Operation of monetary policy

This article covers the three months from mid-August to mid-November 1984

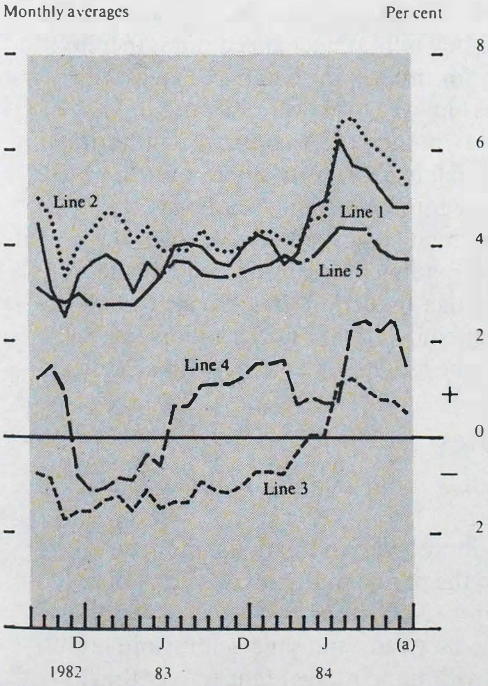
Review

Conditions in the financial markets were generally calmer than during the summer, helped by the restoration of confidence that both the fiscal and monetary situation were under adequate control. Towards the end of the period strong pressure emerged for lower short-term interest rates and the general level of rates fell by a further 1%; gilt-edged yields also fell, despite a continued high rate of official sales.

The behaviour of the monetary aggregates was generally satisfactory up to mid-October. Both the target aggregates M0 and £M3 were then within their target ranges; among the other aggregates, M2 continued to be affected by changes in the terms of existing accounts while the growth rate of PSL2 continued to exceed that of £M3 by roughly the same margin as in earlier months.

Real interest rates *remained higher than before the July increase in nominal rates*

Monthly averages



(a) As at 3 December 1984.

Line 1 One year interbank deposit rate *minus* the expected rate of retail price inflation over the following year.

Line 2 The London clearing banks' base rate *plus* 1% *minus* the expected rate of inflation.

Line 3 The London clearing banks' base rate *plus* 1%, adjusted to allow for the deductibility of interest payments for corporation tax purposes *minus* the expected rate of inflation.

Line 4 The building society ordinary share rate, net of basic-rate income tax, *minus* the expected rate of inflation.

Line 5 The gross real redemption yield on 2% Index-Linked Treasury Stock 1996.

Measures of real interest rates are discussed in the December 1982 *Bulletin*, page 483.

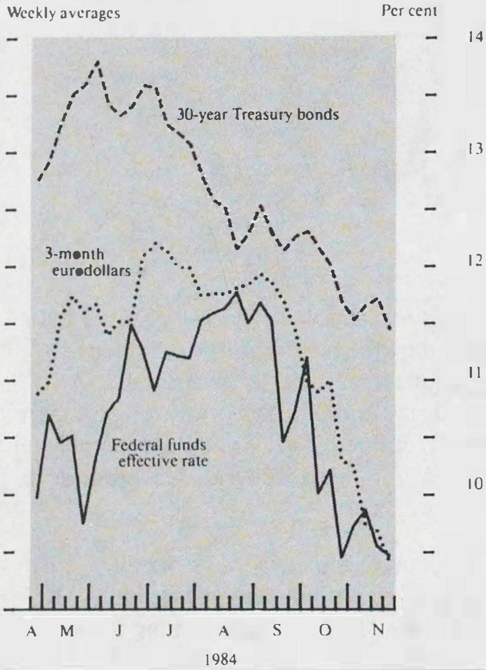
Other indicators pointed to generally firm monetary conditions. Real interest rates remained higher than before the increases in nominal rates which took place in July. The outturn and prospects for retail prices continued to be satisfactory; and house prices (and the housing market more generally) did nothing to suggest that the very heavy mortgage lending of recent years was having untoward effects there. Data on output and demand in the economy at large suggested some softening of the growth in activity though this was not confirmed by business surveys. And movements in the exchange rate appeared to reflect the worldwide fluctuations in the dollar and, at times, oil price developments, rather than domestic monetary conditions.

The monetary statistics for banking November, which were not published until after the end of the period under review, were disappointing. While M0 continued to be restrained, there was a sharp increase in £M3 and in several of the other aggregates. This increase was almost certainly erratic and may have included a buildup of bank deposits by investors intending to apply for shares in the British Telecom offer, which was heavily oversubscribed. Other indicators of monetary conditions continued to be reassuring.

