Financial review

The review describes developments in various financial markets, mainly in the period May to July.

Summary

The money market *Conditions were fairly tight in May but thereafter fluctuated considerably. The Bank's minimum lending rate fell from $8\frac{1}{4}\%$ at the beginning of the period to 7% by early August.*

Capital markets *In the gilt-edged market, yields rose on balance and turnover dropped sharply; two variable rate stocks were launched. In the equity market, prices rose strongly at first but then fell back somewhat, and new issues were sharply up.*

Foreign exchange and gold markets *The pound was held at $1.72 against the US dollar until 27th July; it then recovered the ground it had lost in effective terms since the latter part of June. The dollar weakened markedly against the Japanese yen and the 'snake' currencies.*

Euro-currency markets *In the second quarter, the growth of the London market seems to have slowed down.*

Oil money movements *The oil-exporting countries' revenues were higher in the second quarter than in the first, but their estimated surplus was rather lower.*

Commodity markets *Trading was generally quiet during May to July, and most prices fell.*

The money market

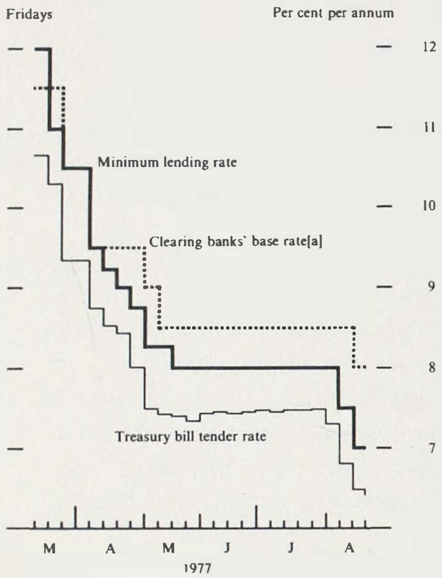
Except during the first two weeks of May, when the Bank felt it necessary to continue to restrain the fall in interest rates which had been such a significant feature of the market over the previous five months, the period under review was relatively uneventful.

Conditions were fairly tight in May, with the market requiring assistance on most days and tax payments causing particular shortages in the fourth week, but they became easier in the first part of June, and the Bank needed to intervene less frequently. There followed a week of severe shortages, when large tax payments coincided with the oversubscription of the Government's offer for sale of British Petroleum stock (see below); but by early July the reflux of money from the oversubscription, and an inflow of sterling into the market arising from official operations in foreign exchange, produced surpluses which the Bank absorbed by selling large quantities of Treasury bills. There was some tightness again in the middle of July, but at the end of the month conditions became very easy because of government disbursements and further inflows of foreign funds.

Help, when required during the three months, was normally given by buying Treasury or local authority bills or by lending overnight at minimum lending rate. In early May, the Bank lent at minimum lending rate for seven days on six occasions as signals that the fall in interest rates should be restrained. In the exceptional circumstances of the BP oversubscription, by contrast, they lent overnight at below minimum lending rate on two occasions.

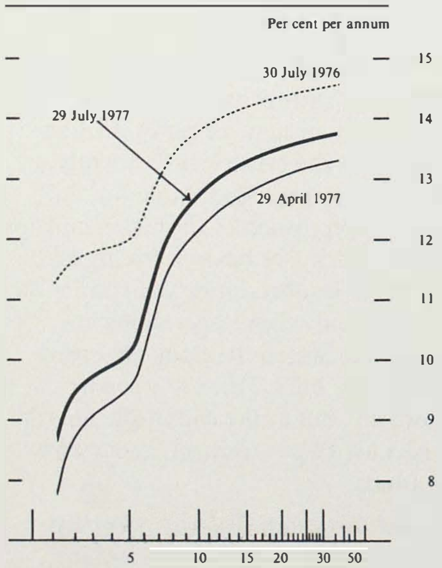
As mentioned in the June *Bulletin*, in this and the preceding period the Bank were prepared to accept some fall in interest rates, but continuing uncertainties about the course of inflation, and the need to finance the prospective public sector borrowing requirement for 1977/78, indicated that the decline should not go

Short-term interest rates in London
Interest rates were extremely stable during most of the three months but fell at the end of July.



[a] Changes are recorded when at least three of the major London clearing banks have changed their rates.

Time/yield curves of British government stocks[a]
Yields rose on balance during May to July.



