Financial review

Introduction

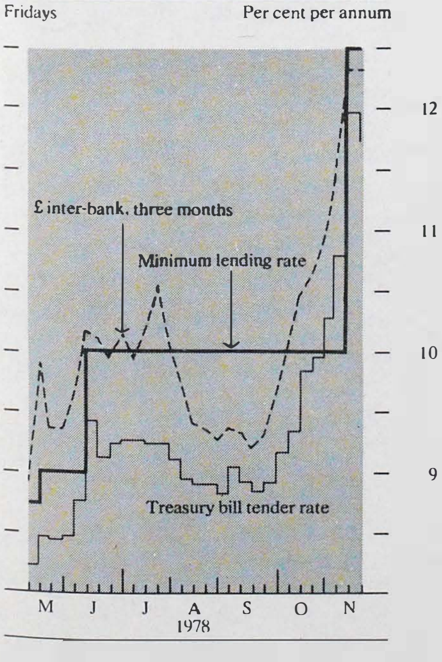
The review describes developments in various markets, mainly during the period August to October.

During these three months expectations in financial markets changed markedly: under the influence of sharply rising US interest rates and growing uncertainty about the domestic economic situation, the markets moved from believing that minimum lending rate would fall to believing that it would go up. There was an all-round rise in short-term interest rates and in yields on gilt-edged stocks. Early in November, minimum lending rate was in fact raised sharply, by $2\frac{1}{2}\%$, partly in acknowledgment of the general rise in rates that had taken place but also in order to establish a new level appropriate for the continuing restraint of monetary expansion.

The main feature in the foreign exchange markets during August to October (page 507) was the continuing weakness of the US dollar. Measures to support the dollar were announced on 1st November and had an immediate strengthening effect on the currency.

The review contains the usual sections on international banking and the euro-currency markets (page 510), oil money movements (page 511) and the commodity markets (page 512).

The money market



Short-term interest rates in London
Minimum lending rate was held steady during August to October, while market rates first fell and then rose; it was raised sharply early in November.

The Bank's minimum lending rate remained unchanged at 10% throughout the three months August to October, but was raised to $12\frac{1}{2}\%$ on 9th November.

At the beginning of the period there were some hopes in the market that minimum lending rate would fall, but during August the combination of sharp increases in bank lending and rising US interest rates dispelled these expectations. In September and October, US interest rates moved up strongly, while at home indications of growing official trade union opposition to incomes policy as a weapon against inflation suggested that greater emphasis might have to be placed on monetary and fiscal policy in the months to come. By the latter part of the period, therefore, it had come to seem likely that minimum lending rate would in fact rise. Reflecting this changing pattern of expectations, the three-month inter-bank rate fell in the first half of August from around 10% to about $9\frac{1}{4}\%$ and remained fairly stable until late September: it then began to creep up, rising quite sharply in the middle of October. By the end of the month it had passed 11%. Similarly, the average rate of discount at the Treasury bill tenders fell somewhat during August: after some fluctuations in the first half of September, it rose quite sharply from the middle of that month onwards. By the first tender in November, it was nearly two percentage points higher than at the first tender in August and well above the 10% minimum lending rate.

On the following Thursday, 9th November, minimum lending rate was raised to $12\frac{1}{2}\%$, in acknowledgment of the rise that had already taken place in short-term interest rates, and in order to establish a new level appropriate for the continuing restraint of monetary expansion.

After the reductions in the rate of call for special deposits, conditions in the money market were significantly less tight in August than in July (when the market had still been recovering from the very high sales of gilt-edged stocks following the June measures, and when the central government had been in surplus). Nevertheless, assistance continued to be needed on most days: this was usually given by the purchase of Treasury bills or local authority bills, with occasional overnight lending at minimum lending rate. On two days, surpluses were absorbed by the sale of Treasury bills. During the month, a proportion (initially £207 million) of special deposits was released to the London and Scottish clearing banks for the duration of the supplementary special deposits scheme, in accordance with an undertaking given by the Chancellor of the Exchequer in December 1976 (see the footnote on page 350 of the September *Bulletin*).

In early September, central government borrowing was very high, so that notwithstanding the recalls of special deposits on the 11th and 26th (amounting together to 2% of eligible liabilities),[1] conditions were easier, and the market needed assistance on fewer than half the working days in the month. In October the central government was in surplus and the market was rather more short of funds, requiring assistance on eighteen out of twenty-two working days.

