

## MARKETS

WEEK ENDED 22 SEPTEMBER 1982

## MONEY

The unwinding of earlier assistance continued to be the main factor keeping money market conditions tight this week. The Exchequer position was occasionally adverse but on Monday this was partly offset by a large volume of maturing Treasury bills and yesterday by the redemption of 9 1/4% Exchequer 1982. The note circulation continued to exert its customary influence around the weekend.

The Bank provided assistance each day by the outright purchase of bills at unchanged rates. On Monday and yesterday bills were also bought for later resale.

Interbank rates developed a firmer trend over the first part of the week as the market became nervous awaiting a clearer direction from the US. A very slight easing was seen on Tuesday, however, as rates, having opened higher, fell back to Monday's levels. This easing continued on Wednesday in response to falls in dollar interest rates. Over the course of the week the 3 month rate showed a net fall of 1/16, closing at 10 7/8% while the 7 day rate showed no net change over the week as a whole and closed at 10 15/16%.

The firmer tone in market rates over the first part of the week was reflected in the average rate of discount at the Treasury bill tender on Friday. It rose 0.16 to 10.0701%.

## GILTS

Prices continued to drift lower prior to the weekend on nervousness at the coming US money bulge. Since the weekend the market has moved ahead strongly enabling official sales to be resumed. Indexed stocks continued to ease.

The market opened  $1/8-1/4$  lower on Thursday following the Federal Reserve's overnight move to drain reserves. Prices tended to drift lower during the day with sentiment further dampened by the rise in bank lending revealed by the August money figures and by Wall Street's easier opening. Prices ended about  $1/2-5/8$  down. Trading was very quiet on Friday and prices ended little changed, early losses having been retrieved after publication of the August RPI.

On Monday the market took heart from the news that the latest rise in US  $M_1$  had not been as large as feared. Moderate official sales were made and longs ended with gains of about  $3/4$ ; shorts were restrained by firmer money market rates and closed only  $1/4$  higher. The firmer tendency continued on Tuesday, encouraged by the overnight strength of US bonds and the Chancellor's forecast of lower inflation. Demand tended to be concentrated in longs, where little stock is available. Further sizeable official sales of stock were made. By the close shorts had risen by up to  $7/16$  with longs up to 1 higher.

At yesterday's opening prices were marked up sharply following the overnight rise in US bonds and the easier trend in US interest rates. Although shorts suffered a modest reaction longs made further progress during the day, closing up to  $1\ 3/8$  higher; shorts rose by up to  $5/8$ . At the close the FT Government Securities Index had reached a five-year peak of 79.03. It was again possible to make further sizeable official sales of stock.

Over the week yields on shorts fell by up to  $1/4\%$  (to about  $10\ 1/2-11\ 3/16\%$  on 5-year maturities) and those on longs by about  $1/4\%$  (to  $11\ 1/4-11\ 1/2\%$  on 20-year maturities). Yields on the indexed stocks continued to drift upwards, ranging from  $2.88\%$  (IG 2011) to  $3.36\%$  (IG 1988).

This morning: quiet and slightly easier.

#### EQUITIES

The market continued to weaken prior to the weekend on concern at the economic outlook and company trading prospects, but staged a good recovery on Tuesday and Wednesday as interest rate optimism revived.

The market's nervous mood continued on Thursday and Friday with the Index shedding a further 12 1/2 points. The start of the new account on Monday saw some selective demand though the underlying mood remained uncertain; prices made a slight recovery. This trend gathered strength on Tuesday as institutional demand emerged and the Index regained 10 points.

Yesterday, the market made further progress as hopes revived of a further cut in base rates. After a good start, profit-taking developed later in the day but the downward drift in prices was reversed when Wall Street came in better in the afternoon. The 30-Share Index closed at 582.6, up 6.4 both on the day and over the week. The 500-Share Index ended at 397.85, up 5.65 over the week.

This morning: quiet and steady.

#### FOREIGN EXCHANGE

Markets were generally quieter and more stable despite uncertainty resulting from the collapse of Chancellor Schmidt's coalition and from events in the Lebanon, and confusion over the implications of Fed Policy. Sterling generally remained on the sidelines and the ERI was unchanged at 91.7.

This morning there are no new developments.

#### GOLD

Following the fixing on Thursday at \$447.25, gold weakened despite the tense situation in the Lebanon, to a low of \$420 on Monday. Wednesday, however, saw a revival of interest and the final fixing was at \$443.75.

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