Financial review

The review describes developments in various markets, mainly in the period August to October.

Summary

The money market *There was a steady decline in short-term interest rates, the Bank's minimum lending rate falling from 8% to 5%. Conditions were generally tight, in spite of large inflows from abroad.*

Capital markets *The gilt-edged market was very buoyant in August and September but conditions were mixed in October; the authorities sold nearly £3,000 million net of stock in the September quarter.*

Foreign exchange and gold markets *Until the end of October sterling's effective exchange rate index was held steady, but it was then allowed to float more freely.*

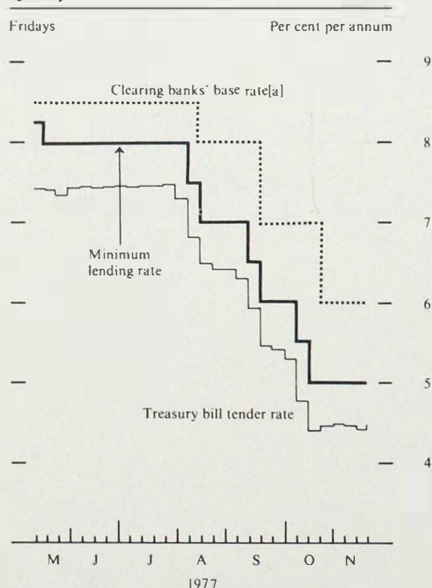
International banking and euro-currency markets *The London euro-currency market grew faster in the third quarter than in the second.*

Oil money movements *The oil-exporting countries' revenues were unchanged in the third quarter, but their imports were higher and their estimated cash surplus fell.*

Commodity markets *Trading was generally quiet during August to October, except in tin and cocoa.*

The money market

Short-term interest rates in London
Interest rates fell sharply again from the end of July.



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

The continuing strength of sterling and the generally improved state of financial confidence led to a steady and large decline in short-term interest rates during the three months August to October: the Bank's minimum lending rate fell over the period from 8% to 5%.[1]

Despite continuing, and at times large, inflows of foreign funds, conditions in the money market were kept generally tight during these three months (apart from one or two brief periods in August) and sometimes acutely so. Among the reasons for shortages were sales of gilt-edged stocks by the authorities, sometimes on a large scale.

Help was generally given by the purchase of Treasury bills or local authority bills or by overnight loans at minimum lending rate. On one occasion in August, when a shortage was caused by the issue of a new stock, the Bank lent overnight at a rate below minimum lending rate. The rare surpluses were absorbed by the sale of Treasury bills.

More importantly, in a period when there was stiff competition for Treasury bills at the tender, the Bank found it necessary to lend on a number of occasions during the period at minimum lending rate for seven days, as a signal that interest rates should not fall too far or too fast. Even so, the Bank's minimum lending rate fell, in accordance with the normal formula linking it to the average rate of discount at the tender, by 1% to 7% in August – in two steps of ½% on the 5th and 12th; by another 1% to 6% in September – again in two steps of ½%, on the 9th and 16th; and by a further 1% to 5% in October – once again in two steps of ½%, on the 7th and 14th. (This brought minimum lending rate down to the lowest point since it replaced Bank rate in October 1972.) Thereafter, the Bank again twice lent for a week at minimum lending rate to indicate that they did not wish to see any further fall in short-term interest rates.[1]

[1] Minimum lending rate rose to 7% after the tender on 25th November.