The clearing banks' base rates and deposit rates were unchanged throughout August to October. Early in November, before the rise in minimum lending rate, base rates went up by 1½%, to 11½%, and deposit rates by 2%, to 8½%–9%; after the rise in minimum lending rate, base rates were raised further, to 12½%, and deposit rates to a common 10%.

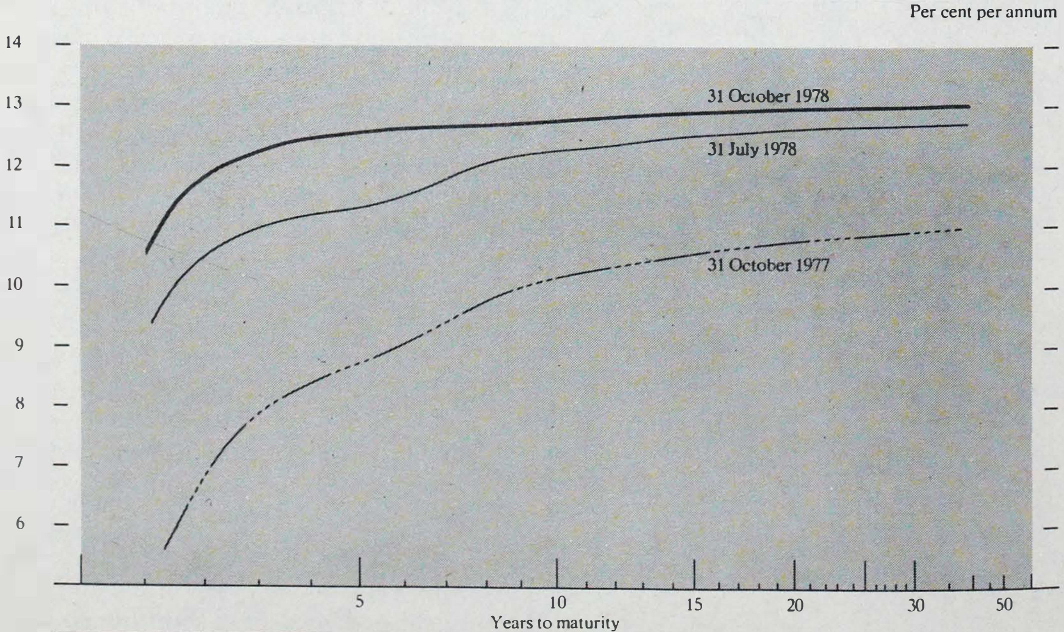
Capital markets

The gilt-edged market

In the gilt-edged market, yields rose during August to October—on short-dated maturities by more than one percentage point but on long-dated by less than half a point. Turnover fell by nearly a quarter compared with the previous three months, the major part of the fall being in stocks with more than five years to run to maturity.

Time/yield curves of British government stocks[a]

There was some further flattening of the yield curve 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.

[1] Because, as mentioned above, a proportion of the special deposits paid by the London and Scottish clearing banks had been released for the period of operation of the supplementary special deposits scheme, the September recalls of special deposits did not fully restore total special deposits to 3% of eligible liabilities. The supplementary special deposits scheme was extended for a fur her eight months on 17th August (see the September *Bulletin*, page 358).

The market was generally quiet and fairly steady in August. At the beginning of the month, when there was some expectation of a reduction in minimum lending rate, yields continued the decline which had begun in July, but they then rose slightly as the July banking figures and developments in the United States caused hopes of a fall in short-term interest rates to fade. Over the month, yields on short-dated stocks rose by over half a point but on long-dated they were little changed.

There was only small initial demand for the new long-dated stock, 12% Exchequer Stock 1999/2002, of which £800 million was issued on 2nd August,[1] but official sales had picked up a little by the time of the call on the 22nd; there were, however, quite heavy sales of 10% Exchequer Stock 1983 in the first part of August, and a regular demand for 3% Exchequer Stock 1981 which persisted throughout the month but which was more marked towards the end.

