

## MARKETS

WEEK ENDED 2 JUNE 1982

## MONEY

Conditions in the money markets over the four days covered by this note were mixed but, on balance, were much easier than of late. On Thursday funds were in surplus; there followed two days of moderate shortage and the week ended roughly in balance. A largely favourable Exchequer position moderated the impact of bill maturities on the market's cash position. These maturities greatly exceeded the shortage over the week as a whole. There was a large rise in the note circulation on Friday, in advance of the long weekend, which was only partly reversed on Tuesday. A major adverse factor on Wednesday was the payment for official sales of the newly issued tranches.

The Bank made outright purchases of bills each day. Although there was a surplus on Thursday this did not become apparent until late in the day, after the Bank's operations.

Period interbank rates began to ease on Thursday as military success in the Falklands was anticipated and sterling gained some ground against European currencies on the foreign exchanges. This easier trend persisted for the rest of the week and the 3 month rate closed on Wednesday at 13 3/16%, 5/16 lower over the week as a whole. Short interbank rates largely reacted to the market's changing cash position. They dipped after the Bank's provision of cash on Thursday but had come back by the middle of Friday when funds were again in short supply. Wednesday's easier conditions again led to some falls and over the week as a whole the seven day rate showed a net fall of 1/4, to close at 13 1/4%.

At the Treasury bill tender on Friday, the average rate of discount fell slightly to 12.5675%.

## GILTS

Prior to the weekend the market was quietly firm and it was possible to launch an issue of tranches. Sizeable quantities of these were sold on Tuesday as the market, encouraged by the latest Falklands news, moved strongly ahead to reach a new 14-month high.

Conditions remained very quiet on Thursday, but the undertone was firm and it was possible to sell a small amount of stock.

Further gains were seen on Friday, shorts and longs closing up to 3/8 and 1/2 higher respectively. At 3.30 pm the issue was announced of £200 million tranches of three existing stocks: 12% Treasury 1987, 11% Exchequer 1991 and 12% Treasury 1995.

Following the weekend's news from the South Atlantic and the fall in US  $M_1$  announced on Friday, the market opened firm on Tuesday and rather more active than the general level of recent weeks; a sizeable amount of the tranches was sold in early trading. Demand then eased off and prices reacted from the best levels, though shorts retained gains of up to 1/2 at the close with longs up to 1 better. The FT Government Securities Index rose to 69.74, its highest level since 6 April 1981.

Yesterday, the market returned to inactivity with prices slightly easier at the opening in response to lower US bonds and renewed pessimism about US interest rates. The underlying tone remained firm, however, and prices recovered to end the day little changed.

Over the week as a whole, yields on shorts fell by about 1/4-3/8% (to about 13 1/2% on five-year maturities) and those on longs fell by a similar amount (to 13 1/2-13 7/8% on up to 20-year maturities). The indexed stocks saw little activity during the week and yields were practically unchanged, ranging from 2.80% (IG 1988) to 3.06% (IG 1996).

This morning: quietly firm.

## EQUITIES

The market made further modest gains in quiet trading prior to the weekend but eased back slightly thereafter.

On Thursday and Friday the market made further modest advances in very quiet trading with defence stocks continuing to lead the way. By the close the Industrial and 500-Share Indices had moved to new all-time highs and over the week as a whole to Friday the 30-Share Index had recovered almost all of the previous week's 30 points loss.

After the holiday weekend, trading was dull on Tuesday and defence shares succumbed to profit-taking: after early gains the 30-Share Index ended unchanged.

Yesterday, conditions were extremely quiet and prices eased back on selective profit-taking to leave the 30-Share Index 2.2 lower on the day at 585.1, a fall of 4.3 over the week. The 500-Share Index ended at 368.78, up 5.84 over the week.

This morning: quiet and steady.

## FOREIGN EXCHANGE

It was a very active week on the exchanges. Renewed concerns that there would be no significant action to curb the US budget deficit and thereby reduce US interest rates contributed towards a sharp strengthening of the dollar. Only sterling stood out against the dollar's advance and the ERI rose 1.0 to 90.7.

This morning markets are rather quiet and the pound is steady.

## GOLD

The gold market enjoyed another busy week. The price eased down as the dollar strengthened but some good buying was seen at the lower levels. The final fixing at \$318.50 was down \$11.75 over the week.

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