

MARKETS

WEEK ENDED 4 AUGUST 1982

MONEY

This week again saw very tight conditions in the money markets although Thursday's shortage was much smaller than of late. The overall cash shortage was more than accounted for by the unwinding of previous assistance by the Bank, although official sales of gilt-edged stock after the weekend also drained cash from the market. The Exchequer position favoured the market every day but Monday.

The Bank gave assistance every day by the outright purchase of bills. In addition on Friday, Tuesday and Wednesday bills were purchased for resale at a future date. The Bank lowered the rates at which it accepted offers of bills every day but Tuesday and these rates now stand at 11 1/2% in band 1, 11 1/4% in band 2, 11 1/8% in band 3 and 11 1/8% in band 4, 3/8 to 1/4 point lower than a week ago.

Short term interbank rates eased before the weekend in response to the reductions in the Bank's lowest dealing rates, the downward movement being rather pronounced on Thursday when much easier money conditions emerged. Following the announcement on Friday of 1/2 point reductions to 11 1/2% in the clearing banks' base rates with effect from Monday and further reductions in the Bank's lowest dealing rates, short-term rates eased further. The seven day rate finished at 11 9/16%, 1 1/8 down on the week.

Longer interbank rates eased ahead of the weekend in response to the falls in US banks' prime rates and the further 1/2 point reduction in the Federal Reserve's discount rate. The easing continued after the weekend and longer rates were very easy on Tuesday following an easing of Eurodollar deposit rates in response to further cuts in US domestic rates. These rates steadied on Wednesday before easing again by the close. The three month rate ended at 11 5/16%, 3/4 down on the week.

At the Treasury bill tender on Friday the average rate of discount fell about 0.125 to 11.0802%.

GILTS

The market continued to spend the period before the weekend consolidating its recent gains. Thereafter it resumed its advance following further encouraging developments in the US. The 1989 tranchette was exhausted on Monday and a further tranche of 1987 Stock was issued to the Bank on Tuesday. Yesterday saw large demand for the index-linked stocks which exhausted remaining supplies of the three larger maturities.

The market continued to consolidate its gains of the previous week on Wednesday and prices edged higher in quiet trading.

Sentiment was slightly unsettled on Thursday morning by news of the record US Treasury borrowing for the third quarter. But prices tended to recover in light trading, helped by the continuing downward trend in domestic interest rates, and closed with only slight losses.

The market maintained a firm undertone on Friday, encouraged by the improvement in US bonds, and prices made small gains. The cut in base rates had already been discounted and made little impact.

Following the reduction in the Federal Reserve discount rate and the fall in the latest US M_1 figure - which produced a late rally in US bonds on Friday - the market opened firm on Monday morning. The remaining supplies of the recently issued 1989 tranchette were exhausted (at a price of 93 1/2) and some of the 1998 tranchette was also sold. Prices ended the day about 7/16 higher in shorts and up to 3/4 better in longs.

With US rates continuing to fall (as evidenced by a general move to 15% prime rates), the market tone remained buoyant on Tuesday and it was possible to sell a sizeable amount of the 1998 tranchette. Prices ended the day about 3/8 up in all sections. At the close the issue was announced of £500mn of 12% Treasury 1987 "A" direct to the Bank.

Yesterday, the market opened slightly lower in response to the new issue and the easier US bond market overnight. However, prices soon picked up again and the initial losses were turned into small net gains which were held until the close. The main feature was demand for the indexed stocks: the remaining supplies of the 1996, 2006 and 2011 maturities were exhausted and a sizeable amount of IG 1988 was also sold. By the close the two longer stocks were showing rises of around 5/8 - 7/8.

Over the week as a whole, yields on shorts fell by a further 1/4% (to 11 7/8-12 1/8% on five-year maturities) while longs fell by 1/8-3/16% (to 12 3/4-13% on 20-year maturities). Yields on the two shorter indexed stocks rose marginally over the week, while those on the longer stocks fell slightly: IG 2011 ended at 2.91% with IG 1996 at the upper end of the range (3.21%).

This morning: unchanged.

EQUITIES

Pessimism about the prospects for economic recovery led to dull trading for much of the week. Only on Tuesday did the market make any headway, encouraged by the good performance of Wall Street and the downward momentum in interest rates.

The market opened easier on Thursday following the sharp overnight fall on Wall Street. ICI's disappointing interim results were also a dampener on sentiment and the 30-Share Index ended 5.5 lower.

Trading remained dull on Friday, but early losses were regained in late trading and the Index closed little changed.

After the weekend, expectations of a gloomy CBI business survey instilled a cautious mood at Monday's opening. But the tone improved somewhat during the day, helped in late trading by Wall Street's firm opening, and the Index recorded a small gain.

On Tuesday, the market opened sharply higher, reflecting the strong overnight performance on Wall Street and the continuing downward trend in interest rates. The CBI survey had little additional impact on sentiment and the Index ended the day 8 points higher.

Part of these gains were lost yesterday, however, on further consideration of the CBI report and reflecting the renewed weakness in US equities. The 30-Share Index closed 5.9 down at 560.3, a fall of 1.6 over the week. The 500-Share Index ended at 366.30, a fall of 2.19 over the same period.