By mid-September, yields had fallen back somewhat, partly in the light of the fall in the money supply in the month to mid-August, and there were more official sales of the long-dated tap stock (together with a further call); as the month progressed, yields began to climb in the face of further rises in US interest rates and trade union opposition to the continuance of incomes policy. The rise in yields continued in October, with the announcement of a higher central government borrowing requirement for September further unsettling the market; however, sentiment improved following the release of figures[2] showing that, through the summer, purchases of central government debt by the non-bank private sector had been running ahead of what was expected to be necessary for the achievement of the monetary targets in the financial year as a whole. The sector's purchases of gilt-edged had been larger than continuing net official sales, as stock was bought on balance from banks and from overseas holders; control of the broad monetary aggregates was also being assisted by large inflows into national savings (see below) and substantial purchases of certificates of tax deposit. By the end of October, the rise in yields on short-dated stocks from mid-September was just under one point but those on long-dated had risen less than half a point.

The prices of the two variable rate stocks were markedly stable throughout August to October. Initially during August the Bank bought in some of these stocks against sales of longer-dated stocks, but these and earlier purchases were sold back to the market during September and October as yields on conventional stocks tended upwards.

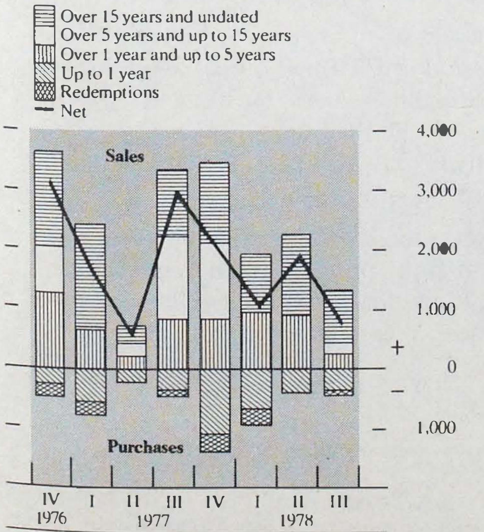
Official supplies of 12% Exchequer Stock 1999/2002 were exhausted on 10th November, the day after minimum lending rate was raised to 12½%; official supplies of 10% Exchequer Stock 1983 were exhausted two working days later. On the 17th, the issue of two new stocks was announced—£500 million 12¼% Exchequer Stock 1985, payable in full on application, and £800 million 12½% Treasury Stock 2003/2005, payable in instalments.[3]

During the September quarter, the authorities sold £795 million net of stock.[4] Net sales of long-dated stocks amounted to some £900 million, of medium-dated to £155 million and of stocks within one to five years of maturity to £255 million.

Official transactions in gilt-edged stocks by maturity [a]

In the September quarter, net sales of stock by the authorities were just under £800 million.

£ millions



[a] Components are on occasion too small to be shown separately.

[1] The issue was made at a price of £96.00 per cent, of which £15 per cent was payable on application, £40 on 22nd August and £41 on 18th September.

[2] Detailed figures of purchases of central government debt by the non-bank private sector are now being released for banking months (see Table 11.3, and the additional notes thereto, in the statistical annex).

[3] A further £200 million of the 1985 stock was reserved for the National Debt Commissioners for public funds under their management.

[4] The figures relate to cash raised and for partly-paid stocks, therefore, incorporate only instalments actually paid.

Purchases of stocks within one year of maturity totalled £365 million. Two stocks matured during the quarter—10½% Treasury Stock 1978 on 14th July and 5% Exchequer Stock 1976/78 on 26th September, with amounts approaching £55 million and £115 million respectively in market hands.[1]

National savings

The contribution of national savings to the financing of the central government borrowing requirement[2] was, as mentioned above, significant during the period. The maximum permitted holding of the fourteenth issue of national savings certificates was increased from £1,000 to £3,000 in July. At the end of August, a package of further changes was announced: these included a new 9½% British Savings Bond to be issued from mid-November and increases in the maximum permitted holdings of premium bonds and of the index-linked retirement issue of national savings certificates.[3]

Withdrawals of institutional money from National Savings Bank investment accounts were heavy in the early part of the period, as in previous months, largely completing the reversal of the inflows which occurred last year (see the September 1977 *Bulletin*, page 303). These movements do not directly affect the financing of the central government borrowing requirement.[2]

Other markets

Local authority requirements from the market are proving modest this year. The amount raised by stock and negotiable bond issues over the three months fell by about a quarter to some £240 million gross,[4] and was narrowly exceeded by redemptions. The issues included variable rate stocks and bonds.

Turnover in the company debenture market was a little higher in August to October than in May to July; yields rose by half a percentage point. New issues by companies by way of loan capital and preference shares were again exceeded by redemptions.