[a] The lines measure the nominal rate of interest which a stock at each maturity should bear if issued at par. The curve runs from the shortest-dated stock with a life of more than one year to the longest-dated stock. A revision to the construction of these curves was described in the June 1976 *Bulletin* (page 212). The relevant computer program is now available from the Economic Intelligence Department of the Bank at the address given on the reverse of the contents page.

too far or too fast. Accordingly, on Friday, 6th May, with the average discount rate at the Treasury bill tender falling faster than the Bank thought appropriate and the pound weakening a little (see page 304), the Bank exercised their right, as they had on 29th April, to override the formula by which minimum lending rate is normally fixed (see the additional notes to Table 9 in the statistical annex), and set it at $8\frac{1}{4}\%$, rather than allowing it to move down to 8% under the formula. On the following Friday, 13th May, however, with the average rate steadying and in view of the more favourable UK trade figures for the previous month, the formula was allowed to become operative again, and minimum lending rate was reduced to 8%. After falling slightly the next week, the average rate rose a little on 27th May (the first rise since the previous November) in the wake of some pressure on the pound and the upward trend in US interest rates. Thereafter, the average rate remained extremely stable for two months as the pound was kept at a steady rate against the dollar and US interest rates stabilised. Notwithstanding a rise in US interest rates at the end of July, the average rate fell on the 29th after the pound had been allowed to appreciate against the dollar, and more sharply on 5th August, bringing minimum lending rate down to $7\frac{1}{2}\%$; minimum lending rate fell again on 12th August, to 7%.

Early in May, the London and Scottish clearing banks reduced their base rates from 9% to $8\frac{1}{2}\%$ and their seven-day deposit rates from $4\frac{1}{2}\%$ to 4%. Base rates were reduced further, to 8%, early in August, but deposit rates were not changed.

Capital markets

Conditions in the gilt-edged market were mixed during May to July. Whereas rates in the money market were generally stable, yields on gilt-edged stocks, reflecting longer-term uncertainties, were generally rising until the third week in July. Thereafter, they began to fall back. Turnover dropped sharply in the three months compared with February to April.

Towards the end of March, the authorities had resumed their funding operations – after a break of two months – with the issue of £800 million $12\frac{1}{4}\%$ Exchequer Stock 1992.[1] The stock, payable in instalments – because there was no immediate need for large cash proceeds – was heavily oversubscribed. Shortly afterwards, a further partly-paid stock was issued – £800 million $9\frac{1}{4}\%$ Exchequer Stock 1982. Although technically medium-dated, this issue effectively functioned as a short-dated tap stock until its exhaustion on 13th May.

The following Monday, 16th May, it was announced that an initial issue of £400 million of a variable rate stock was to be created on 27th May and allotted in full to the Issue Department of the Bank.[2] The rate of interest payable is the daily average, over a six-month reference period, of the Treasury bill discount rate, with the addition of a fixed margin of $\frac{1}{2}\%$. The issue, entitled Variable Rate Treasury Stock 1981, was seen by the authorities as an experiment to test market demand. It was available for purchase through the Government Broker, who was prepared to consider bids from the market from 30th May, and it met with a substantial response. Official supplies were exhausted just over three weeks later, on 22nd June, with probably around half of the issue taken up by the banking sector.

On 1st July, a second variable rate stock – £400 million Variable Rate Treasury Stock 1982 – was created. Except for the maturity and dividend dates, the terms and conditions of the 1982 issue

[1] See the June *Bulletin*, page 163.
[2] See the June *Bulletin*, page 164.

were identical with those of the previous issue. It was issued to enable the Bank to meet further demand for such stock and has been available for purchase through the Government Broker since 4th July.

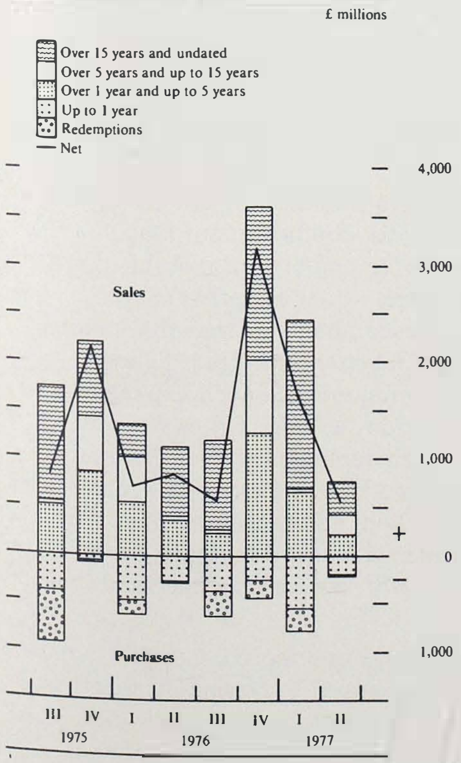
The second variable rate stock sold more slowly than the first. At the end of July, as demand for fixed-interest stocks revived and interest rates fell, the prices of the variable rate stocks began to decline slightly.