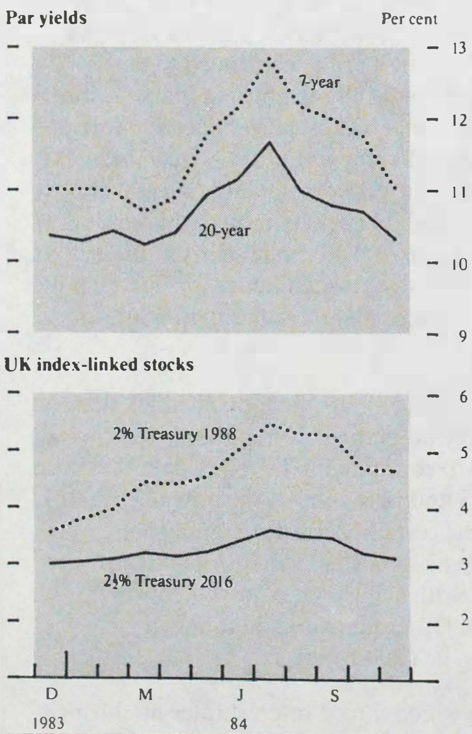
The market turbulence which forced interest rates up during the summer was traceable to anxieties about four main factors—the US financial situation, oil prices, domestic industrial relations and market perceptions of the domestic monetary and fiscal position. By mid-November, these anxieties, taken as a whole, had moderated considerably.

First, dollar interest rates and bond yields had fallen to well below their peak levels, helped by an apparent easing in US monetary policy which was confirmed by a reduction in the

US interest rates *have fallen to well below their peak levels*



Gross redemption yields on government stocks *fell further*



Federal Reserve discount rate in November (see chart). The federal funds rate fell back sharply in September and October; and after it had become sufficiently clear to market participants that this fall was not merely erratic, longer-term money rates including the three-month eurodollar rate fell in parallel. The fall in bond yields which had begun in June continued. Nevertheless the dollar's exchange rate continued to rise relentlessly for some time after US interest rates had begun to fall, before becoming more stable at levels not far below its peak.

Second, the weakness in oil prices, which had been a source of market anxiety in July, proved short-lived, but there were phases of renewed weakness and consequent market concern in October. This concern was relieved by the OPEC agreement on new production quotas on 31 October, though it re-emerged at the end of the period.

Third, domestic industrial relations became a less acute source of market anxiety, particularly after the National Coal Board's settlement with the supervisors' union NACODS on 24 October. Finally, market doubts about the soundness of the domestic fiscal and monetary situation, which had been a serious adverse influence on market conditions until July, were greatly diminished, notwithstanding an upward revision to the forecast of the PSBR for 1984/85 announced in November.

Although market sentiment improved on balance over the period for these reasons, there were phases of market anxiety about possible increases in short-term interest rates, particularly in the first half of the period. During these phases the Bank continued to buy bills at unchanged rates, thereby resisting any tendency for interest rates to rise. Later in the period the market pressure was for lower rates and in view of the generally satisfactory monetary situation, the authorities felt able to accept a 1% fall in short-term interest rates, which brought them back to near the pre-July level. It was also possible to sustain a high rate of gilt-edged sales over the period as a whole, keeping the funding programme well advanced; this did not prevent further reductions in gilt-edged yields, by $\frac{7}{16}$% to $10\frac{3}{8}$% for 20-year conventional stocks and by $\frac{5}{16}$% to $3\frac{1}{8}$% (in real terms) for the longest-dated index-linked stock.

Monetary aggregates

The figures in this section are seasonally adjusted, unless otherwise stated.

Substantial month-to-month variability in the monetary aggregates persisted in the period under review. But up to mid-October the six and 12-month growth rates of M0 and £M3 both continued to be steady and satisfactory; and both these aggregates were within their target ranges over the first eight months of the target period.

During banking September and October, the rise in M0, which was nearly all accounted for by notes and coin, left M0 still around the middle of its target range. Other forms of transactions money grew more rapidly, particularly M1 where the increase was entirely accounted for by interest-bearing sight deposits, partly reflecting the wider availability of interest-bearing current accounts.

Table A
Growth of the monetary aggregates

Banking months (inclusive)	Dec. 83–Feb. 84	Mar. 84–May 84	June 84–Aug. 84	Sept. 84–Oct. 84	Nov. 84(a)
	Percentage increases in period; *seasonally adjusted*				
M0(b)	0.9	1.1	1.1	1.8	0.6
Non-interest-bearing M1	1.3	3.8	1.7	− 0.1	2.2
M1	2.2	6.4	2.7	2.8	3.3
£M3	1.8	2.6	1.7	1.7	2.7
PSL1	1.2	2.9	2.1	2.0	2.8
PSL2	2.7	4.0	3.3	2.4	2.2
M3	3.6	1.1	2.2	2.7	2.8
	Twelve month increase; *not seasonally adjusted*				
M2(c)	7.8	7.9	9.5	10.1	10.8
	10.1	*10.5*	*12.3*	*12.9*	*13.6*

(a) Provisional estimates, based on information available up to 11 December 1984.

(b) Based on averages of weekly figures.

(c) The figures show the increase over the 12 months ending with the latter month shown in the caption and exclude increases arising from changes in the terms of existing accounts which bring them into M2; figures including those increases are shown in *italics*.

