MARKETS

WEEK ENDED 14 JULY 1982

MONEY

Conditions tightened in the money markets this week with daily shortages often exceeding £500mn. Bill maturities were generally only moderate but, apart from Monday, an adverse Exchequer position added to their impact on the market's cash position rather than being an offsetting influence as in the recent past. The first day of the week was particularly short as the clearing banks sought to restore their operational balances to the targeted levels, Friday saw a large cash drain from the rise in the note circulation as this builds towards its summer peak and on Monday payment for large official sales of gilt-edged stock contributed to the shortage. After the weekend the unwinding of recent repurchase agreements was a major factor in each day's cash position.

The Bank's assistance in the first part of the week was concentrated in bills bought under short repurchase agreements. Some bills were also bought outright, however, every day except Friday. On Tuesday and Wednesday large outright purchases were resumed. Dealing rates on outright purchases were reduced each day except Wednesday and over the week showed falls of between 7/16 and 1/2. At the end of the week the lowest dealing rates in each band were band 1, 12 1/8%; band 2, 12%; band 3, 11 7/8% and band 4, 11 3/4%.

Over the first part of the week, continued falls in eurodollar rates (stemming from optimism about prospective falls in US domestic rates) together with the reductions in the Bank's dealing rates encouraged a softening of period interbank rates as the market looked for a cut in base rates. Falls were particularly marked early on Monday following news of good US money supply figures but they then steadied as no news was forthcoming from the clearing banks. On Tuesday morning the clearing banks, led by National Westminster, announced reductions of 1/2 point in their base rates, to 12%, with effect from the following day. As the news was completely expected period interbank rates fell no further and, indeed, firmed marginally on Tuesday as eurodollar rates hardened. Wednesday saw little movement in period rates. The three month rate closed at 12 7/16%, a net fall of 3/16 over the week as a whole. The tight money conditions kept short interbank rates from falling sharply until after the base rate cuts. The seven day rate fell 13/16 over the week, closing at 12%.

At the Treasury bill tender on Friday the average rate of discount fell nearly 1/2 point to 11.7492%.

GILTS

Hopes of lower domestic interest rates were strengthened by US developments and the market moved to its highest levels for 20 months, exhausting the 1986 tap. Tuesday's cut in base rate had been well discounted and, with a renewed upturn in US rates, the market suffered a modest reaction as some holders took profits.

The market opened firm on Thursday after the overnight strength of US bonds and improved further after the cut in the Bank's band 1 dealing rate; shorts ended the day up to 1/4 better with longs 1/2 higher.

With US interest rates falling overnight and US bonds sharply higher on speculation that the Federal Reserve was easing its monetary stance, the market continued firm at Friday's opening and it was possible to sell a substantial amount of the 1986 Convertible tap at 30 3/8 (30-paid) before withdrawing. Conditions were much quieter in the afternoon, but the undertone remained firm. Shorts closed with gains of about 3/16 with longs showing rises of up to 7/8.

Further enthusiasm was generated after the weekend by the sharp fall in US M_1 announced on Friday. The remaining supplies of the 1986 tap were quickly exhausted on Monday morning at a price of 30 3/4 and the untapped long end improved to show gains of up to 1 3/8. At this level, trade became more two-way, but the underlying tone continued firm and the FT Government Securities Index ended at 71.07, its highest since 24 November 1980. At the official close, the issue was announced of six £100 mn tranchettes with maturities ranging from 1985 to 1998.

Tuesday's cut in base rate was no more than expected and with the decline in US rates having apparently stalled for the moment, the market suffered a reaction following its previous advances. Shorts and longs opened with losses of about 3/16 and up to 1/2 respectively and fluctuated about these levels for the rest of the day. There was a small demand for index-linked stocks which was met by official sales.

Yesterday, the market opened slightly lower, but little selling materialised and the losses were regained during the day to leave prices little changed on balance.

Over the week, yields on shorts fell by up to 3/8% (to about 13-13 1/8% on five-year maturities) and on longs by about 1/4% (to 13-13 3/8% on 20-year maturities). Yields on the indexed stocks generally rose slightly to range from 3.02% (IG 1988) to 3.15% (IG 1996).

This morning: unchanged.

EQUITIES

With hopes of economic recovery diminishing and no end to the rail strike, the market was less impressed than gilts with the prospect of lower interest rates and trading was dull for most of the week.

There was some selective demand initially on Thursday, but prices later fell back as Wall Street opened sharply lower.

The overnight turnaround in US equities sparked by lower interest rates encouraged a firmer opening on Friday. However, little follow-though emerged and prices drifted to leave the 30-Share Index only 1.3 higher.

The market remained subdued on Monday with the rail strike and further gloomy predictions about economic prospects helping to counter expectations of imminent base rate cuts and Wall Street's continued good showing. The FT Index made only limited progress to close 4.8 up.

With US equities again showing good rises overnight, the market opened modestly firm on Tuesday. However, with the base rate cuts having been already discounted and with a continued lack of investor interest, the market soon followed gilts down; the 30-Share Index ended 3.2 lower.

Yesterday, the market continued to be overshadowed by concern about the rail strike, but the prices picked up during the course of the day to leave the 30-Share Index only 0.5 lower at 553.8, a fall of 1.4 over the week. The 500 Share Index ended at 354.92, a rise of 1.27 over the week.

This morning: slightly firmer.

FOREIGN EXCHANGE

The main factor affecting exchange rates during a fairly quiet week was changing views on whether the Fed had eased its stance on monetary policy. In the early part of the week this led to falls in US interest rates and the dollar, which were, in the main, reversed in the later part of the week. Sterling attracted some buying interest and was generally firm, despite the 1/2% cut in base rates. The ERI rose from 91.1 to 91.3.

This morning there were no new features.

GOLD

As US interest rates fell earlier in the week the gold price moved up sharply triggering stop loss buying orders and precipitating a wave of panic short covering. Thus, having fixed on Thursday at $310.85, gold had, by Tuesday evening in New York, moved up to $358.75. The final fixing on Wednesday was at $352.75.

15 July 1982

Per cent Time / Yield Curves of British Government Stocks 14th July 1982