In the meantime, a conventional fixed-coupon stock – £800 million $11\frac{3}{4}\%$ Treasury Stock 1991, at £94.00 per cent – was issued on 2nd June, with £15 payable on application, £15 on 7th July and £64 on 8th August. Initial applications from the public were negligible and, although technically medium-dated, the issue functioned as a long-dated tap stock.

At the end of July and in early August, demand for gilt-edged stocks became very strong: official supplies of the 1991 stock were exhausted on 2nd August; a new short-dated stock, £800 million $9\frac{1}{2}\%$ Exchequer Stock 1981 at £97.50 per cent (payable in full on application) was issued on 4th August and exhausted on the 8th; three days later, a new long-dated stock, £800 million $12\frac{1}{2}\%$ Exchequer Stock 1994 at £96.00 per cent (with £15 payable on application, £40 on 6th September and £41 on 26th September) was issued to the public and oversubscribed.[1] Two further issues were announced on 19th August – £800 million $9\frac{1}{4}\%$ Treasury Stock 1983 and £600 million 3% Exchequer Stock 1983.

Official transactions in gilt-edged stocks by maturity

In the June quarter, the authorities sold nearly £600 million net of stock, including calls on a previously issued security.



During the June quarter, the authorities sold £580 million net of stock, of which £350 million was long-dated (more than accounted for by calls on $12\frac{1}{4}\%$ Exchequer Stock 1992, issued and oversubscribed in March). Net sales of stocks within one to five years of maturity amounted to £225 million and of medium-dated to £205 million. The authorities bought £200 million (net) of stocks within one year of maturity.

There was a continuous flow of local authority stock issues during May to July, and net new money raised by such issues and by bonds during the three months amounted to £90 million. The queue of authorities wishing to make issues lengthened.

The inflow into national savings fell back sharply after the withdrawal of the sixteenth issue of savings certificates at the end of March. However, the 10% interest rate (gross of tax) on the National Savings Bank's investment account became increasingly attractive to investors as competing interest rates fell. Indeed there were sizable inflows of institutional money into this account at the end of both May and June and also in July immediately before the introduction on the 22nd of a £50,000 limit on new deposits.

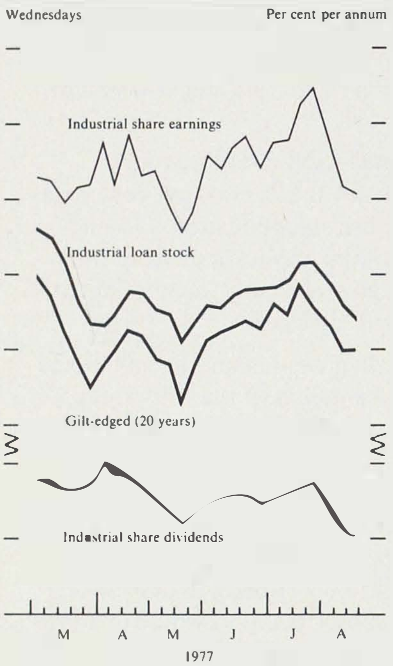
Turnover in the equity market fluctuated widely during the period. In May it was very heavy, but in June it dropped back sharply because of economic uncertainties and in advance of the Government's massive offer of British Petroleum stock (see below). Turnover remained subdued in July. The FT-Actuaries industrial (500) share price index, which stood at 198 at the end of April, continued to rise strongly until the middle of May – reaching 214 on the 18th – before dropping back to 204 by the end of July.

The main feature of this period was the offer for sale by the Government of nearly 67 million ordinary stock units of £1 each of The British Petroleum Company Limited. The stock was offered in the United Kingdom at a price of £8.45 per unit – £3 payable on

[1] A further £200 million of this stock was reserved for the Commissioners for the Reduction of the National Debt, for public funds under their management.