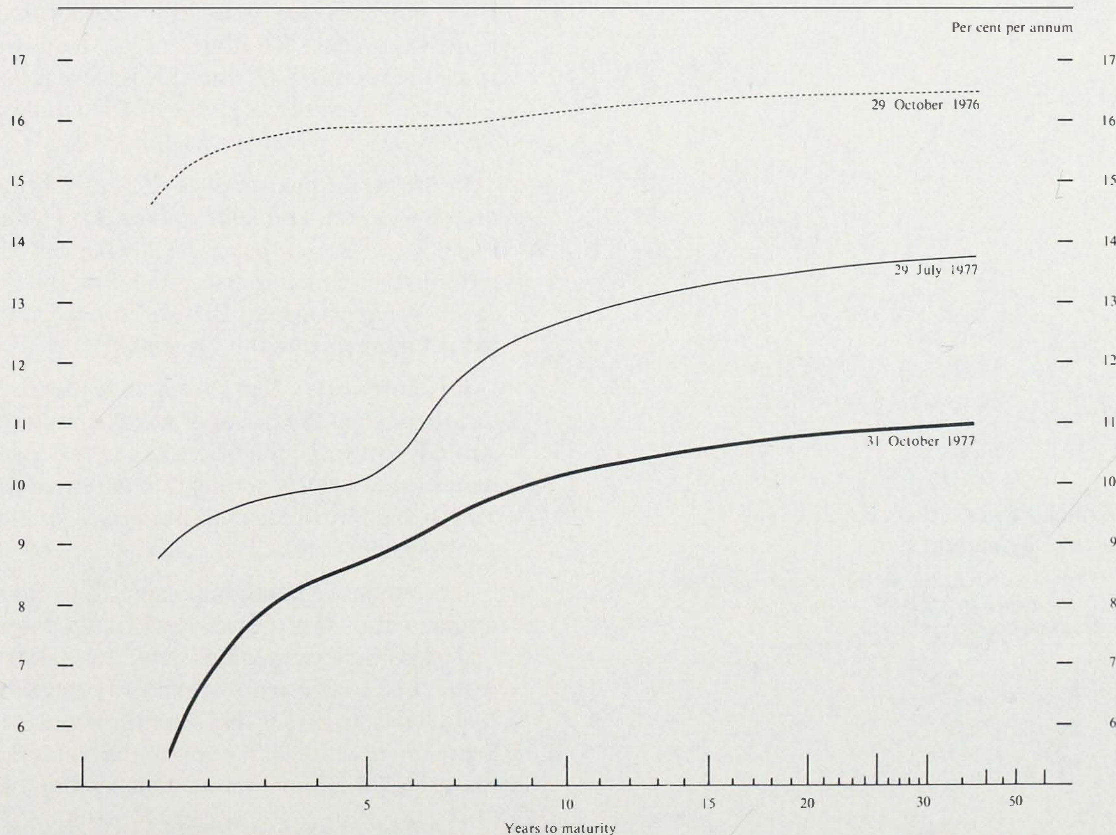
The extent of the fall in interest rates put increasing pressure on the margins of the London and Scottish clearing banks; base rates were reduced from $8\frac{1}{2}\%$ to 6% during August to October but deposit rates only from 4% to 3%.

Capital markets

The gilt-edged market was very buoyant in August and September, initially because of the firmness of sterling and the associated fall in short-term interest rates: later, greater optimism over the course of inflation added to the strength of the market at the long end. Yields fell in both months, more markedly in September. Conditions became mixed in October, because of increasing uncertainty as to whether pay restraint could be maintained and because the fall in short-term interest rates was thought to have gone as far as it could; yields on balance rose slightly. Turnover in the three months was sharply up.

Time/yield curves of British government stocks [a]

Yields fell on balance during August to October.



[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 available from the Economic Intelligence Department of the Bank at the address given on the reverse of the contents page.

On 2nd August, official supplies of $11\frac{3}{4}\%$ Treasury Stock 1991 (which had functioned as a long-dated tap stock) were exhausted. On the 4th, a new short-dated stock, £800 million $9\frac{1}{2}\%$ Exchequer Stock 1981 at £97.50 per cent, was issued: it was the first stock to be available as a tap stock at this end of the market since the middle of May, and it was 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 was issued and oversubscribed.[1], [2]

[1] Several of the stocks issued in this period were payable in instalments: for $12\frac{1}{2}\%$ Exchequer Stock 1994, £15 was payable on application, £40 on 6th September and £41 on 26th September; for $9\frac{1}{4}\%$ Treasury Stock 1983, £15 on application, £30 on 19th September and £51.75 on 24th October; for 12% Treasury Stock 1995, £30 on application and £66.50 on 11th October: for $10\frac{1}{2}\%$ Exchequer Stock 1997, £30 on application and £66 on 28th November.

[2] A further £200 million of $12\frac{1}{2}\%$ Exchequer Stock 1994 was reserved for the Commissioners for the Reduction of the National Debt, for public funds under their management; an additional £200 million of 12% Treasury Stock 1995 and an additional £100 million of $10\frac{1}{2}\%$ Exchequer Stock 1997 were similarly reserved.

There was then a pause in official sales; although two new stocks were issued on 25th August, very little was sold of either until early in September. The two new stocks were £800 million $9\frac{1}{4}\%$ Treasury Stock 1983 at £96.75 per cent[1] and £600 million 3% Exchequer Stock 1983 at £87.00 per cent; the first, though technically medium-dated, was designed to function as a short-dated tap stock, and the second, a low-coupon stock attractive to investors paying higher rates of income tax, was issued in anticipation of the maturity on 15th November of 3% Treasury Stock 1977. The higher-coupon stock was exhausted on 8th September. On the 15th, a long-dated issue, £800 million 12% Treasury Stock 1995 at £96.50 per cent, was three times oversubscribed.[1], [2]

No immediate replacement was made of the 1995 stock, and yields on long-dated stocks continued to decline sharply. On 22nd September, there was a new short-dated issue, £800 million $8\frac{1}{4}\%$ Treasury Stock 1982 at £98.25 per cent, with the lowest coupon on a new issue (apart from the special low-coupon issues aimed mainly at investors paying higher rates of income tax) since May 1973; but it was not until 20th October that a new long-dated issue was made, £800 million $10\frac{1}{2}\%$ Exchequer Stock 1997 at £96.00 per cent,[1], [2] and this issue was exhausted within a week. On 11th November, an issue of £600 million 10% Treasury Stock 1992 at £95.50 per cent was announced.