This morning: slightly easier.

FOREIGN EXCHANGE

A volatile week on the exchanges with the dollar moving erratically from day to day against other major currencies. The pound was generally firm with the fall in UK interest rates having little impact. The ERI rose by 0.2 to 91.6.

This morning the markets are quieter with sterling remaining firm.

GOLD

Gold also saw an erratic week climbing to \$355.50 on Tuesday but moved little overall, with a first fixing on Thursday of \$340.50 and a final fixing on Wednesday of \$346.50.

5 August 1982

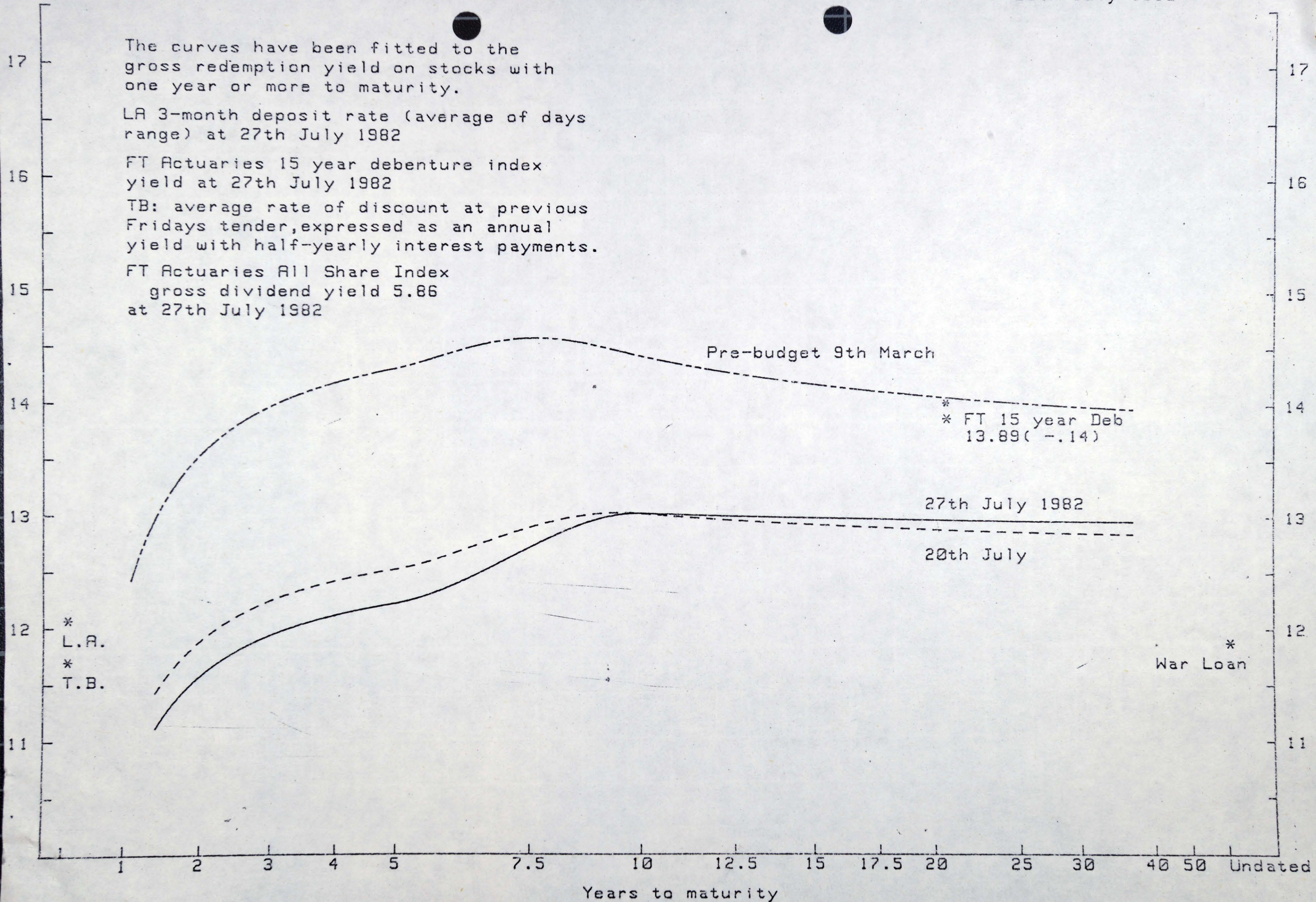
The curves have been fitted to the gross redemption yield on stocks with one year or more to maturity.

LA 3-month deposit rate (average of days range) at 27th July 1982

FT Actuaries 15 year debenture index yield at 27th July 1982

TB: average rate of discount at previous Fridays tender, expressed as an annual yield with half-yearly interest payments.

FT Actuaries All Share Index gross dividend yield 5.86 at 27th July 1982



The curves have been fitted to the gross redemption yield on stocks with one year or more to maturity.

FT Actuaries FTI Share Index gross dividend yield 5.85 at 3rd August

LA 3-month deposit rate (average of days range) at 3rd August

FT Actuaries 15 year debenture index yield at 3rd August

TB: average rate of discount at previous Fridays tender, expressed as an annual yield with half-yearly interest payments.