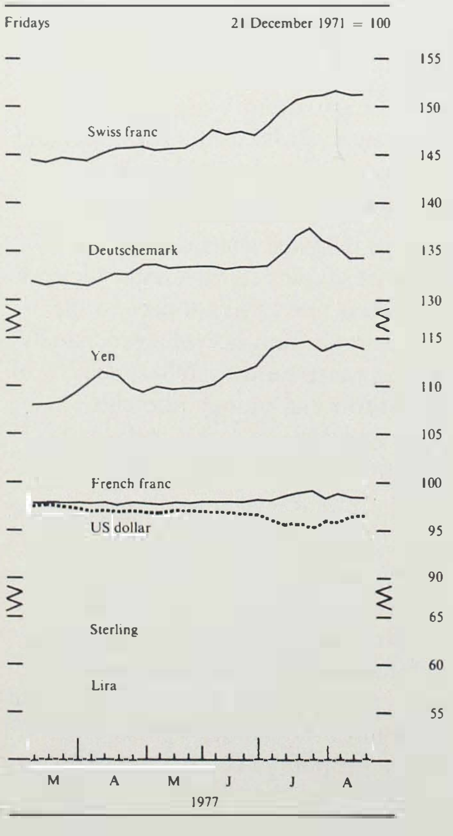
Security yields

Yields were generally rising during May to July but fell at the end of the period.



Indices of effective exchange rates

Sterling's effective exchange rate index rose slightly at the end of July when the pound was allowed to appreciate against the dollar.



application (24th June) and the balance on or before 6th December. The offer was oversubscribed, and it was decided that the amount of stock to be made available to North American investors, initially estimated as unlikely to exceed 25% of the offer, would be limited to 20%.

New money raised by issues of equity capital increased sharply in May and June and was still substantial in July. The total for the period (about £360 million) was very much higher than in the previous three months; the queue of prospective borrowers continued to lengthen until the middle of June before falling back by the end of July.

Net sales of unit trust units amounted to £27 million, or £15 million more than during February to April.

Turnover in the debenture market was lower than in the previous three months, and yields, as measured by the Bank's index, rose slightly. New money raised by companies by way of loan capital and preference shares (net of redemptions) amounted to only £5 million, even after including a further call of £30 million by Finance for Industry Limited on the issue made in February.[1]

Foreign exchange and gold markets

After coming under some selling pressure late in May, sterling was in strong demand at the end of June and during most of July, with the rate held close to $1.72 until the 27th. The dollar weakened markedly against the Japanese yen and the 'snake' currencies late in June and during July. Consequently, the effective exchange rate index for sterling fell, despite the steadiness of the sterling/dollar rate. On 27th July, in order to counteract the fall in the effective exchange rate index, the authorities allowed the pound to appreciate against the dollar and the sterling/dollar rate rose by about two cents. Among the 'snake' currencies, exchange rate margins narrowed until early July, when the exceptional buoyancy of the deutschemark brought it to the top of the 'snake'. The price of gold fluctuated in a fairly narrow range between May and July.

The stability of the exchange rate against the dollar, which had been established earlier in the year, continued into May, but the pound weakened a little on the 5th and 6th, on rumours that a package of currency realignments would be agreed at the London economic summit meeting. These rumours proved unfounded; and, in anticipation of the much better April trade figures, demand for sterling recovered until minimum lending rate was reduced on 13th May, the same day as some US banks' prime rates were increased. Reports, emanating from New York, that the International Monetary Fund viewed the pound as overvalued, engendered heavy sales on the 24th, and borrowing of sterling through the swap market widened forward margins. Soon afterwards, however, a shortage of sterling developed and some of the sales were reversed.

At the end of May, the exchange rate was close to $1.72, and the effective exchange rate index was 61.6. During the month, the reserves fell by $229 million, after public sector borrowing abroad under the exchange cover scheme of $16 million, and after a further drawing of $360 million under the stand-by arrangement with the IMF.

In early June, before the Jubilee bank holiday, the market was quiet and thin, and demand for sterling was therefore somewhat erratic. Commercial purchases, however, brought the rate up to $1.7196 at the close of business on the 15th. Thereafter, despite growing doubts about the future of incomes policy, upward

[1] See the June *Bulletin*, page 164.

pressure became stronger, both from normal commercial sources and from overseas investors applying for shares in the British Petroleum offer. This pressure was later intensified by the weakness of the US dollar. The rate closed at just above \$1.72 on 30th June although the effective exchange rate index fell to 61.3, because of the weaker dollar. Most of the pressure was absorbed by official intervention: the reserves rose by \$1,671 million after public sector borrowing under the exchange cover scheme of \$40 million and the receipt of \$750 million from an uncovered borrowing by the British National Oil Corporation.

