

## MARKETS

WEEK ENDED 25 AUGUST 1982

## Money

The unwinding of earlier assistance kept the money markets very short of funds this week, accounting for over 3/4 of the total shortage of about £3 bn. Payment for official sales of gilt-edged stock, including the newly issued 10 1/2% Exchequer 1987 on Thursday, was another major factor affecting the market's cash position.

Although bills were bought outright each day, most of the assistance provided this week took the form of repurchase agreements. The Bank's dealing rates were reduced by 1/8 in all bands on Tuesday and again yesterday, to stand at 11% in band 1, 10 3/4% in band 2, 10 5/8% in band 3 and 10 1/2% in band 4.

The Bank's action on 17 August of lending directly to the discount houses for seven days had a steadying influence on the market and period interbank rates firmed slightly on Thursday. Short rates also firmed in the tight money conditions. Period rates fluctuated in a narrow band around 10 3/4% for the rest of the week while short rates, although generally steady, dipped on Monday as money conditions eased briefly. The three month rate closed at 10 3/4%, 1/8 higher than last week and the seven day rate showed a net rise of 1/4, closing at 11 5/8%.

The average rate of discount at the Treasury bill tender on Friday fell sharply to 9.9894%, having been 10.7110% the previous week.

## GILTS

Continuing hopes of reductions in interest rates brought further advances, particularly at the longer end of the gilts market, in the early part of the week. Subsequent profit-taking has been reasonably contained with prices falling back only modestly over the past two days.

Last Thursday, a bout of profit-taking brought prices back by up to 1 1/2 points in longs although shorts fared somewhat better. The issue of £800 mn 10 1/2% Exchequer 1987 was allotted at £98.75; £2 above the minimum tender price. Buyers returned in force on Friday as US interest rates continued to fall and in some longer maturities, where a shortage of stock was particularly pronounced, prices rose by 3 1/2 points. At the close an issue of £250 mn of 2 1/2% Index-Linked Treasury 2001 was announced for tender on 26 August.

After the weekend interest rate optimism again encouraged buyers and longs advanced by up to 2 points before easing slightly later on Monday. At the close the FT Government Securities Index had attained its highest level for nearly five years. Tuesday opened on an easier note as US rates firmed but sellers were not persistent and following a small reduction in the Bank's money market dealing rates a firmer tone developed during the afternoon: at the close shorts showed net losses of around 1/4 with mediums and longs rather mixed but generally about 1/2 off. Yesterday after a firm opening, a lack of buying interest brought prices back. After a further reduction in the Bank's intervention rates a limited recovery was seen but at the close, longer dated stocks had lost around 3/4.

Over the week as a whole yields on shorts fell by 1/8 - 1/4% (to around 10 3/4% on five year maturities) and those on longs by around 1/4% (to 11 5/8% - 11 3/4% on 20 year maturities). Indexed stocks encountered some demand during the week and official supplies of IG 1988 were exhausted on Tuesday. Yields, however, were little changed and range from 2.78% on IG 2011 to 3.04% on IG 1988.

This morning: slightly easier.

#### EQUITIES

The erratic performance of Wall Street this week, allied with generally dismal domestic economic influences and a lack of investment demand has brought rather dull conditions to the equities market.

Last Thursday after the sharp rises of the previous day, a cautious tone developed with widespread profit-taking by small investors; although sentiment improved later in the day the FT index closed 9.5 points lower.

On Friday, however, the good performance of Wall Street the previous day sent prices higher again and by the close the 30 share index had rebounded by 11 points to 580.6 with the FT 500, Industrial and All-Share indices all attaining new all-time high levels.

This week the market has been overshadowed by dismal UK economic news and a lack of institutional buying interest. A good day on Wall Street on Monday had no lasting effect and the 30 share index closed 4.1 down. On Tuesday and yesterday easy conditions prevailed as the market turned down on Wall Street; trading was subdued on both days and the index lost 5.5 on Tuesday and 2.6 yesterday to close at 568.4 a fall of 11.8 points over the week as a whole.

This morning: slightly firmer.

#### FOREIGN EXCHANGE

Despite the holiday season, the exchanges remained fairly eventful with the dollar continuing its retreat from its previous record high levels and the French franc coming under pressure on rumours that it would shortly leave the EMS. An already buoyant sterling was assisted by the trade figures and the ERI rose 0.7 to 92.2.

This morning following the dollar's move upwards in New York yesterday evening, sterling is trading stably at around \$1.7575.

#### GOLD

Reacting to the lower financing costs and concerns about the health of US banks, gold rose at breakneck speed. After fixing on Thursday at \$356.25, it rose \$30 on Friday and, at one point on Tuesday, had climbed \$57 in three days. On Wednesday, it eased back a little to close at \$401.00.

26 August 1982