Prices in the equity market continued to be firm in the first part of the period; the FT-Actuaries industrial (500) share price index, which stood at 243 at the end of July, had reached 265 by mid-September. Thereafter, prices fell back, mainly because of the uncertainties surrounding pay policy and the consequent possibility of industrial stoppages, and at the end of October the index stood at 240. Turnover was higher than in the previous three months.

New money raised by issues of equity capital fell from £405 million in the previous period to £295 million: £270 million in the earlier period and £180 million in August to October were accounted for by a rights issue by BL Limited (formerly British Leyland Limited), virtually all of which was taken up by the National Enterprise Board.

Net sales of unit trust units fell sharply to £25 million, compared with £70 million in the previous three months. Gross sales were buoyant, at £128 million (£145 million during May to July), but repurchases rose to record sums, at £103 million (£75 million).

[1] Redemption money amounting to over £15 million in respect of 5% Exchequer Stock 1976/78 was still outstanding at the end of September and is therefore not included in the quarter's figures for redemptions. North of Scotland Electricity 4% Guaranteed Stock 1973/78 matured on 15th July but this stock was entirely in official hands, and is therefore also excluded from the figures of redemptions.

[2] See the additional notes to Table 8.3 in the statistical annex.

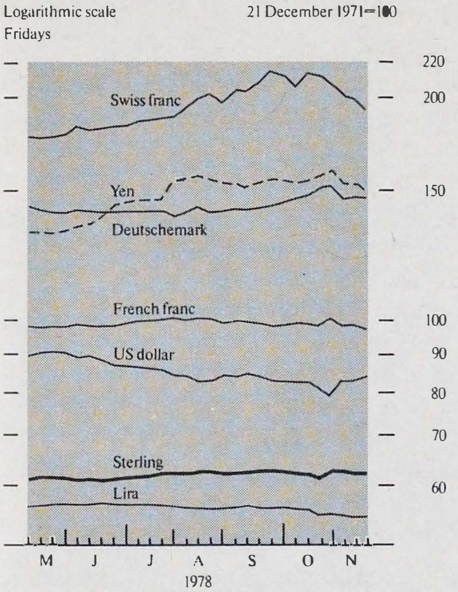
[3] A bonus of 1% per annum on certificates of tax deposit for periods beyond the first six months, provided they are eventually surrendered in payment of tax, was announced on the same day.

[4] See footnote [4] on the previous page.

Foreign exchange and gold markets

Indices of effective exchange rates

The main feature in markets during August to October was the weakness of the US dollar.



Summary

The August to October period was a very active one for the foreign exchange markets. The main feature was the continuing weakness of the US dollar which reached a record low point against each of seven major currencies during this time. The nervousness of the markets was shown by sharp reaction to rumours and anxious scrutiny of official announcements. Although sterling benefited on several occasions from the pressure on the dollar, other European currencies, especially the Swiss franc and the deutschemark, were more often the centre of buyers' attention. Measured against the dollar, the range of sterling's movement early in the period was wide—over 9 cents during August—but in terms of the effective exchange rate index, fluctuations were less dramatic. This index, which stood at 62.5 at the end of July, reached a peak of 63.3 in the third week of September, but then fell back as attention switched to other currencies. With a renewed bout of pressure on the dollar in the last days of October, sterling gained ground in effective terms, and on the 31st the index was 63.1.

Sterling

At the beginning of August, sterling appeared to be rather weak: after the publication of the mid-July banking figures on the 8th the effective index dropped to 62.1. However, the inference was duly drawn that interest rates would stabilise, and with the dollar coming under renewed pressure, sterling began to rise until, early on the 15th, it briefly touched $2.0025, the highest dollar rate since March 1976. Then came President Carter's press conference of the 17th, and sterling stayed on the sidelines for the rest of the month in thin and nervous markets, fluctuating between $1.9134 and $1.9642.

In the early days of September, the pound was somewhat overshadowed by electoral uncertainty and by the opposition of the trade unions to a continuance of incomes policy, but after the Prime Minister's statement on the 7th that no election was imminent, sterling held up well against a stronger dollar. The dollar's strength proved to be only temporary, and sterling gained from the renewed reversal. Between the 13th and 20th the authorities intervened to steady the upward movement of the sterling/dollar rate, which reached $1.9950 (effective index 63.3) during the 21st. By the end of the month the rate against the dollar was $1.9739, and the effective index was 62.7.