The strength of the pound continued into early July, with the rate frequently a little above \$1.72, but the Transport and General Workers' Union's decision to oppose renewal of the voluntary agreement on pay brought a brief bout of selling on the 7th. However, the rate soon recovered, and the Chancellor's statement in the House of Commons on the 15th, after it had become apparent that the Government would be unable to reach an agreement with the TUC on a third stage of pay restraint, had no visible effect on sterling, which remained in strong commercial demand. The continued weakness of the dollar, and the stability of the sterling/dollar rate, implied a depreciation of the pound against most other currencies. This had led to a fall in sterling's effective exchange rate index from 61.6 on 27th June to 60.6 on 26th July. Accordingly, on the 27th, the authorities allowed the pound to move freely against the dollar and the rate settled just below \$1.74 with the effective exchange rate index around 61.5.

The reserves rose by \$1,850 million in July after public sector foreign currency borrowing under the exchange cover scheme of \$56 million and after receipts of \$205 million from non-residents' take-up of the Government's sale of BP shares in North America. The sterling/dollar rate was \$1.7375 at the end of July and the effective exchange rate index was 61.7.

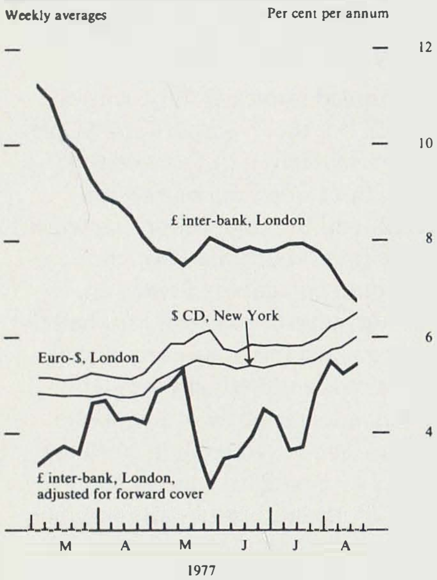
The US dollar went through a period of weakness before the London economic summit, but was then relatively stable for several weeks. However, the downward pressure re-emerged more strongly at the end of June and in early July for a variety of reasons: anxiety over the size of the US trade deficit, the declaration of the OECD ministers that surplus countries should allow their currencies to appreciate, and the statement by the Japanese Prime Minister that Japan would not intervene in the foreign exchange market to stem a further rise in the value of the yen. After recovering some ground around the middle of July, the dollar continued to weaken until the 27th; a sharp appreciation was then brought about by the rise which occurred in the Federal Funds rate in response to excessive growth in the US money supply.

The pressure on the margins between the 'snake' currencies at the beginning of May reflected expectations that the guilder would be revalued. Once the summit meeting had passed with no realignment of parities, the pressure subsided, and the margins were very narrow for most of June. The deutschemark, which had been at the bottom of the 'snake' on 8th June, strengthened sharply after the publication of the communiqué from the OECD ministers' conference on 24th June, and reached the top on 5th July; it stayed there until the end of the month. Despite having been devalued by 6% in April, the Swedish krona was at the bottom of the 'snake' early in May; it returned there on 9th June and remained there, with brief intervals, until the end of July amid continuing rumours that it would be devalued again.

The Japanese yen, which had appreciated by $5\frac{3}{4}\%$ against the US dollar between the beginning of the year and the end of May, moved up by a further $3\frac{1}{2}\%$ in June, rising strongly on the 29th

UK and US three-month interest rates

The uncovered comparison in favour of sterling began to narrow at the end of July; at the same time the covered comparison in favour of the dollar fell even more sharply.



after the Japanese Prime Minister's statement. It strengthened further in the first half of July but later relapsed as the dollar recovered.