Table B
Change in £M3 and its counterparts[a]

£ billions; *seasonally adjusted*

Banking months	Dec. 83–Feb. 84	Mar. 84–May 84	June 84–Aug. 84	Sept. 84–Oct. 84	Nov. 84(b)
1 Central government borrowing requirement(c)	+2.4	+3.0	+2.3	+1.5	+2.1
2 Other public sector(c)	−0.6	−0.3	+0.2	+0.2	+0.5
3 Purchases (−) of central government debt by the non-bank private sector	−2.8	−2.3	−3.5	−2.3	−1.5
of which:					
Gilt-edged stocks	*−2.4*	*−1.4*	*−2.5*	*−1.0*	*−1.0*
National savings	*−0.6*	*−0.8*	*−0.7*	*−1.2*	*−0.3*
CTDs	*+0.2*	*−0.1*	*−0.1*	*−0.3*	*−0.3*
4 External finance of the public sector(d)	−0.4	−0.6	+0.1	−0.5	—
of which, gilt-edged stocks (purchases −)	*−0.1*	*−0.4*	*+0.3*	*−0.2*	..
5 Sterling lending by the banking system to the UK private sector(e)	+3.9	+4.0	+2.7(f)	+3.6	+1.7
6 External finance of the monetary sector(g)	+1.3	−0.2	—	−0.2	+1.4
7 Net non-deposit liabilities (increase −)	−2.0	−1.0	—	−0.7	−1.3
8 **Change in £M3**	**+1.8**	**+2.6**	**+1.8**	**+1.7**	**+2.9**

(a) Counterparts may not add up to the total of £M3 because of rounding.

(b) Provisional estimates, based on information available up to 11 December 1984.

(c) The sum of rows 1 and 2 is the PSBR, *less* net purchases of local authority and public corporation debt by the non-bank private sector.

(d) Net overseas purchases of public sector debt, *less* the public sector's net acquisition of claims on the overseas sector.

(e) Including Issue Department's holdings of commercial bills.

(f) In July and August, there were reductions in banks' advances to leasing subsidiaries, of some £0.7 billion, following adjustments in respect of deferred tax resulting from the implications of the Finance Act, 1984.

(g) The net external sterling liabilities of the monetary sector (increase −) *plus* the net foreign currency liabilities of the monetary sector to all sectors (increase −).

Sterling M3 grew somewhat faster in these two months than over the preceding three months, when its annualised growth rate had been 7%. The main counterpart was an acceleration in bank lending to the private sector, particularly in banking October. This acceleration was more than accounted for by lending to businesses (personal lending by banks slowed down), and remains somewhat puzzling in the light of the apparently high level of corporate liquidity. The 'PSBR',[1] which averaged £0.9 billion a month, was more than covered by central government debt sales to the non-bank private sector.

Among the other aggregates, the 12-month rate of increase in M2 increased further, even excluding changes in the terms of existing accounts, and PSL2 continued to grow faster than £M3. Both PSL2 and £M3 were affected by the developing competition among building societies and continuing rapid expansion of their mortgage lending. Over the year to mid-October, M2 excluding the building society component increased by no more than 3.7%.

There was some reduction in the rate of building society mortgage lending to £1.1 billion in calendar October, compared with the peak of £1.4 billion in July. This, together with further inflows of wholesale funds, helped to end the fall in building societies' liquidity ratios after a period during which their share rates had been less competitive than usual. The rate of mortgage lending from all sources may have fallen back to some £1.3 billion a month, having been around £1.5 billion a month during the summer.

Taking a longer perspective, there has been a tendency over the current target period for the proportion of £M3 accounted for by currency and sight deposits (ie liabilities included in M1) to increase: this has been accompanied by an easing of the terms of withdrawal of building society shares. Over the first eight months of the current target period, some seven eighths of the increase in £M3 consisted of currency and sight deposits, so that the proportion of the level of £M3 which consisted of sight liabilities rose from 43% to 46%. In part this reflects unusual growth in the liquidity of investing institutions, which prefer to hold their bank deposits in readily-realisable form.

The monetary figures for banking November showed continued modest growth in M0: the increase was 0.6%, so that after nine months of the target period M0 was in the middle of its target range.

The other monetary aggregates, which grew very rapidly and almost cetainly erratically in banking November, were affected by a sharp rise in the 'PSBR' to £2.6 billion; given the PSBR, bank lending to the private sector went up by more than might have been expected. These aggregates may have been substantially inflated by a buildup of deposits in anticipation of the British Telecom share offer, the application period for which spanned the end of banking November. In the event, over £6 billion of cash was subscribed for the offer of shares worth £1.5 billion.

(1) Strictly, the PSBR less net purchases of local authorities' and public corporations' debt by the non-bank private sector.

Of the large increase in M1, roughly half was in interest-bearing sight deposits, within which there was a large increase in holdings of wholesale interest-bearing sight deposits. Sterling M3 rose by £2.9 billion (2.7%), PSL2 rose by 2.2% and M2 (not seasonally adjusted) by 0.9%.

Official operations in financial markets

The figures in this section are not seasonally adjusted, unless otherwise stated.

During the three months under review the authorities were able to achieve a rate of government debt sales sufficient to keep the funding programme well advanced. Such debt sales exceeded the CGBR, and so led to a net increase in the amount of assistance to the money market.

Gross official sales of gilt-edged during the period were £3.4 billion (Table C); after allowance for redemptions and official purchases of stocks near maturity net official sales to all sectors were £2.7 billion. Out of this total, the takeup by the non-bank private sector was £2.0 billion. National savings raised £1.5 billion (seasonally adjusted), most of this exceptionally large total being accounted for by sales of the 28th issue of national savings certificates. There were sales of certificates of tax deposit to the non-bank private sector of £0.5 billion (seasonally adjusted). In seasonally adjusted terms, net sales of central government debt to the non-bank private sector were £3.8 billion.