In the meantime, supplies of 3% Exchequer Stock 1983 ran out on 6th October, and £600 million 3% Exchequer Stock 1981 was issued on 13th October at £92.00 per cent. This was intended to meet further demand associated with the maturity of 3% Treasury Stock 1977 and also of British Transport 4% Stock 1972/77 (which matures on 20th December).

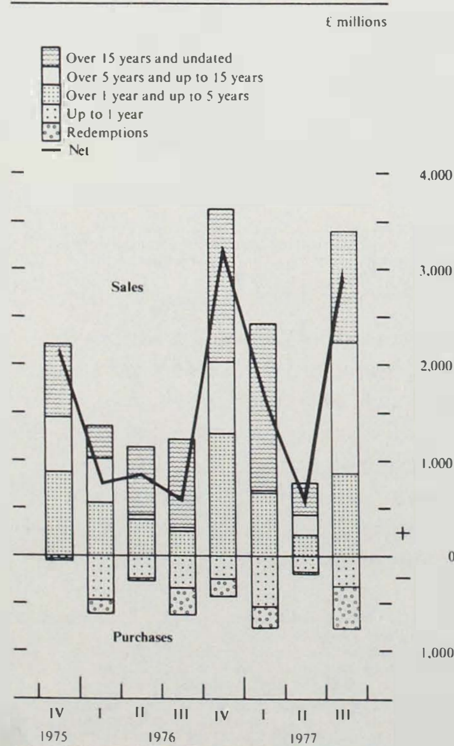
It is noteworthy that throughout the three months August to October, when the prices of fixed-interest gilt-edged stocks moved strongly upwards, the prices of the two variable rate stocks remained extremely stable, fluctuating narrowly around £98.00 per cent, helped by occasional purchases by the authorities against sales of other stocks.

During the September quarter, the authorities sold £2,980 million net of stock. Net sales of long-dated stocks amounted to £1,165 million, of medium-dated to £1,360 million and of stocks within one to five years of maturity to £870 million.[3] One stock, $11\frac{1}{2}\%$ Treasury Stock 1977, matured during the quarter, on 26th September, with £90 million in market hands. The authorities also bought £325 million net of stocks within one year of maturity.

The flow of local authority stock and bond issues continued during August to October: the gross amount raised by such issues was about £400 million,[3] but there were redemptions of over £300 million in the period, leaving £95 million of net new money. As well as a steady flow of fixed-coupon issues, variable rate securities made their first appearance in this market. On 11th August, the City of Bristol issued £10 million such stock (simultaneously with a £15 million fixed-interest issue): as with the two government variable rate stocks issued earlier in the year, interest is linked to the Treasury bill discount rate. (However, by contrast with the government stocks, the rate taken is the average of the rate on two specific dates six months and three months before interest is due, rather than the daily average over six months, and there is a margin of $1\frac{1}{2}\%$ per annum over the Treasury bill rate instead of $\frac{1}{2}\%$.) Later in the month, there were

Official transactions in gilt-edged stocks by maturity

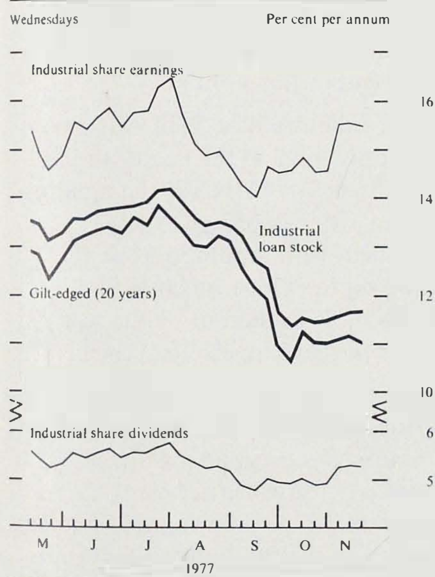
In the September quarter, the authorities sold nearly £3,000 million net of stock, spread fairly evenly throughout the maturity range.



[1] See footnote [1] on previous page.
[2] See footnote [2] on previous page.
[3] These figures are cash values and therefore incorporate only instalments actually paid on partly-paid stocks.