In parallel with domestic US rates, the three months' euro-dollar rate rose during May, reaching a peak on the 31st at $6\frac{3}{16}\%$; it stabilised at around $5\frac{7}{8}\%$ until 28th July when US short-term rates moved up again. The three months' euro-dollar rate was $6\frac{1}{4}\%$ at the end of the month. UK inter-bank sterling rates rose less quickly during May, and the uncovered differential narrowed to $1\frac{1}{2}\%$ on the 20th before stabilising at about 2%. It remained there until the shift in exchange rate policy on 27th July, with inter-bank sterling rates at around $7\frac{7}{8}\%$. Thereafter, the differential fell quickly back to $1\frac{1}{2}\%$. The premium on three months' forward dollars widened sharply in May to reach $6\frac{3}{8}\%$ at the end of the month, reflecting speculative activity; it fell back gradually to $3\frac{1}{8}\%$ during June but then rose again to $4\frac{3}{4}\%$ in the middle of July, when a rise in UK interest rates was expected. It then fell rapidly to $2\frac{1}{8}\%$ at the end of the month. The three-month covered interest differential against the dollar remained, as usual, unfavourable to sterling: after widening from $\frac{7}{16}\%$ to $4\frac{5}{16}\%$ towards the end of May, while sterling was under some pressure, it narrowed gradually during June to a low point of 1% as the dollar weakened. After a temporary rise to $2\frac{5}{8}\%$ in the middle of July, it fell back to $\frac{5}{8}\%$ at the end.

The price of gold on the London market fell gradually from $\$147\frac{1}{4}$ per fine ounce on 20th May to a low point of $137 on 14th June, partly influenced by the stability of exchange rates. Thereafter the price recovered, prompted initially by some professional buying and sustained by the dollar's weakness, and ended July at $144 per fine ounce.

Euro-currency markets

Figures published by the Bank for International Settlements show that the euro-currency market contracted slightly in the first quarter of 1977: the gross external foreign currency assets and liabilities of banks in the European reporting countries[1] fell by $\$1\frac{1}{2}$ billion and $\$\frac{1}{2}$ billion respectively, after rising by $27 billion and $33 billion in the previous three months. This reversal was partly seasonal: positions between banks in the reporting area, which had built up by $\$16\frac{1}{4}$ billion in the fourth quarter of 1976, contracted by $6 billion in the following three months, as end-year operations were unwound. Moreover, new credit channelled to final borrowers, which had amounted to an unusually large $17 billion in the fourth quarter, fell to only $8 billion in the first, as some countries met their financing requirements by drawing down deposits rather than by further borrowing.

A broader analysis of international lending and borrowing, covering the total external business (in both domestic and foreign currencies) of banks in the Group of Ten countries and Switzerland, together with the branches of US banks in certain off-shore banking centres, is shown in Table 22 in the statistical annex. New lending by banks in these areas to borrowers elsewhere amounted to only $3 billion in the first quarter after $19 billion in the fourth. Some borrowers, however, also drew down their deposits. Thus, developed countries outside the Group of Ten withdrew $\$3\frac{1}{4}$ billion of deposits as well as borrowing $\$1\frac{1}{2}$ billion; and Eastern European countries repaid $\$\frac{1}{2}$ billion of borrowing and also drew down deposits by over $2 billion, to increase their outstanding net indebtedness to $\$22\frac{3}{4}$ billion. On the other hand, the oil-exporting countries borrowed $2 billion and deposited

[1] Belgium/Luxembourg, France, Western Germany, Italy, the Netherlands, Sweden, Switzerland and the United Kingdom.

UK banks' liabilities and assets by customer[a]

In the second quarter, the growth of the London euro-currency market was probably smaller than the underlying expansion in the previous three months.

$ billions

	1976			1977	
	30 June	30 Sept.	31 Dec.	31 Mar.	30 June
Foreign currency liabilities of UK banks to:					
Other UK banks	44.4	43.9	46.8	48.0	48.4
Other UK residents	5.4	5.5	5.7	6.3	6.8
Overseas central monetary institutions	31.6	33.7	35.7	36.5	37.0
Other banks overseas	85.4	84.2	92.6	93.8	97.3
Other non-residents	18.5	19.6	20.6	20.7	22.2
Other liabilities[b]	1.1	1.2	1.3	1.3	1.6
Total liabilities	186.4	188.1	202.7	206.6	213.3
Foreign currency assets of UK banks with:					
Other UK banks	44.1	43.3	46.6	47.6	48.5
Other UK residents	15.6	16.1	16.8	18.5	18.4
Banks overseas	92.2	93.9	102.6	102.3	107.1
Other non-residents	33.3	34.1	35.9	36.7	38.3
Other assets[b]	2.0	2.0	2.1	2.2	2.4
Total assets	187.2	189.4	204.0	207.3	214.7

[a] Figures differ from those in Table 6 in the statistical annex (see additional notes to Tables 20 and 21).