Table C
Official transactions in gilt-edged stocks[a]
£ billions; *not seasonally adjusted*

Banking months	Dec. 83– Feb. 84	Mar. 84– May 84	June 84– Aug. 84	Sept. 84– Nov. 84
Gross official sales(b)	+3.6	+2.9	+4.6	+3.4
less				
Redemptions and net official purchases of stock within a year of maturity	−1.2	−1.2	−2.0	−0.7
Equals net official sales(c)	+2.4	+1.7	+2.6	+2.7
of which, net purchases by:				
Monetary sector(c)	*−0.2*	*−0.1*	*+0.4*	*+0.4*
Overseas sector	*+0.1*	*+0.4*	*−0.3*	*+0.3*
Non-bank private sector	*+2.4*	*+1.4*	*+2.5*	*+2.0*

Note: Sales are recorded in this table on a payments basis, so that payments made on partly-paid stocks are entered when they are paid rather than at the time of the commitment to make the payment.

(a) Components may not add to totals because of rounding.

(b) Gross sales of gilt-edged stocks are defined as net official sales of stocks with over one year to maturity apart from transactions under purchase and resale agreements.

(c) Apart from transactions under purchase and resale agreements.

In unadjusted terms net sales of central government debt (other than Treasury bills) to all sectors exceeded the CGBR by £1.3 billion (Table D). Largely for this reason a further net increase of £1 billion in official assistance to the money market was needed, mostly in the form of net purchases of commercial bills; by the end of the period the amount of such assistance outstanding (other than that provided through Treasury bill operations) had risen in nominal value to nearly £12 billion.

Table D
Influences on the cash position of the money market[a]
£ billions; *not seasonally adjusted*
Increase in the market's cash +

Banking months	June 84– Aug. 84	Sept. 84– Nov. 84	Dec. 83– Nov. 84
Factors affecting the market's cash position			
CGBR (+)	+3.1	+3.4	+11.2
Net sales of central government debt(b)(−)	−3.2	−4.8	−13.3
of which:			
Gilt-edged	*−2.6*	*−2.7*	*− 9.4*
National savings	*−0.4*	*−1.4*	*− 3.6*
CTDs	*−0.2*	*−0.6*	*− 0.3*
Currency circulation (increase −)	−0.4	—	− 0.7
Other	—	+0.4	− 0.4
Total (A)	**−0.5**	**−0.9**	**− 3.3**
Official offsetting operations			
Net increase (+) in Bank's holdings of commercial bills(c)	+0.6	+0.8	+ 3.0
Net increase (−) in Treasury bills in market	—	+0.2	+ 0.2
Other	−0.2	—	+ 0.1
Total (B)	**+0.4**	**+1.0**	**+ 3.3**
Change in bankers' balances at the Bank (A+B)	−0.1	+0.1	—

(a) Components may not add up to totals because of rounding.

(b) Other than Treasury bills.

(c) By the Issue and Banking Departments of the Bank of England.

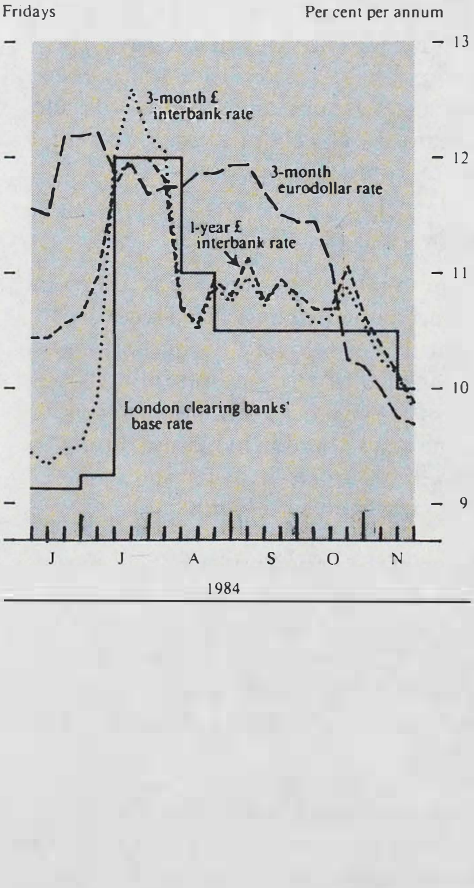
The daily shortages of cash in the money market were very large during the period: in banking September and October they averaged £640 million. This reflected both the continuing need to roll over the large stock of assistance outstanding and the further need to finance the net flow of funds into the Exchequer. These shortages in banking September and October were met largely by purchases of eligible bills by the Bank, both outright and on a purchase and resale basis. The prospect at mid-October was that a further net increase in assistance to the money market would be needed, and in order to avoid putting further strain on the supply of eligible bills the Bank made temporary facilities available to the banking system. As in the past, the facilities took two forms, namely the sale to the Bank and subsequent repurchase of gilt-edged stocks, and the provision of finance against promissory notes in relation to holdings of long-term sterling export credit paper. They were available from 19 October to 14 November and thus unwound before the end of the period under review, so they do not feature in Table D.