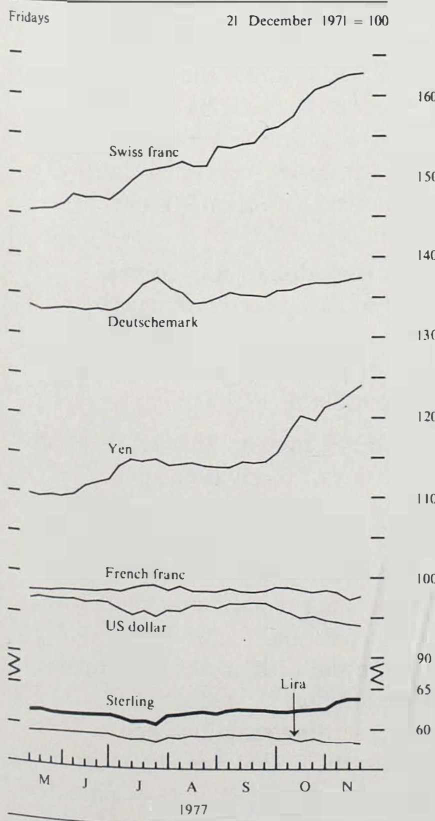
Security yields

Yields fell sharply in August and September, but were generally steadier in October.



Indices of effective exchange rates

Sterling's effective exchange rate index was held steady until the end of October.



two offers for sale, each of £10 million variable rate stock, by the metropolitan boroughs of Dudley and Oldham. These latter stocks were initially subscribed in full by an accepting house, and offered to the public on 25th August: interest is based on the London inter-bank offered rate (LIBOR) for six-month sterling deposits at a specific time six months before the interest date, plus a margin of 1% per annum. The two stocks were warmly received and more than twice oversubscribed. Similar issues, of £25 million stock by the Strathclyde Regional Council and of £15 million stock by the Buckinghamshire County Council, based on six-month LIBOR but with a margin of $\frac{3}{4}\%$ per annum, were made in mid-October and both were oversubscribed.

In the equity market, the FT-Actuaries industrial (500) share price index rose from 204 at the end of July to 229 at the end of August, as sterling strengthened and interest rates fell. In the first half of September, with sterling continuing strong, and with good trade figures and general optimism about the economic outlook, the index rose strongly to reach 248 on the 14th, but thereafter poor individual company results, which drew attention to continuing problems of profitability, and later growing uncertainties about pay restraint caused prices to fluctuate, and the index fell to 239 by the end of October. Turnover rose sharply in the period.

New money raised by issues of equity capital fell back to about £150 million[1] in August to October after the sharp increase to £360 million in the previous three months: the flow was still substantial in August and September but slackened in October.

Net sales of unit trust units, at £28 million, were much the same as in May to July.

Turnover in the debenture market rose sharply in August to October, and yields fell. New money raised by companies by way of loan capital and preference shares included a placing early in October of £3 million variable rate bonds (six-month LIBOR plus 1% per annum) by the Agricultural Mortgage Corporation – the first variable rate issue for new money in the private sector[2] – and initial calls of £$2\frac{1}{4}$ million on the first tranches of three tap issues of unsecured loan stock, totalling £30 million in all, by the Industrial and Commercial Finance Corporation. In each of the three months, however, redemptions by companies exceeded new issues.

Foreign exchange and gold markets

Foreign exchange markets were dominated between August and October by the fortunes of the US dollar. After recovering in the first half of August from its earlier weakness, the dollar remained fairly stable until renewed concern about the size of the US trade deficit led to further weakness at the end of September and early in October. Until the end of October, the pound was allowed to move against the dollar in such a way as to keep its effective exchange rate index steady, and the index was held within the range 61.7 to 62.6; market purchases of sterling were heavy. On 31st October, official intervention to prevent a rise in the index was withdrawn because it was feared that such intervention would, if continued, prevent achievement of the authorities' monetary objectives. The effective rate rose immediately and closed on the 31st at 64.6, but part of this increase was soon reversed. The 'snake' underwent a realignment at the end of August when the

[1] This figure does not include the offer for sale by Imperial Chemical Industries Limited of shares in Imperial Metal Industries Limited, announced in October. This is not new money for the purposes of these statistics, since the money accrues not to the borrowing company, Imperial Metal Industries Limited, but to an existing shareholder: the first call was in fact not due until early in November.

[2] The General Electric Company Limited issued £178 million floating rate unsecured capital notes in March, but this was not new money as defined in these statistics.

Scandinavian currencies were devalued. From the middle of September, the price of gold rose quite strongly.