[b] Mainly capital and other internal funds denominated in foreign currencies.

UK banks' liabilities and claims by country or area

In the second quarter the United States was the major supplier of new funds and the EEC the largest taker.

$ billions outstanding

Net source of funds to London – /net use of London funds +

	1976			1977	
	30 June	30 Sept.	31 Dec.	31 Mar.	30 June
United States	– 5.2	– 4.3	– 3.2	– 4.7	– 6.7
Canada	– 2.4	– 2.1	– 2.5	– 2.4	– 1.6
European Economic Community	+ 1.2	+ 1.7	+ 1.4	+ 1.6	+ 3.9
Other Western Europe	– 13.0	– 13.3	– 11.8	– 11.1	– 11.2
Eastern Europe	+ 5.4	+ 5.7	+ 6.1	+ 6.4	+ 6.9
Japan	+ 13.4	+ 13.8	+ 12.6	+ 12.3	+ 10.8
Oil-exporting countries[a]	– 20.9	– 22.1	– 22.9	– 23.6	– 23.7
Countries engaged in off-shore banking	+ 8.4	+ 8.5	+ 8.5	+ 10.2	+ 10.0
Other countries	+ 2.9	+ 1.8	+ 1.2	– 0.9	+ 0.6
	– 10.2	– 10.3	– 10.6	– 12.2	– 11.0

[a] Listed in the footnote to Table 19 in the statistical annex.

Maturity structure of UK banks' net foreign currency position

Net borrowing at less than eight days fell sharply between mid-February and mid-May 1977.

$ billions

Net liabilities – /net assets +

	1977	
	mid-Feb.	mid-May
Less than 8 days[a]	– 11.0	– 8.3
	– 7.3	*– 4.7*
8 days to less than 3 months	– 17.0	– 19.5
3 months to less than 1 year	– 5.8	– 7.8
Net borrowing up to 1 year	– 33.8	– 35.6
Net lending at 1 year and over	+ 34.1	+ 36.0
	+ 0.3	+ 0.4

[a] Figures in italics include all holdings of London dollar certificates of deposit, regardless of maturity, as these are immediately realisable assets for the holding bank.

\$3¾ billion, raising their net supply of outstanding funds to \$42 billion. Nothing was borrowed in this period by the non-oil developing countries while \$2 billion was added to their deposits (mainly by Asian and African countries): the collective indebtedness of these countries as a group, net of their deposits, was thus reduced to \$29½ billion. Latin America had outstanding net borrowing of \$35 billion; the other non-oil developing countries were, taken together, net suppliers of \$5½ billion.

Only limited information is yet available for the second quarter. The volume of newly announced medium-term euro-credits[1] amounted to \$8¼ billion, rather less than the nearly \$9 billion in the first quarter, but new foreign and international bond issues totalled \$8 billion in the second quarter after \$6¼ billion in the first.

The rate of expansion of the London euro-currency market, which accounts for about half of the total European euro-currency market, appears to have slowed down in the second quarter: the gross foreign currency liabilities of the reporting institutions increased by \$6¾ billion, compared with an underlying increase of \$8–9 billion (after adjustment for the unwinding of end-year positions) in the previous three months. \$5½ billion of the new deposits in the second quarter came from overseas residents.

By area, the United States, which channelled a further \$2 billion net to the London market, was the main supplier of new funds, and the decline in Japan's net borrowing from London released an additional \$1½ billion to the market. The major oil-exporting countries, unusually, supplied no new funds, the increase in their deposits in the United Kingdom being offset by a similar increase in their gross borrowing. By contrast, the EEC countries borrowed a net \$2¼ billion, and 'other countries' (mainly in Latin America) took \$1½ billion.

A quarterly maturity analysis of the foreign currency liabilities and assets of reporting institutions in the United Kingdom was completed as at 18th May 1977 (see Table 21 in the statistical annex). In the three months to mid-May, the term of banks' liabilities lengthened; this was probably associated with the firming of euro-dollar rates, which encouraged depositors to arrange longer maturities. Thus, while banks' total liabilities rose by over \$9 billion, those at less than eight days fell – for the first time in nearly two years – by over \$1 billion. In net terms, borrowing at less than eight days declined by \$2¾ billion, largely because of the activities of the American banks. As a proportion of total net liabilities up to one year, such borrowing fell from 33% to 23%. Correspondingly, the proportion of net liabilities up to one year represented by net borrowing at eight days to less than three months and at three months to less than one year rose, to 55% and 22% respectively.