Banks were able to borrow up to 1% of their eligible liabilities under these arrangements; in the event some £0.7 billion was taken up. This helped to reduce the scale of the shortages, though increasing market optimism about a fall in interest rates meant that the maturity of the other assistance provided by the Bank to the money market tended to shorten, so that it needed to be rolled over more frequently. The cash shortages in banking November averaged £550 million a day.

After the end of the period these temporary facilities for the banking system were once again made available, in larger amounts, to help meet the need for further increases in assistance to the money market arising in particular from the sale of British Telecom shares.

The money market

Short-term interest rates in London *resumed their downward path in November*



The September *Bulletin* described the downward movement in interest rates which started in early August when the period now under review began on 16 August: this downward movement was nearing completion. The general level of short-term interest rates fell by $\frac{1}{2}$% on 17 August, bringing bank base rates down to 10$\frac{1}{2}$% and reversing a further part of the rise which had taken place in July.

Immediately after that change, the money-market yield curve was nearly flat, with the one-month interbank rate at 10$\frac{11}{16}$%, the three-month rate at 10$\frac{9}{16}$% and the one-year rate at 10$\frac{5}{8}$%. Conditions were seasonally quiet until early September, apart from some nervousness about industrial relations.

During September the weakening of sterling against a strong dollar, and intermittent further nervousness about industrial relations, led to periods of market anxiety about a possible rise in short-term interest rates. At times, the three-month interbank rate rose to 11% or above. The Bank, however, acted to resist a rise in the general level of interest rates, continuing to buy bills at its earlier rates. Towards the end of September the market anxieties diminished, helped by the 'flash' estimate of United States GNP in the third quarter (published on 20 September), by small reductions in US prime rates, and by the Deutsche Bundesbank's intervention in the foreign exchange market on 21 September, which brought about a sharp fall in the dollar exchange rate.

Conditions were quiet until mid-October, despite the disappointing September money figures, but the reductions in oil prices announced then, including BNOC's reduction on 17 October, both led to a general weakening of sterling and caused interest rate anxieties to re-emerge. Sentiment improved shortly afterwards as all the main sources of market anxiety moderated: dollar interest rates fell; the National Coal Board reached a settlement with NACODS on 24 October; and new OPEC oil production quotas were agreed on 31 October. There was strong market pressure early in November for a reduction in the general level of short-term interest rates and on 5 November the Bank accepted offers of bills at $\frac{1}{2}$% below the rates at which it had been buying bills earlier. The clearing banks announced reductions in their base rates (to 10%) the following day after the provisional money figures for banking October had been published.

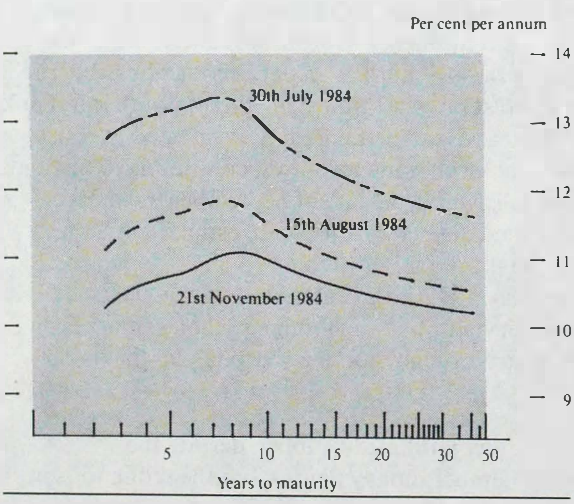
Pressure for a further fall in rates persisted, and, with interbank rates below 10%, Barclays Bank announced a further reduction of $\frac{1}{4}$% in its base rate on 19 November. The Bank endorsed this move by buying bills on that day at rates $\frac{1}{4}$% lower than previously. Following the $\frac{1}{2}$% cut on 21 November in the Federal Reserve discount rate, and despite some weakening in oil prices, the other large London clearing banks on 22 November announced reductions of $\frac{1}{2}$% in their base rates to $9\frac{1}{2}$%; the Bank responded by accepting offers of bills at rates a further $\frac{1}{4}$% down.

Over the period from 20 August to 23 November[1] as a whole, interest rates fell modestly. In the interbank market, the one-month rate fell by over 1% to $9\frac{21}{32}$%; the three-month rate by $\frac{15}{16}$% to $9\frac{3}{4}$% and the one-year rate by $\frac{13}{16}$% to $9\frac{15}{16}$%. Bank base rates fell by 1% to $9\frac{1}{2}$%.

By the end of September most building societies' base annuity mortgage rates were $\frac{1}{4}$% to $\frac{1}{2}$% above the Building Societies Association's advised rate of $12\frac{1}{2}$%, which was set in July, and at the November meeting of the BSA Council the advised rate system was formally abandoned. The Council did agree, however, that it was appropriate for interest rates to be reduced, and most major building societies subsequently lowered their mortgage rates and net share rates by about 1%, so that their base annuity mortgage rates came down to $11\frac{3}{4}$%–12%.

The gilt-edged market

The time/yield curves of British government stocks.



The downward movement in interest rates which preceded the period under review was accompanied by a sharp recovery in the gilt-edged market. During this recovery, the authorities had already secured £0.4 billion of gilt-edged receipts for banking September through sales of 11% Exchequer Stock 1989 in partly-paid form. Only one stock was due to mature during the three months to mid-November—12% Treasury Stock 1984, of which some £0.7 billion was in market hands.

