

## MARKETS

WEEK ENDED 18 AUGUST 1982

## Money

Money market conditions were easier this week than recently although moderate daily shortages persisted. These resulted from the unwinding of earlier assistance by the Bank which was partially offset by net Exchequer cash flows to the market and official purchases of next maturity gilt-edged.

The Bank gave assistance every day by the outright purchase of bills. In addition, on Wednesday, the Bank lent to the discount houses for seven days at 11 1/4%. Following reductions of 1/8 on both Monday and Tuesday the Bank's lowest dealing rates now stand at 11 1/4% in band 1, 11% in band 2, 10 7/8% in band 3 and 10 3/4% in band 4.

There was little movement in interbank rates before the weekend and the yield curve from one month out to a year remained flat at 11 7/16% reflecting primarily the market's uncertainty about the future course of US rates. Rates eased on Monday in response to the decline in US domestic rates and a downward sloping yield curve reappeared. The easing continued, encouraged by the reductions in the Bank's lowest dealing rates to levels 1/4 below those established on 4 August, and by further marked reductions in US domestic rates. On Tuesday afternoon the clearing banks announced reductions in their base rates of 1/2 point to 11%. Thereafter interbank rates fell sharply especially at the long end. The seven day rate finished at 11 3/8%, down 5/8 on the week, while the three month rate ended 13/16 down at 10 5/8%.

At the Treasury bill tender on Friday, the average rate of discount fell marginally to 10.7110%.

## GILTS

The market has advanced extremely strongly this week on sustained interest rate optimism to levels not seen since 25 January 1978.

On Thursday, amid growing expectation of a further cut in base rates within the next few days, the market advanced throughout the day to record rises of around  $3/4$  at the longer end. The 1998 tranchette, issued on 21 July, was exhausted. Very firm conditions were maintained on Friday encouraged by the RPI announcement for July (8.7% year on year); and in increasingly active trading the tranche of 12% Treasury 1987 A, issued on 3 August, was exhausted at  $99 \frac{7}{8}$ . However substantial buying-in of the next maturity 9  $\frac{1}{4}$ % Exchequer 1982 also took place. At the close, prices of shorts, which had recorded only modest rises over the preceding two days, were around  $5/8$  better and the longer dated stocks about 1 point higher.

After the weekend, falling US rates provided a fresh, strongly bullish influence and reductions in the Bank's money market intervention rates further fuelled hopes of fairly imminent base rate cuts. The market continued to advance very strongly with price rises at the close extending to over 2 points in longs. The FT Government Securities index reached a fresh 3-year peak and also recorded its largest single day advance since September 1979. At 3.30 pm a new issue of 10  $\frac{1}{2}$ % Exchequer 1987 was announced for tender on Thursday 19 August at a minimum price of £96.75. After this announcement, quotations were again raised in after hours trading and on Tuesday, despite some small profit taking during the morning, further gains were made before and after the clearers' base rate cut announcements and the market closed at a 4  $\frac{1}{2}$  year high.

Yesterday the market opened extremely strongly, encouraged by the continued strength of the US market. Prices rose throughout the morning with shorts up 2  $\frac{1}{4}$  and longs up 3  $\frac{1}{4}$ . Prices eased somewhat after lunch but with Wall Street again firm confidence returned and longs closed around their best levels with shorts up 2.

Over the week, yields on shorts fell by around 1 1/8% (to around 11 1/8 on five year maturities) and those on longs by about 1% (to 11 7/8 - 12 on 20 year maturities). The indexed stocks (with the exception of IG 1988) fell by around 1/16% to range from 2.78% (IG 2011) to 3.03% (IG 1988).

This morning: Quiet but slightly easier.

#### EQUITIES

The equities market was subdued last week by pessimism over economic prospects but moved sharply higher on Tuesday and Wednesday.

The market drifted lower on Thursday and Friday following further indications that economic recovery is still some way off. After the weekend, notwithstanding the gilts market's euphoria, the generally subdued conditions prevailed until Tuesday afternoon when equities at last responded to interest rate optimism and sharp advances in early trading on Wall Street. At the close the FT index was 12.4 points higher at 558.2. Yesterday equities moved sharply higher encouraged by Tuesday's record rise on Wall Street closing 21 points up at 579.2 to show a gain over the week as a whole of 31.8 points. The All Share Index rose by 15.6 points over the week.

This morning: Quiet but slightly easier.

#### FOREIGN EXCHANGE

An active and volatile week on the exchanges. After holding up well in the first part of the week, despite lower interest rates, the dollar fell on Tuesday and Wednesday as Kaufman predicted that the fall in rates would continue. Sterling was an active two-way market; the base rate cut on Tuesday was absorbed without difficulty and the ERI rose 0.7 to 91.5.

This morning sterling is steady against a rather firmer dollar.

GOLD

Gold was slow to react to the lower financing costs but enjoyed a good rally at the end of the week. It fixed at \$357.75 on Wednesday afternoon, for a rise of \$24.25 over the week.

19 August 1982