

MARKETS

WEEK ENDED 23 JUNE 1982

MONEY

Conditions were very tight in the money market on Friday and Wednesday with moderate shortages on the other days of the week. Bill maturities were a regular cash drain and additionally, on Friday, there was an increase in the note circulation and bankers brought forward balances some way below target. The Exchequer position was only a significant factor on Monday, when its favourable impact, together with a fall in the note circulation, helped to offset over £1/2 bn of maturing bills, and Wednesday when it was strongly adverse and exacerbated the effect of the bill maturities.

The Bank gave assistance every day purchasing a combination of bank, Treasury and local authority bills.

Short-term interbank rates firmed before the weekend in response to the rise in US rates and after easing a little on Monday, tended steady until Wednesday when they firmed in the tight money conditions. The seven day rate closed 1/8% higher on the week at 12 7/8%.

Longer rates also firmed in response to rising US rates and by Friday a distinctly upward-sloping yield curve had appeared. The firmer trend persisted after the weekend although rates tended steadier on Tuesday and Wednesday. The three-month rate finished the week 1/4% higher at 14 1/16%.

At the Treasury bill tender on Friday, the average rate of discount rose slightly to 12.2425%.

GILTS

With the Falklands crisis out of the way, attention became more firmly focussed on the rising trend of US interest rates and the associated weakness of sterling against the dollar. Prices fell back each day with only a brief rally on Tuesday when the dollar encountered profit-taking.

The market resumed its downward trend in thin trading on Thursday, reflecting continued concern about US interest rates and the weakness of sterling against the dollar; prices ended up to 3/8 down in shorts and 5/8 lower in longs.

Sentiment remained depressed on Friday with prices generally losing up to a further 1/2. Publication of the RPI for May had little impact.

The market's decline was given added impetus after the weekend by sterling's sharp fall against the dollar on Monday morning (coming after US money supply figures on Friday which offered little encouragement). After opening about 3/8 easier, prices drifted lower in continued thin trading to close up to 7/16 down in shorts and 3/4 down in longs. However, some improvement was seen in late trading as sterling recovered some of its lost ground against the dollar.

This better tone continued on Tuesday although turnover remained very light. By the close shorts were up to 9/16 higher and longs up to 3/4 better.

Yesterday, with US bonds easier overnight, the dollar strengthening again and domestic money market conditions tight, prices tended to resume their downward course, finishing up to 3/16 lower in shorts and 3/8 lower in longs.

Over the week as a whole, yields on shorts rose by about 3/16-5/16% (to 13 1/2-13 3/4% on five-year maturities) and those on longs

by about 3/16% (to 13 1/2-14% on 20-year maturities). Yields on the IGs rose by about 1/16%, ranging from 2.95% (IG 1988) to 3.13% (IG 1996).

This morning: slightly better.

EQUITIES

With a variety of adverse influences - higher US interest rates, the exchange rate, the unsettled labour situation - the market continued to retreat for the first three days before steadying thereafter, albeit in continued dull trading.

The market decline accelerated on Thursday with the 30-Share Index falling by 9.1 points, although selling remained scattered. With Wall Street reaching a new 26-month low, the market remained depressed on Friday (the last day of the account), although the fall in the Index was limited to 1.4.

After the weekend, concern about US interest rates and the sharp decline in sterling against the dollar produced a fall in the Index of 11.9 points by midday on Monday. As with gilts, however, prices recovered along with sterling and the fall in the Index was cut to 3.1 by the close. At this point, the Index was 39 points below its 1982 peak reached on 8 June.

The continuation of sterling's recovery against the dollar and technical factors led to further improvement on Tuesday. But sentiment remained fragile and early gains were mostly lost in late trading, with the 30-Share Index closing only 0.9 higher.

Yesterday the market opened slightly better, helped by the overnight strength of US equities. However, little demand materialised, although defence shares (helped by good results from Racal and Ferranti) were a bright feature. Rises in GEC and Plessey helped the 30-Share Index to close slightly higher on the day at 555.9, a fall of 12.6 over the week. The 500-Share Index closed 354.66, 7.04 lower over the week.

This morning: slightly better.

FOREIGN EXCHANGE

In a relatively quiet week (by recent standards), the dollar continued to strengthen on interest rate considerations and achieved new highs against a number of currencies. Although the pound also fell to a 4-year low against the dollar in fact it suffered less than some. As a result the ERI declined only from 91.5 to 91.3 over the week.

This morning the market is quiet with sterling a little lower.

GOLD

With higher interest rates and declining silver and other commodity prices, the gold price slipped. Having fixed at \$313.50 on Thursday, it declined to \$296.75 on Monday, the lowest fixing level for almost three years. Tuesday saw some recovery with the price rising to \$309. The final fixing on Wednesday was \$304.

24 June 1982