Tuesday fell short of expectations and there was some profit-taking which cut back earlier gains. On Wednesday some cheap buyers appeared and by the close most prices were showing net rises over the day. The new issue, 12% Treasury 1987, was undersubscribed at Wednesday's tender but on Thursday official sales of the stock to the market were made at a small premium. Towards the close of that day, easier conditions prevailed as profit takers appeared. On Friday the market was quietly firmer: a further tranche of 3% Exchequer 1983 was announced in the afternoon.

14 - 18 July

The market continued generally firm. Hopes of lower interest rates brought in buyers, particularly at the longer end, who were also encouraged by the economic statistics, including the Trade Figures and the Retail Price Index, published during the week. Supplies of 12% Treasury 1987 were exhausted on Wednesday at a price of 20 1/4. At 3.30 pm on Friday the issue was announced of a further tranche of £1,000 million 11 3/4% Treasury 1991, partly paid with a minimum price of 94.

21 - 25 July

The period began on a firm note, reflecting the previous Friday's after-hours' gains. Investors concentrated on the longer dated issues and, in the absence of a long tap, gains were sizeable. The new issue, 11 3/4% Treasury 1991 'A' was undersubscribed on Wednesday but applications were substantial. The Stock was sold in moderate amount at 1/4 premium at the opening on Thursday. Prices then drifted lower on disappointment at the lack of any cut in MLR.

28 July - 1 August

The week began quietly but with prices fairly firm. Extremely tight conditions in the domestic money market soon had an adverse impact as did the strengthening of the US dollar. By mid-week an appreciable change in sentiment was evidenced by selling throughout the maturity range, some of it thought to be by foreign holders. On Thursday, once it was known that minimum lending rate was unchanged, further profit-taking took place and prices fell quite sharply, the medium tap, 11 3/4% Treasury 1991 'A' closing at 18 1/2, 1 1/2 points below the previous week's issue price. On Friday the market recovered a little and was uneasily steady at the close.

4 - 8 August

The market experienced a week of mixed fortunes with prices at times extremely volatile. The period opened on a weak note, some of the selling being prompted by doubts about the forthcoming banking statistics announcement. In the event, the figures on Tuesday were much worse than had been expected and the market became unsettled. On Wednesday, prices fell by as much as three points as stock came on offer throughout the list. Sentiment improved markedly the following day and the recovery was given momentum by the Bank's announcement of an extension of temporary assistance to the banking system. The rally continued to the end of the week and the market was fairly buoyant at Friday's close.

11 - 15 August

The week opened easier following further reflection upon the previous week's banking statistics and weekend press comment about the prospect for rising interest rates in the USA. Following the announcement on Monday of a disappointing Central Government Borrowing Requirement prices continued to drift down in low turnover.

The market opened easier on Thursday following the Bank's request to banks not to increase significantly their holdings of short dated gilt edged stocks. Some recovery was however seen after publication of the July money supply figures which were no worse than expected. This rally continued on Friday following the Bank's reassurances on monetary policy and the more favourable July Retail Price Index.

18 - 22 August

At the beginning of the week, confidence was boosted by the July visible trade surplus of £261 million which was well above market expectations. Enthusiasm was dampened, however, by the continuing fear of higher US interest rates, which was reinforced by a prime rate increase by Chase Manhattan, and by the Public Sector Borrowing Requirement for the first quarter of the financial year. Consequently, the market developed an easier trend but business remained at a low level.

26 - 29 August

Prices continued to drift lower after the weekend, partly in reaction to a further increase in Chase Manhattan's prime rate (to 11 1/2%). Prices fell quite sharply on Wednesday and Thursday and although the market improved on Friday morning these early gains were partly lost following the announcement of an increase in the discount rate (to 14.9497) at Friday's Treasury bill tender.

1 - 4 September

At the opening there were signs of a more confident tone in part response to the strength of sterling and some foreign interest. On Tuesday and Wednesday the market firmed on renewed hopes of a cut in MLR with buyers predominating and jobbers short of stock. On Thursday the market opened slightly easier reflecting some profit taking following the large rise which had been seen on the previous two days, but later rallied to close little changed.

OFFICIAL STOCK TRANSACTIONS

(Sales +/Purchases -)

7 July - 4 September

1980/81 Financial
Year to date

ISSUE DEPARTMENT

| | | |
|--|----------|----------|
| Next Maturities | - 116.3 | - 757.8 |
| Other short dated | + 66.1 | +1,437.1 |
| Medium dated | +1,727.4 | +3,149.9 |
| Longs and undated | + 594.7 | +2,657.1 |
| | | |
| TOTAL ISSUE DEPARTMENT TRANSACTIONS | +2,271.9 | +6,486.3 |
| | - 47.8 | + 34.3 |
| CRND | - 12.5 | - 510.9 |
| Cash Redemptions | | |
| GRAND TOTAL | +2,211.6 | +6,009.7 |

EQUITY MARKET

The market advanced strongly at the beginning of the period on the impetus provided by the reduction in MLR. During the middle of July the FT index cleared the 500 barrier for the first time since June 1979. The market then lost ground reflecting the higher unemployment figures and a number of cautious company statements and was subdued for the rest of the month. Following the announcement of the July banking figures widespread losses were seen in all sections and the FT index dropped to just over 470 on 6 August. The market then made a tentative recovery which gathered strength until the last week of August when sentiment again weakened after the latest unemployment figures and poor second quarter results from ICI. In the last few days of the period however the market responded to the better tone in gilts and the FT index closed on 4 September at 490.8 compared with 483.8 on 4 July.

Gross Redemption Yields on Gilt-edged Stocks
 FT Share Index