Oil money movements

Total estimated oil revenues of the oil-exporting countries rose again in the second quarter; the corresponding volume of oil exports was slightly smaller but it attracted the full effects of the January price increase.

Despite the rise in revenues, the cash surplus available to the oil-exporting countries for investment abroad, for government loans and for additions to financial reserves was rather lower than in the first quarter; imports of goods and services were still rising, although more slowly than in 1976.

Total sterling holdings rose slightly in the second quarter. In April, the oil-exporting countries took up \$156 million of British

[1] These enter the BIS figures only as the loans are taken up, and only to the extent that the credits are not replacing maturing debt.

Estimated oil revenues of exporting countries

Oil revenues were higher in the second quarter, entirely because of the January rise in prices.

$ billions

1975	1976	1977		
Year	Year	1st qtr	2nd qtr	1st half
96.8	113.2	31.9	32.6	64.5

Estimated deployment of oil exporters' surpluses

The total surplus in the second quarter is provisionally estimated to have been the lowest for nearly two years.

$ billions

	1975	1976	1977		
	Year	Year	1st qtr	2nd qtr (provisional)	1st half (provisional)
United Kingdom					
British government stocks	0.4	0.2	− 0.1	− 0.1	− 0.2
Treasury bills	− 0.9	− 1.2	—	− 0.1	− 0.1
Sterling deposits	0.2	− 1.4	0.2	0.3	0.5
Other sterling investments[a]	0.3	0.5	0.1	0.1	0.2
British government foreign currency bonds	—	—	—	0.2	0.2
Foreign currency deposits	4.1	5.6	2.0	1.4	3.4
Other foreign currency borrowing	0.2	0.8	—	—	—
	4.3	4.5	2.2	1.8	4.0
United States					
Treasury bonds and notes	2.0	4.2	1.0	1.0	2.0
Treasury bills	0.4	− 1.0	1.5	− 1.0	0.5
Bank deposits	0.6	1.6	0.2	− 0.3	− 0.1
Other[a]	6.5	7.2	1.2	2.7	3.9
	9.5	12.0	3.9	2.4	6.3
Other countries					
Bank deposits	5.0	7.0	1.5	1.5	3.0
Special bilateral facilities and other investments[a][b]	12.4	10.3	2.3	2.6	4.9
	17.4	17.3	3.8	4.1	7.9
International organisations	4.0	2.0	0.1	—	0.1
Total	35.2	35.8	10.0	8.3	18.3

[a] Includes holdings of equities and property etc.

[b] Includes loans to developing countries.

government foreign currency bonds in exchange for sterling, which reduced official balances, and at the end of June they increased their private sterling holdings by the remittance of application monies in response to the Government's offer for sale of British Petroleum stock. During the quarter, oil-exporting countries' foreign currency deposits with UK banks again increased, but not to the same extent as in previous quarters.

The amount invested in the United States, some $2 billion, was rather less than in the previous quarter, largely because holdings of US Treasury bills and other short-term assets fell sharply in June. The proportion of the total surplus invested in the United States fell slightly but remained at about one third.

It is probable that deposits with banks in other countries continued to rise strongly.

More special bilateral facilities and other investments were arranged than in recent quarters; they included some lending to Egypt through the Gulf Organisation for Development.

Commodity markets

Commodity trading was generally quiet during May to July. Demand for industrial raw materials remained slack, and supply prospects for most foodstuffs improved; most prices were lower over the period, and *The Economist* dollar index of commodity prices, which had reached a peak in mid-April, fell by as much as 16%.

There was a continuing good turnover in the London terminal markets, particularly in coffee, cocoa and tin. Coffee in fact remained the main feature in the markets, with prices fluctuating sharply; the decline seen in July was checked before the end of the month when the Brazilian state trading corporation entered the market as a buyer of September futures, with the reported intention of taking delivery when the contracts matured; the International Commodities Clearing House subsequently used its power to ensure the financial stability of the London terminal market by imposing special deposits on sizable long and short positions. Cocoa and tin rose in price because of shortages.

The London Metal Exchange continued to fulfil its role as a financing medium for stocks in times of surplus. There were slight falls in stocks in LME official warehouses, but, apart from tin, amounts remained high, including over 600,000 tons of copper.