SECRET 29. 7.82

MARKETS

WEEK ENDED 28 JULY 1982

MONEY

Conditions remained tight in the money markets this week. The main factors draining cash from the market were maturities of bills in official hands and the unwinding of bill repurchase agreements. On Monday an additional adverse factor was the settlement of Friday's sales of gilt-edged stock. The balance of Exchequer receipts and disbursements was in general favourable to the market.

The Bank gave assistance every day by purchases of bills outright and accepted lower rates on Monday and again on Wednesday to leave the lowest dealing rates at 11 13/16% in band 1, 11 5/8% in band 2, 11 7/16% in band 3 and 11 5/16% in band 4. Additionally, on four days the Bank bought bills for resale at a future date, the repurchase agreements accounting for over half the total assistance given this week.

Short-term interbank rates eased somewhat on Thursday when a smaller shortage emerged than of late but firmed again over the weekend. These rates eased back on Monday afternoon following the Bank's ample provision of assistance to the market and continued easy until the end of the week in response to the reductions in the Bank's lowest dealing rates. The seven day rate finished at 12 3/8%, 1/4 down over the week.

Longer rates tended easier up to the weekend encouraged by the continued decline in US rates and by hopes of a cut in clearing banks' base rates. These rates firmed slightly on Monday, influenced perhaps by the firming of Eurodollar rates as a result of disappointment over Friday's US money supply statistics. Longer rates eased back on Tuesday in sympathy with short-term rates and the three month rate closed 1/8 down on the week at 12%.

At the Treasury bill tender on Friday the average rate of discount fell about 0.4 to 11.2083%.

GILTS

Hopes of lower US and domestic interest rates produced a generally firm tone prior to the weekend, particularly on Friday when sizeable amounts of tranchettes issued the previous Wednesday were sold. At Friday's close the FT Government Securities Index was at its highest level for almost three years. After the weekend, the market ran out of steam following its recent large gains, but the undertone remained firm.

Following the announcement of a further issue of tranchettes the market was slightly easier after-hours on Wednesday and opened lower on Thursday. However demand emerged at these levels and prices quickly recovered to leave shorts up to 1/4 higher than at Wednesday's official close; mediums and longs were mostly unchanged on balance or slightly easier.

With US bonds firmer overnight and amid strengthening hopes of further base rate cuts, the market continued to move ahead on Friday and sizeable amounts of the recently issued tranchettes were sold (mainly the 1989 Stock at 92 7/8 and then at 93 1/8). After these sales, enthusiasm cooled somewhat, though the undertone remained generally firm with prices ending the day about 1/2 up in all sections. The FT Government Securities Index closed at 72.66, its highest since 1 October 1979.

The market failed to maintain its momentum after the weekend. Some sellers emerged at Monday's opening reflecting disappointment at the latest US money supply figure and although shorts rallied somewhat following the further reduction in the Bank's dealing rates, they finished with losses of 1/8-3/16 with longs up to 3/4 lower. The further cuts in some US banks' prime rates (from 16% to 15 1/2%) had little immediate impact.

On Tuesday, prices initially continued their easier tendency following the overnight fall in US bonds. But some buyers appeared during the morning and the early losses were mostly regained; shorts and mediums ended the day showing small net gains in some cases, with longs unchanged.

Yesterday, prices edged higher in quiet trading, ending with gains of up to 1/8.

Over the week as a whole, yields on shorts fell by 3/16% (to 12 1/8-12 3/8% on five-year maturities) while those on longs rose by about 1/16% (to 12 7/8-13 1/8% on 20-year maturities). Yields on the indexed stocks continued to edge upwards, ranging from 3.06% (IG 1988) to 3.20% (IG 1996).

This morning: slightly easier.

EQUITIES

The market as a whole made some small headway over the week, but marked weakness in the engineering sector and declines in some other leading 30-Share Index constituents produced a sharp fall in the Index on Tuesday. Yesterday saw somewhat steadier conditions.

Trading was dull on Thursday, but interest revived on Friday as hopes of lower interest rates strengthened. The 30-Share Index gained 5 points while the All-Share Index moved to a new all-time high.

The anticipated announcements of a relaxation in HP controls gave an early boost to sentiment on Monday but this quickly evaporated on lack of follow-through and prices drifted lower to leave the 30-Share Index a net 4.9 down.

On Tuesday, the main feature was the sharp fall in engineering shares reflecting the general gloomy outlook for this sector as hopes of economic recovery receded and amid rumours that one major company was in difficulties. With Glaxo continuing to decline on concern about one of its drugs and Turner and Newall also weak following the asbestos controversy, the 30-Share Index fell by 14 points at one stage before recovering somewhat to close 11.8 lower on the day.

Yesterday, saw somewhat steadier conditions, but the underlying mood remained cautious and after being 2.5 up at one point, the 30-Share Index drifted back to close little changed at 561.9, a fall of 11.3

over the week. Beyond the narrow industrial grouping, the rest of the market made a better showing: the 500-Share Index ended at 368.49, a rise of 1.5 over the week.

This morning: slightly easier.

FOREIGN EXCHANGE

The focus throughout the week remained on the likely course of interest rates; sterling was on the sidelines, but remained generally firm throughout the week, with the market having apparently discounted some further decline in UK rates. The ERI rose by 0.2 to 91.4.

This morning the dollar is very firm and sterling is a little weaker on expectations of a cut in base rates.

GOLD

The recent rally in gold appears to have come to an end. Having fixed at $358.25 on Thursday, gold moved up slightly on Friday as the dollar weakened. For the remainder of the week, however, the price slipped back, to close at the final fixing on Wednesday at $347.

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