

MARKETS

WEEK ENDED 7 JULY 1982

MONEY

Shortages in the money market were again generally moderate this week as the effect of bills maturing in official hands continued to be partially offset on most days by an Exchequer position favourable to the market. The redemption of 8 1/4% Treasury Stock 1982 contributed towards much easier conditions on Monday but payments on Tuesday for official gilt sales were an adverse factor. Wednesday saw a return to tighter conditions as further payments for gilts combined with sizeable bill maturities with no alleviation from other Exchequer transactions.

The Bank gave assistance every day, purchasing a combination of eligible bank, Treasury and local authority bills. After the weekend the Bank's lowest dealing rates for bands 2 and 3 were reduced gradually so that by Wednesday they stood at 12 7/16% in band 2 (- 1/16), 12 1/4% in band 3 (- 1/8) and 12 3/16% in band 4 (- 1/8). The band 1 rate was not changed. On Wednesday some bills were also bought for resale in a week's time.

Interbank rates showed falls over the week as upward pressure on eurodollar rates abated and a softer tone emerged. The largest falls occurred after the weekend and the market, encouraged by the Bank's moves to follow the falls in interbank rates, began again to consider the possibility of a cut in base rates. The 7 day rate, having risen on Wednesday, showed no net change over the week as a whole, closing at 12 13/16%, while the 3 month rate fell 7/16 to close at 12 5/8%.

At the Treasury bill tender on Friday the average rate of discount fell about 0.04 to 12.2313%.

GILTS

The market held up well prior to the weekend despite the ASLEF strike threat and continuing worries about US interest rates. With interest rate optimism rekindled after the weekend, prices rose sharply on Monday and remained generally firm on Tuesday, with a sizeable amount of stock being sold on both days. Yesterday saw a return to inactivity.

With continuing uncertainties about US interest rates, sentiment was less buoyant on Thursday, though the underlying tone remained firm. Prices generally closed with little change on the day, except for the low coupon stocks which saw specialist demand and rose by up to about 1/2.

The continuing deadlock on the railways helped to inhibit demand on Friday, but prices ended only slightly lower in quiet trading.

After the weekend, interest rate optimism was revived on Monday by the latest fall in US M_1 and by signs of a softening in domestic rates. During the morning a sizeable amount of the 1986 Convertible tap was sold at 30 1/4 (30-paid) and shorts ended the day with gains of about 1/2 with longs up to 1 higher.

The market continued firm on Tuesday although the buying pressure was somewhat less than on Monday. More official sales were made (including further amounts of the 1986 tap at 30 3/8 and some of IG 1988). Following the announcement of the June banking figures, which indicated a rise in $\text{£}M_3$ much in line with expectations, some profit-takers emerged and shorts and longs ended with net gains of about 1/4 and 1/8 respectively.

Yesterday, the market returned to inactivity with enthusiasm tempered by the renewed weakness of sterling against the dollar. Prices tended to drift lower and shorts closed up to 1/8 down with longs 1/4 easier.

Over the week as a whole, yields on shorts fell by 1/16-3/16% (to 13 1/4-13 1/2% on 5-year maturities) while those on longs fell by about 1/16% (to 13 3/8-13 3/4% on 20-year maturities). Yields on the indexed stocks were little changed, ranging from 2.98% (IG 1988) to 3.15% (IG 1996).

This morning: slightly better.

EQUITIES

Trading was sluggish and depressed prior to the weekend, but confidence revived on Monday and Tuesday in line with gilts and on hopes of early base rate cuts.

Turnover remained low on Thursday and prices eased back before recovering some ground in late trading after the announcement of GEC's results; the 30-Share Index ended with a net fall of 5 points.

Conditions remained dull on Friday with the prospective rail strike a depressing influence. The 30-Share Index shed a further 6.3 points to 543.0, its lowest level since January of this year; defence and electrical shares were the only major exception to the general downward trend.

After the weekend, the market opened slightly easier on Monday, but confidence was boosted by the strong performance of gilts and the Index ended with a net gain of 5.4.

Hopes of base rate cuts enabled this recovery to be extended on Tuesday, although Wall Street's opening dullness induced a note of caution and the Index ended slightly off the best, but 5.6 higher on the day.

Yesterday, the market opened easier but was able to recover the early losses during the day to close 1.2 higher at 555.2, a rise of 0.9 over the week. The 500-Share Index ended at 353.65, almost unchanged over the week.

This morning: steady.

FOREIGN EXCHANGE

In an extremely quiet week, with the US market closed on Monday for Independence Day holiday, the dollar strengthened significantly. Sterling did not lose as much ground as other major currencies, although the rate nevertheless fell to a new five-year low against the dollar. The ERI declined from 91.3 to 91.1 over the week.

This morning there are no new features and the pound is steady.

GOLD

Having fixed at \$311.75 on Thursday, the gold price moved up in quiet trading on Friday and Monday, only to ease back on Tuesday and Wednesday as the dollar strengthened and on news that the labour dispute in the mines in South Africa had been settled. The final fixing on Wednesday was at \$306.75.

8 July 1982