

MARKETS

WEEK ENDED 29 SEPTEMBER

MONEY

The week's shortage in the money markets amounted to over £2 1/2bn, almost all of which was accounted for by the maturing of earlier assistance. Within the week Monday was extremely tight but Tuesday, by contrast, was the easiest day for some weeks. Transactions in gilt-edged stock had a marked impact this week. Payment on Thursday for sizeable official sales was coupled with a call of about £400mn on Monday in respect of 10 1/2% Exchequer 1987 and subscriptions yesterday to the new issue, 10 1/2% Exchequer 1988. Other Exchequer transactions were in the market's favour nearly every day.

The Bank assisted the market each day by buying bills outright and also undertaking purchase and resale agreements each day except Tuesday. After the weekend the lowest dealing rates in all bands were gradually reduced each day and they now stand at 10 1/4% in band 1, 10 1/8% in band 2, 10 1/16% in band 3 and 10% in band 4, between 1/4 and 3/8 lower than last week.

Before the weekend period interbank rates were influenced by movements in dollar interest rates. They continued to ease on Thursday as dollar rates softened but opened slightly higher on Friday. This firmer tone was maintained until Monday morning as news from the US was disappointing, but after the cuts in the Bank's dealing rates were announced, interbank rates eased and they continued to fall when the action was repeated on the following two days. The 3-month rate showed a net fall of 5/16 over the week, closing at 10 9/16%. The tight money conditions over most of the week kept short interbank rates firm. Although the 7 day rate had been as low as 10 5/16% at times in the week it closed at 11 1/8%, a net rise of 3/16 over the week as a whole.

At the Treasury bill tender on Friday the average rate of discount fell 0.1 to 9.9670%.

GILTS

Although the market was quiet and slightly easier prior to the weekend, the underlying tone was firm enough to permit the announcement of a new shorter-dated issue. After the weekend, prices moved further ahead, mainly at the long end, on hopes of a further cut in base rates. Yesterday's new issue was oversubscribed.

An overnight setback on Wall Street made for more cautious trading on Thursday and prices ended either little changed or slightly lower in shorts. On Friday prices drifted lower ahead of the US money figures, but the announcement at 3.30 pm of a new issue of £1bn of 10 1/2% Exchequer 1988 caused little reaction.

After the weekend, the market opened on a firmer note on Monday and made further progress during the day, encouraged by the cut in the Bank's dealing rates and by the good early showing of US bonds. Longs showed the largest increases (up to 3/4) with shorts more subdued. On Tuesday, the market continued to move ahead on expectations of lower interest rates: shorts continued to be restrained ahead of yesterday's tender for the new issue, but longs ended up to 1 point higher.

The upward trend was maintained when the market opened yesterday and the new issue was oversubscribed, the allotment price being fixed at 97 (1 point above the minimum tender price). Prices edged lower towards the close, but shorts retained net gains of up to 3/16 and longs up to 1/2. The FT Government Securities Index ended at 79.95, its highest level since April 1972.

Over the week, yields on shorts fell by about 1/8% (to 10 5/8-11 1/16% on five-year maturities) and those on longs by about 3/16% (to 11 1/8%-11 3/8% on 20-year maturities). The indexed stocks continued to be neglected with yields rising by up to 1/16% to range from 2.90% (IG 2011) to 3.43% (IG 1988).

This morning: easier.

EQUITIES

Although the performance of leading industrial shares (as measured by 30-Share Index) continued to fluctuate, interest rate optimism helped the market as a whole to move ahead on balance over the week.

The market fell back on Thursday following Wall Street's overnight reversal, but sentiment revived on Friday on reports of possible tax cuts; rises in stores and consumer shares helped to take the Industrial and 500-Share Indices to new all-time highs.

On Monday the mood was more cautious following another gloomy CBI survey, but the 30-Share Index closed only slightly lower. Clearing bank shares were depressed by adverse press comment, with Lloyds particularly weak on reports of problems with Hong Kong property loans. On Tuesday, hopes of lower interest rates prompted selective demand, concentrated again mainly on consumer shares, and the 30-Share rose by 7.1 with the broader Indices all ending at new record peaks.

Yesterday, the market traded cautiously but with a firm undertone for much of the day. However, prices slipped back towards the close reflecting concern at Wall Street's early weakness. The 30-Share Index closed 6.5 lower at 581.1, a fall of 1.5 over the week. The 500-Share Index rose by 6.7 points over the week to 404.53.

This morning: slightly easier.

FOREIGN EXCHANGE

The dollar remained generally firm, less on account of domestic developments than on problems elsewhere - political uncertainty in Germany and banking difficulties in Japan. Sterling saw some good two-way business, with the ERI, after touching 92 on Tuesday, finishing 0.1 down over the week at 91.6.

This morning sterling has steadied after dipping on a rumour that Barclays had cut its base rate.

GOLD

The revival seen on Wednesday, with gold trading around \$440, lasted only until the weekend. Then, as the dollar moved sharply higher, gold declined, with the final fixing on Wednesday at \$409.75 and later trading taking place below \$400.

30 September 1982