Sterling

Trade in sterling was fairly quiet during the first two weeks in August, once the market had digested the official decision on 27th July to let the sterling/dollar rate rise and to conduct intervention with more regard to the effective index. The sterling/dollar rate fluctuated between $1.7370 and $1.7410 and the effective index rose to 62.0 reflecting a general recovery of the dollar. There were no perceptible reactions to the announcement on 2nd August of the large increase in the reserves during July, which had evidently been discounted, or to the fall of ½% in minimum lending rate on the 5th. Heavy buying of sterling, undeterred by the further cut of ½% in minimum lending rate on the 12th, began on the 16th. This was prompted initially by expectations that the rate against the dollar would be allowed to rise still further, and it continued with only a few interruptions until the end of the month.

The Scandinavian devaluations announced on 28th August brought sterling's effective index up to 62.3 at the end of the month, with the sterling/dollar rate at $1.7429. Over the month, the reserves rose by $1,430 million, after drawings of $374 million under the stand-by agreement with the International Monetary Fund and $100 million on the Government's $1.5 billion loan, and after repayments of $6 million of public sector foreign currency borrowing under the exchange cover scheme.

The strong demand for sterling continued on 1st September but tailed off on the 2nd, ahead of the Labor Day holiday in New York. The vote of the Trades Union Congress on the 7th in favour of a twelve-month rule for pay settlements, however, prompted heavy demand for pounds. Large inflows led to another fall of ½% in minimum lending rate on the 9th, but the exchange rate was held down firmly. Renewed expectations of a rise in the rate, and anticipation of capital appreciation on gilt-edged stocks, brought huge inflows in the period from the 12th to the 15th, especially when the good trade figures for August were announced. Some of these purchases of sterling were reversed, partly in reaction to another fall of ½% in minimum lending rate on the 16th. Upward pressure resumed towards the end of the month, encouraged by reports of remarks made by the Managing Director of the IMF about the UK economy: its intensity increased on the 29th and 30th as the dollar weakened sharply, and the sterling/dollar rate was allowed to respond in order to avoid a fall in sterling's effective index.

At the end of September, the sterling/dollar rate stood at $1.7475 with the effective index at 62.3. The reserves rose by $2,319 million in the month, after the final drawing of $400 million on the Government's $1.5 billion loan, and public sector exchange cover borrowing of $151 million.

Demand for sterling was again very heavy on 3rd October and remained strong for the next three days, largely because of the general weakness of the dollar, and the rate was allowed to rise above $1.76 to sustain the effective index. A pause followed a report on the 7th which pointed to the degree of government concern about the effects of sterling's appreciation on the United Kingdom's competitiveness in international trade. Heavy purchases of sterling began again on the 12th, as the dollar came under pressure again, and, despite another ½% reduction in minimum lending rate on the 14th, sterling remained generally in demand until late on the 19th, when the dollar staged a recovery, which briefly relieved the pressure on sterling. Buying of pounds recommenced on the 24th, in anticipation of the Chancellor's

package on the 26th, but the market became quieter at the end of that week. On Monday, 31st October, as demand revived in the Far East, the authorities ended their policy of intervening to prevent a rise in sterling's effective exchange rate index, in order to protect the money supply from the expansionary effect of further large inflows. The rate against the dollar moved up immediately and closed at $1.8396 on the 31st, with the effective index at 64.6. During October, the reserves rose by $3,040 million: public sector borrowing under the exchange cover scheme amounted to $34 million and repayments to $30 million.

The US dollar

In the first half of August, the dollar continued to recover from its earlier weakness, partly under the influence of rising interest rates and partly on expectations of expansionary policy moves in Western Germany. Against the deutschemark, it stabilised in the range DM 2.30½–2.34 in the second half of August and the whole of September, although dollar interest rates continued to rise gradually for reasons of domestic monetary control. Day-to-day fluctuations in the dollar/deutschemark rate were quite large, but they tended to cancel out over time. There was a marked weakening on 24th August ahead of the announcement of the US trade figures for July, but the deficit proved smaller than expected and the rate recovered. The deficit for August too, which was announced on 26th September, had no adverse effect on the dollar, but shortly afterwards the US Treasury Secretary forecast a deficit of $30 billion for the year as a whole, with little prospect of improvement next year, and this set off a fall in the dollar which went below DM 2.30 on 3rd October. Continued concern about the US trade position led to a steady decline throughout October, which the announcement on the 27th of much better trade figures for September did little to check. At the end of the month, the rate against the deutschemark was DM 2.25¼.

