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THE DEPUTY GOVERNOR o/r

MARKETS 11-25 JUNE

Money

Conditions in the money market during this period have been generally tight, the main adverse factor being the unwinding on 12 and 17 June of the gilt purchase and resale agreements with the clearers, together with the call on 13 1/2% Exchequer 1992 on 13 June and a good response to two new tap stocks on the 25th. There were also substantial sales of gilts on the 17th. Against this, the market benefited on 16 June from the redemption of two stocks, and the net Exchequer position has been generally favourable to the market, despite substantial net excesses of Government revenue on the 19th and 23rd.

Assistance by the Bank has been necessary on every day except the 18th (make-up day) taking the form of purchases of Treasury and Local Authority bills outright and of purchases of local authority and eligible bills for resale at future dates. The Bank has also lent overnight at MLR on most days, in amounts ranging from small to exceptionally large; lending on the 16th and 17th was for two days.

Interbank rates at three months and under were generally firm until make-up day when they softened temporarily in response to easier conditions; longer rates eased slightly during this time. Rates at all maturities have tended to harden since the 18th. The three month rate finished the period 3/8% up at 16 15/16%.

At the Treasury Bill tenders on 13 June and 20 June the average rate of discount fell to 15.8340 and to 15.7338 respectively.

Gilts

After an uncertain start on 11 June following publication of the May banking figures, the market strengthened on both domestic

and overseas buying prompted by hopes of lower interest rates. The medium tap, 13 1/2% Exchequer 1994, was exhausted at 40 9/32 (9/32 premium) at the opening on Monday, 16 June and prices then rose very sharply for the rest of the day.

Thereafter the market remained generally firm though prices fell back on Thursday on profit-taking; some selling also took place after publication of the May money supply figures on Thursday afternoon.

The market reacted well in after-hours trading on Friday to the announcement of two new tap stocks: a further £600 mn. of 12 1/4% Exchequer 1984 and £1,000 mn. of 13% Treasury 2000. At today's tender, subscriptions for the long tap totalled about £600 mn. with £60 mn. for the short tap. Prices of both shorts and longs are slightly higher today after some weakening yesterday.

Over the two weeks to 24 June yields on shorts fell by up to 1% and those on longs by around 5/16%.

During yesterday morning it was announced that Wedd and Owen, one of the smaller gilt-edged brokers, had ceased trading.

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