

MARKETS

WEEK ENDED 30 JUNE 1982

MONEY

Shortages in the money market this week were generally moderate with only Wednesday showing a shortage of over £400 mn. Conditions were easier because the effect of the maturing bills was partially offset by Exchequer positions favourable to the market. On Monday the regular fall in the note circulation also helped to alleviate the impact of nearly £3/4 bn of maturing bills.

The Bank provided assistance each day by the outright purchase of bills. On Monday the dealing rate in band 4 was raised by 1/16 to 12 5/16% in response to market movements.

Although sentiment was influenced by large rises in eurodollar rates over the first part of the week, longer interbank rates were quite steady. Increases in six and twelve month rates were confined to Friday morning and were only slight. The three month rate showed more movement and was rather firmer straight after the weekend but it fell back with other period rates on Tuesday and Wednesday as eurodollar rates softened. Short rates were steady to slightly firmer until Tuesday when they eased slightly only to tighten again on Wednesday. The yield curve of interbank rates which had shown a slight upward incline was flat from 3 months by the end of the week. The 7 day rate showed a net fall of 1/16 over the week, closing at 12 13/16%, while the 3 month rate closed at 13 1/16%, the same as last week.

At the Treasury bill tender on Friday the average rate of discount rose slightly to 12.2696%.

GILTS

The market remained preoccupied by US developments and by movements in the exchange rate, with the fluctuating situation on the railways an additional influence. But, although trade remained thin, prices staged a good rally over the last two days as sterling improved and as US bonds showed some resilience.

Although trading remained extremely slow, the market was helped on Thursday by the slight improvement in US bonds overnight and in sterling and closed with gains of about $1/8$ in shorts and $3/8-1/2$ in longs.

On Friday, however, prices weakened again as sterling fell back against the dollar and with the prospect of a national rail strike; prices in all sections fell by up to $1/2$, though the index-linked stocks remained steady.

The market tone remained uncertain after the weekend as sterling continued to slip back. But early selling on Monday soon faded and prices ended the day only slightly lower at the long end.

On Tuesday, the market opened better following the calling off of the NUR rail strike and took further encouragement during the day from the improvement in sterling, although concern about US interest rates remained a restraining influence. Small official sales of stock were made and prices ended about $1/4$ up in shorts and $5/8-3/4$ higher in longs; but turnover generally remained very low.

The overnight strength of US bonds produced further rises at yesterday's opening and, despite the ASLEF strike call, the market improved further during the day in line with sterling. More official sales of stock were made and prices ended up to $3/4$ higher in shorts and 1 higher in longs.

Over the week as a whole, yields on shorts fell by about $1/4\%$ (to $13\ 3/8-13\ 1/2\%$ on 5-year maturities) and by $3/16\%$

on longs (to 13 1/2-13 3/4% on 20-year maturities). Yields on the indexed stocks were little changed, ranging from 2.94% (IG 1988) to 3.14% (IG 1996).

This morning: quiet and steady.

EQUITIES

The market initially continued to be inhibited by the upward trend in US interest rates, the weakness of sterling and industrial problems, and prices drifted lower in very quiet trading. The last two days saw some recovery following the ending of the NUR strike and despite fears of further rail problems next week.

The previous day's firmer tendency continued initially on Thursday but nervous selling developed later in the day and the FT 30-Share Index closed 1.7 lower on balance.

The prospect of a rail strike continued to undermine confidence on Friday and prices drifted lower to produce a fall of 5.1 in the Index.

After the weekend, the latest reports from the CBI and the London Business School added to the market gloom on Monday. Little actual selling materialised in the extremely quiet conditions but the 30-Share Index fell by a further 4.9.

On Tuesday, the news that the NUR rail strike had been called off led to a rally in prices, though it failed to generate any significant expansion in trade. Defence and electrical shares were again in demand and the 30-Share Index ended the day 7.8 higher.

Yesterday, the market opened uncertainly in the face of the renewed threat to the railways. However, encouragement was taken from the firm showing of gilts and prices made further modest progress in continued thin trade. GEC continued to rise ahead of today's results. The 30-Share Index ended the day 2.3 up at 554.3, a fall of 1.6 over the week. The 500-Share Index

closed at 353.70, a fall of 0.96 over the week.

This morning: quiet and steady.

FOREIGN EXCHANGE

A sharp peak in Euro-dollar rates during the week, apparently produced by end-quarter factors, caused the dollar first to strengthen sharply, and then, as dealing commenced for July, to weaken to just below its starting level. Sterling remained very much on the sidelines. The ERI at 91.3 was unchanged over the week.

This morning markets are again quiet although with higher eurodollar rates sterling opened slightly lower.

GOLD

Having found some support around the \$300 level the previous week, gold traded fairly firmly improving, as the silver price rallied, to fix on Wednesday afternoon at \$317.50.

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