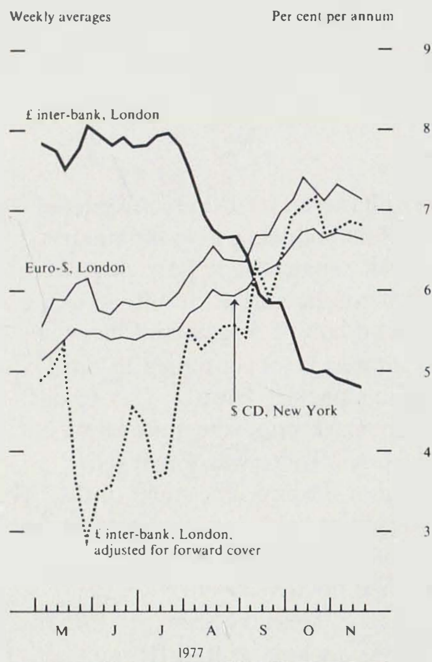
Other currencies

Until 26th August, there was intermittent pressure on the margins between the 'snake' currencies, with the Dutch florin at the top (except for a few days early in the month) and the Swedish krona at the bottom. On the 28th, the Swedish authorities announced that, following three months of selling pressure, the krona would leave the 'snake' and would be effectively devalued by 10% against a basket of currencies; at the same time, the Danish and Norwegian kroner were devalued by 5% but remained within the 'snake'. As a result of the realignment, the Danish krone moved to the top of the 'snake', leaving the deutschemark for the moment at the bottom, although it remained potentially the strongest currency in the 'snake'. From 9th September onwards, the band was fully stretched, with the Belgian franc and later the Norwegian krone taking over the bottom place; the Danish krone stayed at the top.

After a brief period of stability, the Japanese yen rose sharply in the latter part of the period, appreciating by 5¾% against the dollar during October. The Swiss franc, too, rose sharply against the dollar, appreciating by 7¾% over the months August to October, and reaching a small premium against the deutschemark, with a large impetus coming from repayments by non-residents of debts denominated in Swiss francs. The Canadian dollar remained fairly steady around US $0.93 during August and September but fell heavily during October to a low point of US $0.8964 on continuing political and economic uncertainties. A partial recovery followed the announcement on the 28th of a $1.5 billion stand-by facility for the Government from the chartered banks.

UK and US three-month interest rates

During August to October inter-bank sterling rates fell below euro-dollar rates, and three months' forward sterling went to a premium against the dollar.



Interest rates and differentials

The three months' euro-dollar rate rose steadily from $6\frac{1}{4}\%$ at the end of July to a peak of $7\frac{9}{16}\%$ on 13th October, before falling back to end the period at $7\frac{3}{16}\%$. UK inter-bank sterling rates fell steadily under the influence of large inflows, and the uncovered differential was transformed from $1\frac{1}{2}\%$ in favour of sterling at the end of July to $2\frac{5}{16}\%$ in favour of the dollar at the end of October. The premium on three months' forward dollars, which had been around 2% per annum early in August, fell steadily, and turned into a discount, for the first time since 1972, on 12th September. The discount exceeded 2% on 12th October and was $1\frac{15}{16}\%$ at the end of the month. The discount was less marked at longer maturities; for example, the one-year discount was only $\frac{13}{16}\%$.

Gold

After moving little in August, the price of gold began to rise in the middle of September and passed $150 per fine ounce on fears of a renewal of hostilities in the Middle East. The dollar's frailty added impetus to the rise and, with renewed industrial demand also, the price reached $161.50 at the end of October.

International banking and euro-currency markets

Figures published by the Bank for International Settlements show that banks in the Group of Ten countries and Switzerland and branches of US banks in certain off-shore banking centres resumed the expansion of their external business in domestic and foreign currencies in the second quarter of 1977 (see Table 22 in the statistical annex): the gross external liabilities and assets of these banks rose by $\$29\frac{1}{4}$ billion and $\$25\frac{3}{4}$ billion respectively, after falling by $\$1\frac{3}{4}$ billion and $\$\frac{1}{2}$ billion in the previous three months. The contraction in the first quarter had been partly seasonal, as banks in the reporting area unwound positions which they had built up at the end of 1976; the higher flow in the second quarter to that extent exaggerates the underlying growth in the volume of business. Nevertheless, new credit channelled to borrowers outside the reporting area amounted to $12 billion in the second quarter after only $\$3\frac{1}{4}$ billion in the first, and new deposits received from outside the area rose from $1 billion in the first quarter to $\$8\frac{3}{4}$ billion in the second.

The major borrowers were countries in Western Europe outside the Group of Ten (particularly Denmark, Spain and Norway), which took $4 billion of new funds whilst depositing only $\$\frac{3}{4}$ billion. Over the year ending June 1977, this group of developed countries financed their deficits on current account to a large extent from the international banking system: they borrowed some $13 billion and deposited only $1 billion. On the other hand, the non-oil developing countries as a group continued to reduce their net indebtedness in the second quarter: although Latin American countries raised their net debtor position by $\$\frac{1}{2}$ billion to $\$35\frac{1}{2}$ billion, other non-oil developing countries deposited a net $\$\frac{3}{4}$ billion to bring their outstanding net deposits to $\$6\frac{3}{4}$ billion. Among other areas, the Eastern European countries borrowed a further $\$1\frac{1}{2}$ billion net; and the major oil-exporting countries deposited $\$4\frac{1}{2}$ billion, raising their outstanding deposits to $\$72\frac{1}{2}$ billion, but also borrowed a further $\$3\frac{1}{2}$ billion.

