SECRET

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MARKETS

WEEK ENDED 21 JULY 1982

MONEY

Large shortages persisted in the money markets this week with Monday's position exceptionally severe at over £1 bn. Maturing commercial bills just remained the largest single factor but payment on Monday and Tuesday for substantial official sales of gilt-edged stock and a call on 12 1/4% Treasury Convertible 1986 on Monday were together responsible for nearly a third of the week's shortage. The Exchequer position (other than stock transactions) was mildly adverse throughout the week.

The Bank provided assistance every day. Before the weekend this was through outright purchases of bills in all bands but thereafter, although bills were also bought on an outright basis, most of the assistance was provided by means of bills bought for resale in a week's time. The lowest dealing rates in the longer bands were reduced on Monday. All rates were lowered on Wednesday to stand at 12 1/16% in band 1, 11 7/8% in band 2, 11 11/16% in band 3 and 11 1/2% in band 4.

In the interbank market period rates showed a slight firming prior to the weekend as renewed uncertainty over the likely course of US interest rates in the short-term provided the main influence. The situation changed after the weekend, however, and period rates showed falls each day, most marked on Monday and Tuesday, as better than expected US money supply figures were followed by cuts in prime rates and, more significantly, in the Fed's discount rate. The Bank's dealing rate cuts encouraged the optimism. The three month interbank rate, having touched 12 9/16% before the weekend ended at 12 1/8%, a net fall of 5/16 over the week as a whole. Short interbank rates firmed over the week under liquidity pressures and the seven day rate rose 3/4 from its low point after the base rate cuts, to close at 12 3/4%.

At the Treasury bill tender on Friday the average rate of discount fell about 0.12 to 11.6339%.

GILTS

Encouraged by US developments and by the ending of the rail strike, the market moved to new two-year highs after the weekend, exhausting the recently issued tranchettes. Two further tranchettes were announced at yesterday's close.

On Thursday prices began to drift upwards again after the pause of the two previous days and closed about 3/8 better in all sections. Small demand for the indexed stocks continued to be met by official sales.

Conditions remained firm on Friday amid hopes of lower US interest rates. Sizeable official sales of IG 2011 were made as well as some of the recently issued tranchettes. By the close shorts were showing rises of 1/8-3/16 with longs up around 3/8.

After the weekend, the market opened very firm on Monday following the ending of the rail strike and the improvement in US bonds on the better than expected US M1 increase. During the morning prices improved sharply with the cut in the Bank's dealing rates helping to improve sentiment further. Large official sales were made, exhausting the remaining supplies of the tranchettes. Conditions were quieter in the afternoon but longs retained gains of about 1 3/8 with shorts slightly off the best at up to 7/8 higher.

Encouraged by the cut in some US banks' prime rates (16 1/2% to 16%) and in the Federal Discount Rate (12% to 11 1/2%), the market retained its firm undertone on Tuesday though activity was on a reduced scale; prices moved ahead further to close about 5/8 higher in all sections. The FT Government Securities Index ended at a new two-year high of 72.36.

Yesterday, a small amount of selling at the opening was soon absorbed and prices improved to show modest net gains, with encouragement being taken from the further cuts in the Bank's dealing rates. A few sellers re-emerged in the afternoon, however, and prices ended off the best with rises of up to 1/4 in shorts and 1/8 in longs. At the close, the issue was announced of two £300 mn tranchettes of 1989 and 1998 stocks.

Over the week as a whole, yields on shorts fell by about 1/2-5/8% (to 12 1/2-12 5/8% on 5-year maturities) while those on longs fell by 5/16-3/8% (to 12 3/4-13% on 20-year maturities). In contrast, yields on the IGs continued to drift upwards, ranging from 3.03% (IG 1988) to 3.18% (IG 1996).

This morning: easier.

EQUITIES

Trading remained dull prior to the weekend, but sentiment improved sharply on Monday and Tuesday on the ending of the rail dispute and on revived interest rate optimism. Yesterday saw little further progress.

Activity remained at a low level on Thursday and although sentiment was supported by some good company results (Thorn EMI, Distillers, Dowty), prices tended to drift lower.

Hopes of an end to the rail strike helped improve the market tone on Friday, but the main feature was the sharp fall in Glaxo, one of the 30-Share Index constituents, following adverse comment on one of its new drugs. This helped to depress the Index which closed little changed.

The end of the rail strike and the favourable trend in interest rates encouraged increased activity on Monday and the Index gained 12.9 points on the day.

This improvement was extended on Tuesday but prices eased back from the best levels in the afternoon as Wall Street opened lower.

Yesterday saw some selective demand in early trading but prices later drifted back and with Glaxo showing fresh weakness the 30-Share Index ended 3.0 lower at 573.2, a rise of 19.4 over the week. The broader Indices were, however, marginally higher on the day: the 500-Share Index ended at 366.99, a rise of 12.07 over the week, while the Industrial Group Index reached a new all-time high.

This morning: easier.

FOREIGN EXCHANGE

The week was again dominated by the developments in the US on monetary policy which confirmed that the money supply, despite the "July bulge", was within the Fed's target range and that the Fed had, in consequence, felt able to ease its stance; as a result US interest rates and the dollar moved down. Sterling generally had a softer tone, depressed partly by some sizeable official selling orders but also perhaps on the view that further easing of US rates would be closely matched in the UK. The ERI fell from 91.3 to 91.2.

This morning the dollar is again inclined to be soft but sterling is trading quietly.

GOLD

Gold enjoyed an active market although for most of the week the price made little headway. Having fixed at $347.75 on Thursday, gold traded in a narrow range around $350 until Wednesday when it moved up, to fix in the afternoon at $366.50.

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