In the first two weeks of October, trading in sterling was generally quiet but market worries about a possible confrontation between the Government and trade unions on the 5% pay policy led to some weakening. Accordingly, sterling did not benefit initially as much as most other currencies from the fall in the international value of the dollar. On the 13th, after the news of September's visible trade deficit of some £200 million, the effective exchange rate index fell back. However, the dollar's increased rate of decline in the middle of the month pushed the sterling/dollar rate up towards $2.00 despite some market resistance until, on the 20th, sterling held firm above that level to close at $2.0005 (effective index 61.9). For the rest of the month the dollar continued to decline and sterling appreciated both in dollar and effective terms. On 31st October the pound closed at $2.0864 with the effective index at 63.1.

Over the three months, the reserves fell on balance by \$764 million. \$980 million was repaid early to the International Monetary Fund. New borrowing by public sector bodies under the exchange cover scheme amounted to \$551 million, and repayments under the scheme were \$354 million, \$195 million of which consisted of repayments ahead of schedule.

US dollar

The dollar was under pressure for most of the period. In the first half of August the markets were in disarray as the dollar was sold heavily in all centres; on the 15th, it hit what was then a record low point against several currencies, including the deutschemark, Swiss franc and yen. President Carter's press conference on the 17th concerning the declining dollar provided a rallying point and, with a Treasury statement promising action, and then an increase in the Federal Reserve discount rate the following day, a nervous recovery ensued. Subsequently, a higher rate of gold sales from November was announced and the reserve requirement on banks' euro-dollar borrowing was suspended. These measures, and further promises of action, were steadying influences, but the large US trade deficit for July announced on 29th August proved yet another set-back.

In September, the market appeared reluctant to see the dollar marked higher. When gains were made, they tended to be trimmed back quickly by profit-taking or further diversification. After an official statement on the 11th that an anti-inflation package would be announced shortly, the dollar's effective value climbed to its highest point since late July. The dollar opened strongly on the 18th after the outcome of the Camp David talks became known, but a weaker tendency soon developed. Although for the rest of the month the currency moved rather erratically, President Carter's speech to the International Monetary Fund on the 25th, in which he declared that a healthy dollar would be a prime objective, led to a sharp recovery the following day in London.

The dollar weakened again in the first half of October, following the failure of Congress to agree on the Energy Bill, and a firmer tendency in gold. The news that the Energy and Tax Bills had been finally passed by Congress came on the 16th but seemed to be overshadowed by a realignment of 'snake' currencies. The President's announcement of a voluntary prices and wages policy on the 24th did not satisfy the market, and in the ensuing days, up to the end of the month, the dollar lost further ground. By the close on the 31st it had fallen by nearly 7% in effective terms since the end of July. Measures to support the dollar were announced on 1st November and had an immediate strengthening effect on the currency.

