MARKETS

WEEK ENDED 6 OCTOBER 1982

MONEY

Unwinding assistance amounted to about £1/2 bn each day this week but this drain on the markets' funds was partly offset by a generally favourable Exchequer position. Friday's shortage was particularly severe as an increase in the note circulation added to the effect of the maturing bills but the shortages were more moderate after the weekend.

The Bank provided assistance each day by the outright purchase of bills and also, before the weekend and again yesterday, by buying bills for later resale. The lowest dealing rates in all bands were reduced by 1/8 on Thursday but were unchanged thereafter.

Longer interbank rates fell prior to the weekend following reductions in the Bank's dealing rates, as operators anticipated cuts in clearing banks' base rates. The disappointing US money supply figures and rises in euro-dollar rates on Monday and Tuesday, however, influenced interbank rates and a firmer tone developed in longer rates. Yesterday eurodollar rates were weaker and longer interbank rates fell back. The 3 month rate fell 1/8 over the week as a whole, closing at 10 7/16%.

Short interbank rates continued to be strongly influenced by the daily money conditions. After the weekend, when the shortages were more moderate, these rates began to ease and they fell sharply on Tuesday after the Bank provided ample assistance in its morning operations. Yesterday they fell again, particularly after announcements from the clearing banks of reductions in their base rates of 1/2 point, to 10%, with effect from today. The 7 day rate closed at 10 3/8%, a fall of 3/4 over the week.

At the Treasury bill tender on Friday the average rate of discount fell 0.29 to 9.6777%, reflecting the fall in market rates before the weekend.

GILTS

Having reached a new 10-year high on Wednesday, the market was affected by profit-taking before and after the weekend as US interest rates hardened. Yesterday, however, prices moved ahead again following Tuesday's announcement of the September banking figures and the further round of base rate cuts. The last two days also saw renewed demand for the indexed stocks.

The market was easier at Thursday's opening, but support emerged at the lower levels and prices ended the day only about 1/4 down on balance; the new issue closed at 20 1/4 (20-paid). Firmer US interest rates prompted some profit-taking on Friday, although prices recovered slightly in the afternoon on the announcement of a lower Treasury bill rate; at the close losses had been reduced to 1/4 in shorts and 1/2 in longs.

Disappointment at the rise in US money supply prompted further selling on Monday. This was persistent enough to produce losses of up to 1 1/2 at the long end at one stage, but prices turned towards the close and ended off the bottom. The mood was nervous at Tuesday's opening in advance of publication of the September banking figures. However, early losses were soon recovered and the market moved further ahead following the announcement of the figures which indicated a rise in £M_3 towards the lower end of market expectations. Although tending to drift off slightly before the close, prices closed with net gains of 1/8 in shorts and 1/4 in longs. After a period of little interest in indexed stocks, some market demand re-emerged bringing gains of up to 5/8.

The market opened firm yesterday on further consideration of the banking figures and following Wall Street's overnight improvement. The reduction in base rates encouraged further gains and shorts closed up to 5/8 higher with longs up to 1 higher. The indexed stocks were again in demand and some official sales were made, mainly of the 2001 tap. With some of the other stocks in short supply, prices rose by up to 1 1/2 (IG 2011).

Over the week, yields on shorts rose by up to 1/16-1/8% (to 10 3/4-11 1/8% on 5-year maturities) and those on longs by about 1/8% (to 11 1/4-11 1/2% on 20-year maturities). Yields on the indexed stocks eased by up to 1/8%, ending their recent steady rise, to range from 2.81% (IG 2011) to 3.40% (IG 1988).

This morning: firm.

EQUITIES

The market continued to fluctuate during the early part of the week as hopes of lower interest rates contended with the influence of weaker US equities and concern about the economic outlook. But it moved ahead in the last two days in line with Wall Street.

The market opened lower on Thursday but quickly began to recover with buyers encouraged by hopes of lower interest rates. Stores were enlivened by news of the offer for Woolworth. Later in the day, however, prices slipped back again to leave the 30-Share Index 3 points lower. This decline gathered strength on Friday morning after the Dow Jones Index had slipped back below 900. But prices began to recover after the initial mark-down and the Index ended a net 1.3 higher having been 7.2 down at its first calculation.

After the weekend, sentiment was influenced at the start of the new account by further gloomy forecasts of the economic outlook and with Wall Street again coming in easier in the afternoon the Index lost 8.8 points on Monday. On Tuesday, the market took heart from Wall Street's recovery from its early weakness on Monday and with the better tone of gilts and with US equities maintaining their firmness at the opening, prices gathered strength during the day to leave the 30-Share Index 6.2 higher.

The market extended these gains at yesterday's opening, but, with the cuts in base rate having been discounted, little follow-through emerged. Nevertheless, the 30-Share Index closed 5.7 higher at 582.5, a rise of 1.4 over the week.

This morning: firm.

FOREIGN EXCHANGE

The dollar remained the centre of attention in markets that were often relatively quiet. Boosted by the unexpected increase in US money supply announced on Friday, which caused some upward movement in interest rates, the dollar rose to further all-time highs against a number of currencies. The base rate cuts fully discounted, sterling held steady against a firm dollar but gained against the continental currencies. The ERI rose from 91.6 to 92.1.

This morning sterling is firm against an easier dollar.

GOLD

The price moved narrowly around the $400 level, falling no lower than $387.50 at the afternoon fixing on Monday as the dollar peaked. The final fixing was at $404, leaving the price $5.75 lower over the week.

7 October 1982

Per cent   Time / Yield Curves of British Government Stocks   6th October 1982