MARKETS

WEEK ENDED 11 AUGUST 1982

MONEY

Fairly tight conditions persisted in the money markets this week. The main factor against the market continued to be the unwinding of previous assistance by the Bank although official sales of gilt-edged added to the daily shortages before the weekend. The Exchequer position too was modestly adverse over the week as a whole.

The Bank gave assistance every day by the outright purchase of bills and also purchased bills for resale at future dates on the first two days of the week. The Bank's lowest dealing rates now stand at 11 1/2% in band 1, 11 1/4% in band 2, 11 1/8% in band 3 and 11% in band 4, unchanged since 4 August.

Short-term interbank rates eased at the start of the week following the Bank's ample provision of assistance at lower rates the previous day. However these rates firmed on Friday in response to sterling's weakness against the US dollar. Having eased back in Monday's comparatively easy money conditions short rates firmed again towards the end of the week in response to the continued pressure on sterling. The seven-day rate closed at 11 5/8%, unchanged over the week as a whole.

Longer rates eased on Thursday in sympathy with short-term rates. These rates also firmed before the weekend in response to the pressure on sterling. Longer rates were steady on Monday but showed a firmer tone thereafter following higher Eurodollar rates resulting from fears of an upturn in US domestic rates. The three-month rate ended 1/4 up over the week at 11 7/16%.

At the Treasury bill tender on Friday, the average rate of discount fell about 0.36% to 10.7246%.

GILTS

The market fluctuated over the week as it tracked developments in the US. Initial hopes of further base rate cuts were eroded by a renewed upturn in dollar interest rates and a sharp fall in the sterling/dollar exchange rate. Tuesday, however, saw a recovery in line with an improvement in US bonds and this better tendency continued yesterday.

Hopes of a further cut in base rates prompted early demand on Thursday and a significant amount of the 12% Treasury 1987 A was sold at 99 3/4 (1/8 above the price paid by the Bank on issue); further amounts were also sold of IG 1988 at 98 1/4 (1/4 above the previous day's price). In the afternoon, however, some profit-taking developed and prices finished with small net losses of 1/8-1/4.

The marked weakness of sterling against the dollar over the previous two days and indications that the decline in US rates might have bottomed caught up with the market on Friday. Further profit-taking saw longs up to 3/4 lower during the morning though they recovered slightly later in the day to close about 5/8 down; shorts recorded losses of up to 1/2. The indexed stocks, on the other hand, ended virtually unchanged.

With US bonds weakening further after disappointing US money figures and with sterling continuing to ease, the downward reaction continued on Monday. However, after the initial falls business became more two-way and prices ended above the worst with losses of 1/4-3/8.

On Tuesday the market opened better following a recovery in US bonds and improved further during the morning to record gains of up to 3/8 in shorts and 3/4 in longs by lunchtime. Prices eased back slightly in the afternoon, however, following publication of the July banking figures.

The weaker tendency persisted at yesterday's opening, but the market quickly recovered these losses and moved ahead during the day in fairly low turnover to close about 1/8 - 1/4 up in shorts and 1/2 better in longs.

Over the week yields on shorts rose by about 1/8% (to 12-12 1/4% on five-year maturities) and those on longs by about 1/16% (to 12 3/4-13 1/8% on 20-year maturities). The indexed stocks reversed the trend of recent weeks by falling slightly to range from 2.89% (IG 2011) to 3.12% (IG 1996).

This morning: Steady.

EQUITIES

Concern about the economy and the slump on Wall Street caused prices to fall back sharply before staging a modest recovery yesterday.

The continued downward slide in US equities remained an inhibiting influence on Thursday which also saw disappointing results from Reed International and Barclays; but the 30-Share Index ended only slightly lower.

With the Dow Jones Index having dropped below the 800-barrier to a 28-month low, prices fell back sharply on Friday and the Index finished with a loss of 10.9 points.

Prices were marked down sharply on Monday morning as the jobbers tried to deter nervous selling. A small amount of demand was forthcoming at the lower levels and the Index recovered slightly to close 8.4 lower at 540.4, its lowest level since January of this year.

The slightly better tendency continued initially on Tuesday, but with no follow-though prices fluctuated in dull and featureless trading and the Index ended only marginally higher.

Yesterday, however, saw the emergence of selective investment demand and the Index regained 6.3 points to close at 547.4, a fall of 12.9 over the week. The 500-Share Index closed at 358.7, 7.5 lower over the week.

This morning: steady.

FOREIGN EXCHANGE

Another volatile week on the exchanges saw the dollar moving sharply from day to day and scaling new heights in many centres. The pound suffered from some selling, influenced by the demands by the CBI and some sections of the press for a lower exchange rate, but finished the week on a firmer tone. The ERI declined by 0.8 to 90.8.

This morning there are no new features.

GOLD

In a quiet market, gold suffered from the strength of the dollar. Having fixed at $348.25 on Thursday, the price moved steadily lower through the week. The final fixing on Wednesday was at $333.50.

(INIT EAJG)
12 August 1982

Time / Yield Curves of British Government Stocks

11th August 1982