In the more narrowly defined European reporting area,[1] new foreign currency credits channelled to final users (the increase in the 'net' size of the euro-currency market) amounted to $12 billion in the second quarter after $8 billion in the first. Much of the

[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 third quarter, the London euro-currency market grew faster than in the previous three months.

$ billions

	1976		1977		
	30 Sept.	31 Dec.	31 Mar.	30 June	30 Sept.
Foreign currency liabilities of UK banks to:					
Other UK banks	43.9	46.8	48.0	48.4	50.1
Other UK residents	5.5	5.7	6.3	6.8	6.6
Overseas central monetary institutions	33.7	35.7	36.5	37.0	38.9
Other banks overseas	84.2	92.6	93.8	97.3	100.7
Other non-residents	19.6	20.6	20.7	22.2	23.5
Other liabilities[b]	1.2	1.3	1.3	1.6	1.5
Total liabilities	188.1	202.7	206.6	213.3	221.3
Foreign currency assets of UK banks with:					
Other UK banks	43.3	46.6	47.6	48.5	51.3
Other UK residents	16.1	16.8	18.5	18.4	18.3
Banks overseas	93.9	102.6	102.3	107.1	110.2
Other non-residents	34.1	35.9	36.7	38.3	39.8
Other assets[b]	2.0	2.1	2.2	2.4	2.5
Total assets	189.4	204.0	207.3	214.7	222.1

[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 third quarter the EEC was the largest taker of funds from London.

$ billions outstanding

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

	1976		1977		
	30 Sept.	31 Dec.	31 Mar.	30 June	30 Sept.
United States	– 4.3	– 3.2	– 4.7	– 6.7	– 5.7
Canada	– 2.1	– 2.5	– 2.4	– 1.6	– 1.4
European Economic Community	+ 1.7	+ 1.4	+ 1.6	+ 3.9	+ 6.4
Other Western Europe	– 13.3	– 11.8	– 11.1	– 11.4	– 12.4
Eastern Europe	+ 5.7	+ 6.1	+ 6.4	+ 6.9	+ 7.3
Japan	+ 13.8	+ 12.6	+ 12.3	+ 10.8	+ 9.9
Oil-exporting countries[a]	– 22.1	– 22.9	– 23.6	– 23.7	– 23.8
Countries engaged in off-shore banking	+ 8.5	+ 8.5	+ 10.2	+ 10.0	+ 10.2
Other countries	+ 1.8	+ 1.2	– 0.9	+ 0.8	– 2.3
	– 10.3	– 10.6	– 12.2	– 11.0	– 11.8

[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 rose sharply between mid-May and mid-August 1977.

$ billions

Net liabilities – /net assets +

	1977	
	mid-May	mid-Aug.
Less than 8 days[a]	– 8.3	– 10.7
	– 4.7	*– 7.2*
8 days to less than 3 months	– 19.5	– 18.5
3 months to less than 1 year	– 7.8	– 6.3
Net borrowing up to 1 year	– 35.6	– 35.5
Net lending at 1 year and over	+ 36.0	+ 35.9
	+ 0.4	+ 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.

demand for new funds came from the non-financial sector within the reporting area, particularly in Italy.

Very limited information is yet available for the third quarter. The volume of newly-announced medium-term euro-credits, which enter the BIS figures only as the loans are taken up and only to the extent that the credits are not replacing maturing debt, fell to $\$7\frac{3}{4}$ billion from $\$8\frac{1}{4}$ billion in the previous three months, partly reflecting a seasonal slowdown in the July and August holiday period. Similarly, new foreign and international bond issues amounted to only $\$6\frac{1}{2}$ billion after $8 billion in the second quarter.

The London euro-currency market grew faster in the third quarter than in the second, the gross foreign currency liabilities of the reporting institutions increasing by $8 billion after $\$6\frac{3}{4}$ billion in the previous period. $\$6\frac{1}{2}$ billion of the new deposits came from overseas residents.

By area, the EEC countries, which took $\$2\frac{1}{2}$ billion net from the London market, were the major borrowers during the quarter: also, the United States reduced net deposits in London by $1 billion. New funds were supplied mainly by the countries of 'other Western Europe', which raised their net deposits by $1 billion, and by Japan, which repaid borrowing of some $1 billion net.