On 16 August, the first day of the period under review, the tender took place of $10\frac{1}{2}$% Treasury Convertible Stock 1992; the particular features of this stock were described in the September *Bulletin* (page 326). Only a small proportion of the £750 million of stock on offer to the public was sold at the tender, but there were substantial sales the following day in the secondary market.

Market conditions were generally subdued for the rest of banking September, reflecting market concern about a possible rise in short-term interest rates provoked by anxieties about industrial relations and the continuing worldwide appreciation of the dollar. Towards the end of the banking month the Bank announced small tranches of two low-coupon short-dated conventional stocks in order to replenish its supplies of this type of stock—£150 million of $2\frac{1}{2}$% Exchequer Stock 1986 and £100 million of 3% Treasury Stock 1987.

In the event a large part of the demand for gilt-edged in banking September proved to have come from non-residents; this was not, however, the result of the provision of exemption from UK taxation to non-resident holders of $10\frac{1}{2}$% Treasury Convertible 1992, only a small amount of which was in fact taken up by non-residents.

(1) This is not quite the same as the three banking months September, October and November, but is a more convenient period for the purposes of the narrative.

Table E
Issues of gilt-edged stock

Stock	Amount issued (£ millions)	Date announced	Method of issue	Date issued	Price per £100 stock (£)	Payable per £100 stock: Initial payment (£)	Payable per £100 stock: Further instalments (£)	Redemption yield (per cent)	Date exhausted
$10\frac{1}{2}$% Treasury Convertible 1992(a)	950(b)	10/8	Minimum price tender	16/8	95.25	30	30 (10/9) 35.25 (8/10)	11.43(c)	26/9
$2\frac{1}{2}$% Exchequer 1986	150	14/9	Direct to Bank	14/9	—	—	Fully paid	—	2/11
3% Treasury 1987	100	14/9	Direct to Bank	14/9	—	—	Fully paid	—	5/11
10% Treasury 1987	100	28/9	Direct to National Debt Commissioners	28/9	—	—	Fully paid	—	—
$10\frac{1}{2}$% Exchequer 1988	200	28/9	Direct to Bank	28/9	—	—	Fully paid	—	4/10
$8\frac{3}{4}$% Treasury 1997	200	28/9	Direct to Bank	28/9	—	—	Fully paid	—	5/10
$12\frac{1}{2}$% Treasury 2003-05	150	28/9	Direct to Bank	28/9	—	—	Fully paid	—	2/10
2% Index-Linked Treasury 1990	100	28/9	Direct to Bank	28/9	—	—	Fully paid	—	5/10
$2\frac{1}{2}$% Index-Linked Treasury 2009	100	28/9	Direct to Bank	28/9	—	—	Fully paid	—	4/10
$2\frac{1}{2}$% Index-Linked Treasury 2003	100	12/10	Direct to Bank	12/10	—	—	Fully paid	—	31/10
$2\frac{1}{2}$% Index-Linked Treasury 2016	200	12/10	Direct to Bank	12/10	—	—	Fully paid	—	5/12
$9\frac{3}{4}$% Treasury Convertible 1988	150	26/10	Direct to Bank	26/10	—	—	Fully paid	—	30/10
11% Exchequer 1991	150	26/10	Direct to Bank	26/10	—	—	Fully paid	—	30/10
$9\frac{1}{2}$% Treasury 1999	150	26/10	Direct to Bank	26/10	—	—	Fully paid	—	30/10
$11\frac{1}{2}$% Treasury 2001-04	150	26/10	Direct to Bank	26/10	—	—	Fully paid	—	29/10
$9\frac{3}{4}$% Exchequer 1998 'A'	1,100(d)	2/11	Minimum price tender	7/11	93.50	20	40 (10/12/84) 33.50 (14/1/85)	10.67	—

(a) The prospectus includes provision for exemption from UK taxation in favour of non-resident holders of both $10\frac{1}{2}$% Treasury Convertible Stock 1992 and $9\frac{3}{4}$% Conversion Loan 2003 and for $9\frac{3}{4}$% Conversion Loan 2003 to be available in bearer form.

(b) Of which £200 million was reserved for the National Debt Commissioners.

(c) Yield to 1992. Holdings may, at the option of the holder, be converted in whole or in part into $9\frac{3}{4}$% Conversion Loan 2003, as on the following dates:

Date of conversion	Nominal amount of $9\frac{3}{4}$% Conversion Loan 2003 per £100 nominal of $10\frac{1}{2}$% Treasury Convertible Stock 1992	Implied redemption yield (%)
7 November 1985	£98	10.20
7 May 1986	£96	10.05
7 November 1986	£94	9.90
7 May 1987	£92	9.77
7 November 1987	£90	9.66

(d) Of which £100 million was reserved for the National Debt Commissioners.

