MARKETS

WEEK ENDED 9 JUNE 1982

MONEY

After an easier start to the week a sizeable shortage emerged in the money market on Friday and tighter conditions then persisted until Wednesday. The main factors draining cash from the market were the unwinding of earlier assistance by the Bank, official sales of gilt-edged stock and an increase in the note circulation before the weekend. The Exchequer position was on the whole favourable to the market.

On Thursday the Bank mopped up surplus funds by selling Treasury bills. Assistance was given to the market on every other day by the purchase of bank, Local Authority and Treasury bills. In addition, on Friday, bank bills were purchased for resale to the market at a future date.

Interbank rates began the week on an easy note in response to continuing market optimism about the outcome of the Falklands crisis and the relative strength of sterling. Some firming was seen in short term rates in the tight money conditions ahead of the weekend but this was shortlived and the easier trend continued over the weekend amid hopes of a cut in the clearing banks' base lending rates. On Friday, responding to the market, the Bank reduced slightly its lowest dealing rate for longer bills and on Monday accepted offers of all but very short term bills at lower rates. Following the announcement on Tuesday morning of 1/2% reductions to 12 1/2% in the main clearing banks' base rates, interbank rates eased further, especially at the longer end. The Bank responded by lowering its dealing rate for band 1 bills by 1/2% to 12 5/8% and made further reductions in its rates for longer bills, to 12 1/2% in band 2, 12 3/8% in band 3 and 12 1/4% in band 4: these rates are 1/2% lower than a week ago. Interbank rates firmed a little on Wednesday. The seven day rate closed 3/8% down on the week at 12 7/8% and the three month rate finished 5/16% lower at 12 3/4%.

At the Treasury bill tender on Friday the average rate of discount fell about 0.5% to 12.2195%.

GILTS

The market initially extended its recent gains, encouraged by the presumption of military victory in the Falklands, hopes of lower interest rates and the firmness of sterling. All three of the recently issued tranchettes were exhausted and a new issue of convertible stock was announced. Over the last two days, however, prices have eased back on disappointment at the June banking figures and the less encouraging news from the Falklands.

Thursday saw the market regain its upward momentum after a pause on Wednesday and it was possible to sell sizeable amounts of the recently issued tranchettes, exhausting supplies of 12% Exchequer 1987. Shorts and longs ended up to 5/8 and 3/4 higher respectively.

Conditions remained firm on Friday with hopes of lower interest rates further strengthened by the result of the Treasury bill tender. More stock was sold - exhausting supplies of the 12% Treasury 1995 tranchette - and prices closed with gains of 1/8-3/8. At the close a new issue of £750 million of 12 1/4% Treasury Convertible 1986 was announced, convertible into 13% Treasury 2000. The market reacted well to the announcement and prices moved up in after-hours trading.

After the weekend, the market opened lower on Monday on concern about the Middle East conflict. However, little selling materialised and with developing expectations of base rate cuts, prices at the long end revived to close about 1/2-5/8 up on the day with shorts little changed. The March trade figures had little impact.

On Tuesday, the market was initially encouraged by the announcement of 1/2% base rate cuts: and it was possible to exhaust the remaining supplies of the 1991 tranchette. But prices quickly fell away from the best levels and eased further after publication of the June banking figures and the indicated rise in £M_3 (which cancelled out the impact of the favourable May wholesale price figures). Shorts and longs ended the day with losses of up to 1/4.

Yesterday, prices continued to drift lower in quiet trading, closing up to 1/4 down in shorts and 3/8 - 1/2 down in longs. Nevertheless, the tender for 12 1/4% Treasury Convertible 1986 attracted quite a large volume of applications. There was also some renewed demand for the index -linked stocks and it was possible to sell moderate amounts of these.

Over the week as a whole, yields generally fell by about 1/8 - 3/16%, to about 13 1/4% on five-year maturities and 13 1/2% on 20-year maturities. Yields on the index-linked stocks were little changed during the period, ranging from 2.81% (IG 1988) to 3.07% (IG 1996).

This morning: slightly easier.

EQUITIES

The market continued to edge higher for most of the week taking the broader FT Indices to new all-time peaks, but events in the Middle East and the Falklands yesterday exercised a restraining influence.

Prices made modest advances an Thursday and on Friday, the last day of the three-week trading account.

After the weekend, prices were initially marked down on Monday, but recovered on hopes of base rate cuts to leave the 30-Share Index 4.8 higher at 592.6, a new 1982 peak; the other FT Indices reached new all-time highs.

The market opened on a firm note yesterday following the anticipated cuts in base rate and the 30-Share Index rose to within a point of its all-time peak of 597.3 (April 1981). There was, however, insufficient impetus for the psychologically important 600-barrier to be breached and prices eased back so that at the close the Index was only a net 1.4 higher.

Trading continued dull yesterday with buyers reluctant to commit themselves in the face of the Middle East and Falklands uncertainties; prices drifted lower, leaving the 30-Share Index 6.7 down at 587.3, a rise of 2.2 over the week as a whole.

This morning: slightly easier.

FOREIGN EXCHANGE

The growing conflict in the Middle East added to the nervousness and volatility on the exchanges. There was a strong movement of funds into the dollar, encouraged by a further rise in US interest rates. Sterling was again very steady despite a fall in UK rates; the ERI rose 0.2 to 90.9.

This morning markets are quiet and the pound is steady.

GOLD

The danger that the Israeli invasion of the Lebanon might lead to a major war in the Middle East sparked off a sharp rally in gold which reached $336 outside the fixing. By the close the price was below its best levels and the final fixing at $326 left it $7.50 higher over the week.

10 June 1982