A quarterly maturity analysis of the foreign currency liabilities and assets of reporting institutions was completed as at 17th August 1977 (see Table 21 in the annex). The banks' foreign currency liabilities rose by only some $\$5\frac{1}{2}$ billion between mid-May and mid-August, after an increase of $\$9\frac{1}{4}$ billion in the previous quarter. This slowdown was associated with a contraction of over $2 billion in deposits placed by banks abroad with the Japanese banks in London – the counterpart of a reduction in demand for funds by their parent banks in Japan. Taking all reporting institutions together, in the three months to mid-August, a rise of $1 billion in gross assets at less than eight days was outstripped by a $\$3\frac{1}{4}$ billion increase in gross liabilities at less than eight days, so that net borrowing in this maturity band grew by over $\$2\frac{1}{4}$ billion (largely accounted for by a rise in the American banks' net short-term position). As a percentage of net borrowing up to one year, net liabilities at less than eight days rose from 23% to 30%, net liabilities at eight days to less than three months falling to 52% and at three months to less than one year to 18%.

Oil money movements

The total estimated oil revenues of the oil-exporting countries were virtually unchanged in the third quarter. Lower demand for oil led to some reduction in exports compared with the previous quarter, and there was some shading of prices, but revenues will not be affected by these factors until the fourth quarter: a compensating factor will be the 5% price rise applied by Saudi Arabia and the United Arab Emirates from 1st July, which brought them into line with other OPEC producers.

With revenues unchanged, a continuing, though smaller, increase in imports of goods and services is provisionally estimated to have led to a further fall in the oil-exporting countries' current surplus. Although some of these countries continued to borrow in the international capital markets, their aggregate cash surplus available for investment abroad, for government loans and for additions to financial reserves was also smaller.

Total sterling holdings were virtually unchanged in the third quarter; the rise in foreign currency deposits with UK banks,

Estimated oil revenues of exporting countries

Oil revenues in the third quarter were much the same as in the second.

$ billions

1975	1976	1977		
Year	Year	1st qtr	2nd qtr	3rd qtr
96.8	113.2	31.9	32.6	32.5

Estimated deployment of oil exporters' surpluses

The total surplus in the third quarter is provisionally estimated to have been even lower than in the second.

$ billions

	1975	1976	1977		
	Year	Year	1st qtr	2nd qtr	3rd qtr (provisional)
United Kingdom					
British government stocks	0.4	0.2	− 0.1	− 0.1	0.1
Treasury bills	− 0.9	− 1.2	—	− 0.1	0.2
Sterling deposits	0.2	− 1.4	0.2	0.3	− 0.2
Other sterling investments[a]	0.3	0.5	0.1	0.1	0.1
British government foreign currency bonds	—	—	—	0.2	—
Foreign currency deposits	4.1	5.6	2.0	1.4	0.5
Other foreign currency borrowing	0.2	0.8	—	—	—
	4.3	4.5	2.2	1.8	0.7
United States					
Treasury bonds and notes	2.0	4.2	1.0	1.0	0.7
Treasury bills	0.4	− 1.0	1.5	− 1.0	0.2
Bank deposits	0.6	1.6	0.2	− 0.2	0.1
Other[a]	6.5	7.2	1.2	2.7	1.9
	9.5	12.0	3.9	2.5	2.9
Other countries					
Bank deposits	5.0	7.0	1.5	2.5	2.0
Special bilateral facilities and other investments[a][b]	12.4	10.3	3.3	2.8	2.3
	17.4	17.3	4.8	5.3	4.3
International organisations	4.0	2.0	0.1	0.1	0.1
Total	35.2	35.8	11.0	9.7	8.0

[a] Includes holdings of equities and property etc.
[b] Includes loans to less developed countries.

which has been $\$1\frac{3}{4}$ billion on average in the last five quarters, slowed down considerably.

A slightly higher proportion than usual (about 35%) of the total surplus was invested in the United States; a large part of this investment was long term. A rise in bank deposits in July was offset by falls in August and September.

It appears that deposits with banks in other countries again rose strongly, but special bilateral facilities and other investments were considerably lower than in the previous quarter.

Commodity markets

In the absence of any sustained recovery in consumer demand, prices of both foodstuffs and industrial raw materials generally drifted lower over the period August to October. *The Economist* dollar index of commodity prices fell by 5%, with food prices (−7%) accounting for most of the decline.

Tin was an exception to the general trend: with warehouse stocks falling and no immediate prospect of any easing of supplies (following the rejection by the United States Congress of a bill to release tin held by the General Services Administration), prices on the London Metal Exchange reached record heights. Cocoa, too, for early delivery has been in short supply, with corresponding pressure on the price. Otherwise, markets have generally been quiet.