

MARKETS

WEEK ENDED 16 JUNE 1982

MONEY

The shortest day this week was Friday (accounting for about half of the week's shortage of just over £1 bn) and the market experienced only small or moderate shortages on the other days. Bill maturities continued to be the largest single influence over the week. The Exchequer position was generally in balance or favourable to the market except on Friday when it was an important adverse factor. Other sizeable influences on the market's cash position during the week were movements in the note circulation around the weekend and an unwinding repurchase agreement on Monday.

The Bank provided assistance every day by the outright purchase of Treasury, local authority and bank bills at rates unchanged from Tuesday 8th.

Period interbank rates remained fairly steady for most of the week with a little firming early on Monday as US rates hardened. The reaction on Tuesday to news of the Argentinian surrender in the Falklands was muted and rates eased only slightly, partly because success had been expected but also because of the influence of very firm US rates. The slightly lower period rates were maintained on Wednesday but the 3 month interbank rate closed at 12 13/16%, 1/16 up over the week as a whole. Short rates were slightly more volatile over the week and the 7 day rate showed a net fall of 1/8, closing at 12 3/4%.

At the Treasury bill tender on Friday the average rate of discount fell about 0.04 to 12.1777%.

GILTS

The volatile international situation and growing concern about the prospects for US interest rates made for a generally uneasy

atmosphere during the week. However, a significant amount of the new convertible stock was sold on Monday and there was persistent small demand for the indexed stocks. The successful outcome in the Falklands had already been discounted by the market and had only a transitory impact.

On Thursday the deteriorating situation in the Middle East and fears about British casualties in the Falklands caused a further worsening in sentiment and prices eased to close up to a further 1/4 down in shorts and 3/4 down in longs; but there was a continuing small demand for the index-linked stocks.

News of a Middle East ceasefire and progress on a US budget compromise encouraged a recovery on Friday which left prices up to 1/2-3/4 higher by the close, although turnover remained relatively low. Further small amounts of the index-linked stocks were sold.

After the weekend, the market opened easier on Monday following the fresh hostilities in the Middle East and amid renewed concern about the outlook for US interest rates. After the initial fall, prices steadied and it was possible to sell a significant amount of the 1986 tap at a price of 30 1/8 (30-paid). However, with US bonds opening easier in the afternoon and with Citibank moving its prime rate back up to 16 1/2%, prices drifted lower again, ending with losses of up to 1/4 in shorts and 1/2 in longs.

On Tuesday, relief at the successful outcome of the Falklands fighting had to contend with continued unease about US interest rates. The latter gained the upper hand during the day and prices tended to ease back after initial gains to close up to 1/4 down in shorts and 5/8 down in longs. There was again some demand for the longer index-linked stocks.

Yesterday, the market steadied, but there was very little business; prices were little changed.

Over the week as a whole, yields on shorts rose by about 1/16 - 1/4% (to yield about 13 1/4 - 3/8% on five-year maturities) and longs by

about 3/16% (to yield 13 1/2 - 3/4% on 20-year maturities). Yields on the index-linked stocks were generally slightly higher, ranging from 2.86% (IG 1988) to 3.10% (IG 1996).

This morning: quiet and slightly easier.

EQUITIES

The market was affected by the same adverse factors as gilts and fell back from the 1982 peak reached the previous week.

An uneasy atmosphere prevailed on Thursday, with the threat of a national rail strike and the weakness of Wall Street further adverse influences; the FT 30-Share Index ended 8.8 lower. But the news of a Middle East ceasefire enable part of these losses to be regained on Friday.

After the weekend, sentiment was affected on Monday by the breakdown of the Middle East ceasefire and by the concern about US interest rates, and prices again drifted lower.

This trend continued on Tuesday after an initial mark-up following the resolution of the Falklands crisis and with labour disputes looming larger, the 30-Share Index lost a further 7.9 points.

Yesterday, prices eased slightly further in very slow trading and the 30-Share Index ended 2.4 lower at 568.5, a fall of 18.8 over the week as a whole. The 500-Share Index closed at 361.70, 9.85 lower over the week.

This morning: quiet and slightly easier.

FOREIGN EXCHANGE

A very eventful week saw a major realignment of the EMS and the dollar rising to new heights as US interest rates firmed. Sterling

responded rather erratically to the news of victory on the Falklands. The ERI rose from 90.9 to 91.5.

This morning the dollar is firmer still but sterling is fairly steady.

GOLD

With higher US interest rates, the gold price slipped. Having fixed at \$329 on Thursday it fell to a recent low of \$313.50 outside the fixing on Tuesday. The final fixing on Wednesday was \$317.

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