Domestic market sentiment improved in banking October—including in the index-linked sector—following the publication on 20 September of the 'flash' estimate of US third quarter GNP and reductions in some US banks' prime rates, and after the sharp general fall in the dollar brought about by the Deutsche Bundesbank's foreign exchange operations on 21 September. On 26 September the 1992 convertible tap stock was exhausted, and with sentiment remaining firm the Bank announced on 28 September a package of small tranches of existing stocks. These were £200 million each of $10\frac{1}{2}$% Exchequer Stock 1988 and $8\frac{3}{4}$% Treasury Loan 1997, £150 million of $12\frac{1}{2}$% Treasury Stock 2003–05 and £100 million each of 2% Index-Linked Treasury Stock 1990 and $2\frac{1}{2}$% Index-Linked Treasury Stock 2009. In addition, £100 million of 10% Treasury Stock 1987 was issued to the National Debt Commissioners.

Heavy demand for stock, both conventional and index-linked, emerged early in October; the tranche of 2003–05 stock was exhausted on the 2nd, followed by the 2009 index-linked stock and the 1988 stock on the 4th, and the 1990 index-linked stock and the 1997 stock on the 5th. Conditions in the conventional market became quieter the following week, but demand for index-linked stocks persisted and their prices moved sharply higher. To meet the demand, the Bank announced on 12 October further tranches of index-linked stock—£100 million of $2\frac{1}{2}$% Index-Linked Treasury Stock 2003 and £200 million of $2\frac{1}{2}$% Index-Linked Treasury Stock 2016; this did not in any way dampen market enthusiasm for index-linked stocks, the prices of which advanced by up to a point in late dealings after the announcement. Some of this new stock was sold on 15 October, but thereafter market conditions became subdued for a period on adverse developments in industrial relations and market concern about oil prices.

As in the money market, sentiment improved once more after the National Coal Board's settlement with NACODS on 24 October and after the OPEC agreement on new oil production quotas on 31 October. In order to push the funding programme forward the Bank announced on 26 October four small tranches of existing convertible stocks—£150 million each of $9\frac{3}{4}$% Treasury Convertible Stock 1988, 11% Exchequer Stock 1991, $9\frac{1}{2}$% Treasury Loan 1999 and $11\frac{1}{2}$% Treasury Stock 2001–04. Amid strong demand the tranche of 2001–04 stock was sold out the following Monday, 29 October; the other three were exhausted the next day. Demand for index-linked stock continued and the tranche of 2003 stock was sold out on 31 October. On 2 November, the tranche of $2\frac{1}{2}$% Exchequer Stock 1986 was also exhausted.

In the light of this strong demand, and with indications of encouraging money figures to come, but with no pressing need for immediate funds, the Bank announced on 2 November a further tranche of £1000 million [1] of $9\frac{3}{4}$% Exchequer Stock 1998, in 20% paid form with the later instalments due on 10 December 1984 and 14 January 1985, after the completion of the British Telecom sale. A substantial amount of this stock was sold at the tender on 7 November and further amounts were sold at progressively higher prices in the strong conditions which followed.

Over the period as a whole, gilt-edged yields fell. On conventional stocks, 5-year yields fell by $\frac{15}{16}$% to $10\frac{3}{4}$%, 10-year yields by $\frac{1}{2}$% to $10\frac{15}{16}$% and 20-year yields by $\frac{7}{16}$% to $10\frac{3}{8}$%. There was a strong rally in index-linked stocks, the yields on which also fell—on the 1988 stock by $\frac{1}{4}$% to 5% and on the 2020 stock by $\frac{5}{16}$% to $3\frac{1}{8}$%.[2] Table F shows how the numbers of holders of the various index-linked stocks have changed over the last two years. The recent rally was accompanied by a significant increase in the number of holders, particularly personal holders, of the shorter-dated stocks, but no great increase in the numbers of holders of the longer-dated stocks.

Table F
Number of holdings of index-linked stocks

Maturity	Nominal amount outstanding (£ millions)	Number of holdings(a) Early Oct. 1982	Mid-May 1983	End-May 1984	Early Nov. 1984
1988	1,000(b)	10,800	24,900	27,700	29,400
		8,000	*18,200*	*19,800*	*21,100*
1990	400(b)	—	—	1,700	3,300
				1,000	*2,200*
1996	1,000	2,100	4,400	5,000	5,300
		900	*2,600*	*3,300*	*3,600*
2001	350(b)	—	1,100	1,300	1,400
			800	*1,000*	*1,000*
2003	450(b)	—	900	900	1,000
			600	*600*	*600*
2006	1,000	900	1,000	1,000	1,000
		300	*400*	*400*	*500*
2009	600(b)	—	400	400	400
			100	*100*	*200*
2011	750	800	800	600	600
		200	*300*	*200*	*300*
2016	950(b)	—	900	800	800
			500	*500*	*500*
2020	750	—	—	200	400
				—	*100*

(a) The figures in *italics* show the number of holdings identified as personal—ie the holdings of private funds and private trusts. All figures are rounded to the nearest hundred.

(b) The amounts outstanding of the stocks have been increased as follows:

Maturity	
1988:	from £750 million to £1,000 million in December 1982.
1990:	from £300 million to £400 million in September 1984.
2001:	from £250 million to £350 million in September 1983.
2003:	from £250 million to £350 million in September 1983.
	from £350 million to £450 million in October 1984.
2009:	from £400 million to £500 million in September 1983.
	from £500 million to £600 million in September 1984.
2016:	from £750 million to £950 million in October 1984.

