

MARKETS

WEEK ENDED 8 SEPTEMBER 1982

MONEY

Conditions were very tight in the money markets on Thursday when Petroleum Revenue Tax was collected and on Monday when a large volume of bills matured and payment was made for official sales of gilt-edged stock. The other days of the week saw more moderate shortages as the Exchequer position was mildly favourable, mitigating the effect of unwinding assistance.

The Bank provided assistance each day through outright purchases of bills at rates unchanged from 27 August. On Thursday and Monday bills were also bought for later resale.

After rising in response to recent movements in US interest rates period interbank rates began to show a slight easing from Thursday. Nervousness about the future course of US rates, following the larger than expected rise in the money supply, was reflected in a firm opening on Monday but this was short-lived and rates resumed their slightly easier trend on Tuesday and Wednesday as dollar rates softened. The 3 month rate fell 1/4 over the week, closing at 10 3/4%. The persistent cash shortages kept short rates quite firm until Tuesday but they eased noticeably thereafter. The 7 day rate showed a net fall of 1/8 to close at 11%.

At the Treasury bill tender on Friday the average rate of discount fell 0.2222 to 9.6954%.

GILTS

With the profit-taking of the previous week largely accomplished, the market was firm prior to the weekend, absorbing sizeable official sales on Friday. Thereafter, the trend was more mixed and prices drifted lower yesterday.

After another quietly firm day on Thursday, the upward trend gained momentum on Friday as the market responded to the renewed strength of US bonds and the firmness of sterling. Shorts closed the day with gains of up to 5/8 with longs up to 1 3/8 higher. Sizeable official sales of stock were made.

A more cautious attitude was apparent after the weekend following the latest increase in US M_1 which had led US bonds to ease from the best levels late on Friday. Prices opened up to 1/4-1/2 lower on Monday but no selling pressure developed and part of the early losses was regained during the day.

This improvement continued on Tuesday in quiet trading with the market encouraged by a slight easing in money market rates and, later in the day, by a firm opening in US bonds. Publication of the August banking figures caused prices to slip back slightly, but net gains of 1/4-3/8 were retained at the official close.

Yesterday the market opened lower reflecting some easing after-hours on Tuesday. With no buying interest prices tended to drift lower during the day and at the close shorts had fallen by up to 3/8 and mediums/longs by up to 1/2.

Over the week, yields on shorts generally fell by about 1/4 - 5/16% (to around 10 1/2-11 1/8%) while those on longs fell by 1/8 - 3/16% (to around 11 1/4-11 5/8%). Yields on the indexed stocks were slightly higher and now range from 2.83% (IG 2011) to 3.18% (IG 1988).

This morning: quiet and steady.

EQUITIES

Supported by a renewed upturn in US equities, the market moved sharply higher on Friday. The upward trend lost some momentum after the weekend, however, with the narrower 30-Share Index failing to breach the 600-barrier.

The market paused on Thursday after an overnight setback on Wall Street, but moved ahead strongly on Friday as US equities resumed their upward trend. Defence and electrical stocks were particularly firm, but banking shares were overshadowed by the current international debt problems. The 30-Share Index closed 13.3 higher at 596.2, just short of the April 1981 all-time high.

After the weekend, the market marked time as it encountered profit-taking on Monday. However, selling was not heavy and the 30-Share Index ended only slightly lower while the All-Share Index rose to a new all-time high for the fourth successive trading session.

After a firm start on Tuesday when the 30-Share Index looked set to break through the 600-barrier, prices fell back later in the day following an easier opening on Wall Street and the news of the August banking figures. Defence stocks met some profit-taking, but gold shares continued to rise sharply. The 30-Share Index ended a net 4.7 down but, as on previous days the All-Share Index continued to edge higher to a new peak of 359.10.

Yesterday saw a dull performance in the wake of Wall Street's overnight setback and prices slipped back to leave the 30-Share Index 1.6 lower at 587.6, a rise of 6 points, over the week.

This morning: quiet and steady.

FORIEGN EXCHANGE

Concerns about the health of the international financial system, and in particular the effects on North American banks of developments in Latin America, whether real or feared, were the main factors affecting the markets. As a result the dollar moved sharply from day to day, but closed the week little changed. Sterling generally remained on the sidelines with the ERI up 0.1 (net) over the week at 91.7.

This morning sterling has moved up against a dollar which weakened in New York yesterday on the story of the Bolivian default.

GOLD

After fixing on Thursday at \$408.25, the price of gold began to rise sharply on Friday and by the opening in London on Tuesday had reached \$505 (a 16-month high). This level provoked some dishoarding, including some East European selling, and the price fell erratically thereafter with the final fixing on Wednesday at \$458.

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