Other capital markets

The equity market began the period under review in a subdued mood with investors concerned by the possibility of a second dock strike and uncertain about the future trend of interest rates. When the strike was eventually called, however, there was little impact on the market and, as confidence returned, share prices advanced modestly towards the end of August. On 3 September the FT-Actuaries all-share index closed at 521.63, its best level for over three months.

(1) A further £100 million was reserved for the National Debt Commissioners.

(2) The real yields quoted assume retail price inflation at 5% per annum.

The cancellation on 4 September of talks to settle the coal strike, and the fall of sterling to a new low against the US dollar, interrupted this better tone and share prices fell back again. Sentiment was subsequently helped by a resumption of coal talks, and the weakness of sterling prompted some demand for the shares of export-oriented companies, but conditions nevertheless remained quiet. On 20 September, news of the ending of the dock strike coincided with an improvement in sterling to produce a strong advance. Despite some occasional weakness reflecting adverse developments in the coal dispute, share prices continued to advance during the latter part of the month with the FT-Actuaries all-share index closing at 536.48 on 27 September; this advance reflected, in particular, increased interest in clearing bank shares once agreement by Argentina had been concluded for an IMF stand-by credit, and renewed demand for oil companies' shares reflecting hopes that OPEC countries would not increase their production.

At the beginning of October conditions were unsettled by weakness on Wall Street and the suspension of Johnson Matthey shares. Although hopes of lower interest rates caused an early recovery, trading remained very light until shortly before mid-month when rising hopes of a settlement of the coal dispute and eventual interest rate reductions led to renewed investor interest. This improvement ended, however, when NACODS decided to strike and prices fell quite sharply; the market also had to absorb the effects of reductions in the price of oil and further weakness in sterling. The downward drift persisted until 19 October when a sustained recovery began, initially prompted by strength on Wall Street and subsequently fortified by a prospect of the NACODS strike being averted and news that OPEC planned to cut production rather than prices.

The recovery continued to gather strength during the early part of November as investors gained further encouragement from advances on Wall Street and expectations of a cut in domestic interest rates. Share prices moved higher on news of the settlement of the labour dispute at Jaguar and lower mortgage rates. The increasing drift back to work in the coalfields and the Chancellor's Autumn Statement on 11 November added further to the more optimistic mood. The FT-Actuaries all-share index reached a new record level of 559.9 on 13 November before easing slightly to close on 21 November at 552.89, an increase of 8.2% over the period.

Companies continued to raise substantial amounts of *new equity finance* during the period under review. Towards the end of the period investors were increasingly pre-occupied with the impending sale of 50.2% of the issued ordinary share capital of British Telecommunications p.l.c. A pathfinder prospectus was published on 26 October, and the full prospectus on 16 November announced that 3,012,000,000 ordinary shares in the company were offered for subscription on 28 November at a price of 130p per share, payable as to 50p on application, 40p on 24 June 1985 and 40p on 9 April 1986. In the event, over £6 billion of applications were received for shares worth £1.5 billion.

Domestic issuers showed more interest in *the fixed-interest market* than during the previous three months, with three companies raising a total of £90.3 million through placings of

Table G
Amounts raised in the capital market

£ millions: *not seasonally adjusted*
Net cash raised +

Banking months	Dec. 83–Feb. 84	Mar. 84–May 84	June 84–Aug. 84	Sept. 84–Nov. 84
UK private sector				
Loan capital and preference shares	+ 27	+ 99	+109	+ 69
Equity capital(a)	+193	+314	+497	+535
Unit trusts(b)	+499	+372	+275	+169(c)
Issues on the unlisted securities market	+ 49	+ 42	+ 41	+ 48
Local authorities				
Stocks	+ 22	– 11	—	– 6
Negotiable bonds	+ 38	– 66	– 61	– 88
Overseas	+ 85	+260	+224	+296

(a) Net issues by listed UK public companies.
(b) Calendar months.
(c) September and October only.

Table H
Debt issues announced on the London capital market, mid-August to mid-November 1984[a]

Date of Announcement	Issuer	Nominal amount (£ millions)	Coupon (per cent)	Maturity
Domestic borrowers				
29 August	Edinburgh Investment Trust	40	$11\frac{1}{2}$	2014
1 October	London Shop Property Trust	12	$11\frac{5}{8}$	2018
10 October	Slough Estates	40	$11\frac{1}{4}$	2019
Overseas borrowers				
17 September	European Investment Bank	100	$10\frac{3}{8}$	2004
8 October	Kingdom of Sweden	100	11	2012
22 October	African Development Bank	50	$11\frac{1}{8}$	2010

(a) All the issues by domestic borrowers were placed. Issues of convertible loan stock and issues of less than £3 million are not included.

stock. Local authorities, however, made no issues and no stock was issued under droplock arrangements by local authorities or other borrowers. Droplock arrangements currently outstanding remain as shown in the June *Bulletin.* Overseas borrowers, on the other hand, continued to tap the market to much the same extent as in the three previous months with three issuers raising a total of £250 million.

The eurosterling market was fairly active from the end of August onwards. Six fixed-rate issues were made, including four by UK corporate borrowers who accounted for £280 million of the £365 million of funds raised in this way. There were also nine issues of floating-rate notes with a total value of £688 million.