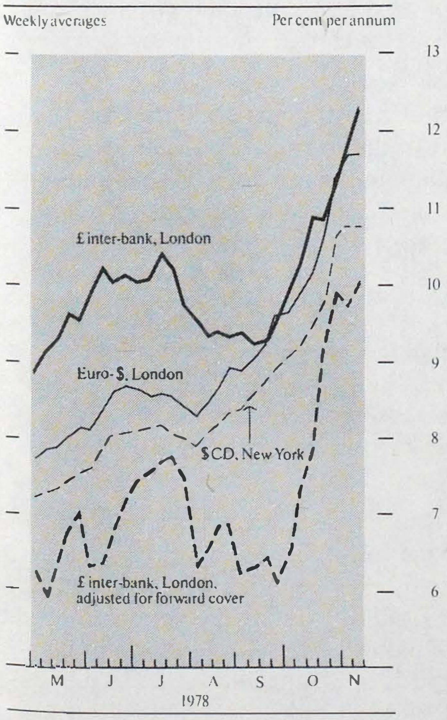
Other currencies

With the exception of the Canadian dollar, all the major currencies drew strength from the US dollar's tribulations. The Swiss franc appreciated by $16\frac{3}{4}$% against that currency between end-July and end-October. The authorities also became concerned that the Swiss currency had become overvalued in terms of the deutschemark, the cross rate reaching a record low of DM 100= Sw. Fr. $75\frac{1}{4}$ on 26th September. On 1st October the Swiss announced measures to halt the rise in their currency, principally through market intervention; these seemed to have the desired effect and the cross rate quickly moved above Sw. Fr. 80. Up to mid-October, the 'snake' was at full stretch, with the deutschemark at the top and the other four currencies bunching at the bottom despite continual intervention. In consequence, the 'snake' had to be realigned on 16th October: three currencies were revalued, the deutschemark by 4%, and the Belgian franc and Dutch florin by 2%. The Japanese yen, which had risen sharply in July, continued its progress in August, reaching Yen 181.80 against the dollar on the 15th. In the following weeks the rate eased back, but the yen was again in demand in mid-October when it broke through the August record. In contrast, as mentioned above, the Canadian dollar fell sharply over the period, and indeed in early October reached its lowest US dollar value since the 1930s, at $0.8361.

Between 7th July, when the Bremen Conference was concluded, and the close of business before the 'snake' realignment on 16th October, the deutschemark was at the top of the 'snake'. Over this period the three major non-'snake' European currencies—sterling, the French franc and the lira—all depreciated against the deutschemark, by 4%, 5% and 6% respectively. Although the deutschemark moved to the bottom of the 'snake' after the realignment, these three currencies continued to decline in deutschemark terms to the end of October.

UK and US three-month interest rates

Euro-dollar rates rose from mid-August but sterling rates not until late September; the covered differential against sterling widened in August and September, but narrowed rapidly in October.



Interest rates and differentials

Sterling interest rates were fairly stable during the first two months of the period but firmed in October. Euro-dollar rates started to rise during August, the three-month reaching 9% on the 31st, and they continued to climb in the following weeks. Thus the uncovered differential in sterling's favour narrowed during August and September until, at the end of September, the differential briefly turned against sterling. In the first half of October, the three-month sterling inter-bank rate rose more rapidly than the euro-dollar rate and the uncovered differential moved in favour of sterling and for a time widened steadily. But, as euro-dollar rates subsequently firmed, the three-month uncovered differential tended to narrow, finally turning against sterling again on the 31st. The three months' covered differential against sterling climbed rapidly from 2% at end-August to a peak of $3\frac{7}{8}$% on 2nd October, reflecting market uncertainty during a period beset by electoral and industrial worries. The differential subsequently subsided, at first gradually and then more rapidly, until, on the 27th, it reached a low point of $\frac{1}{2}$%.

Gold

The gold price advanced strongly at the beginning of August, moving from $201.35 per fine ounce on the 4th to $215.90 on the 15th. News of forthcoming measures to arrest the decline of the dollar led to a swift price revision, and the announcement of an increase in offerings at future gold auctions prompted nervous selling with the price touching $198 on the 25th. The price soon recovered and it held relatively steady between $205.50 and $212.50 in the first half of September but subsequently moved ahead, equalling the previous record of $215.90 on the 21st and in the following week climbing still higher. In October, with the dollar weakening further, the price of the metal rose strongly, reaching a peak of $243.65 on the morning of the 31st, although producer sales appeared to be normal.

During the period, sales in the United States by the US Treasury and the IMF by auction amounted to 770,000 ounces per month; a total of 340,000 ounces were sold by the IMF on a non-competitive basis.

International banking and euro-currency markets

At the time of writing, the Bank for International Settlements (BIS) figures for international bank activity[1] in the second quarter of 1978 were not available.[2] However, provisional indications suggest that the market continued to expand rapidly and probably exceeded the rate of growth in the previous three months (when the gross external assets of banks in the reporting area rose by some $15 billion after adjustment for distortion caused by exchange rate fluctuation).

The volume of newly-announced medium-term euro-credits amounted to nearly $17¼ billion in the third quarter, after nearly $14¾ billion in the previous three months.[3] The total of some $44¼ billion in the first three quarters of 1978 is already $7½ billion larger than that recorded in the whole of 1977. All the main groups of countries were active in obtaining credits during these nine months. The non-oil developing countries arranged credits totalling nearly $17½ billion ($11 billion in the whole of 1977); Brazil, Mexico, the Philippines and South Korea were the main borrowers within this group. Credits for the oil-exporting countries accounted for $7¾ billion (slightly more than in the whole of 1977); and those for the OECD countries amounted to $16¾ billion ($15¼ billion).The Eastern bloc was the only group of countries to borrow on a similar scale to the previous year, with credits totalling $2¼ billion in the first three quarters of 1978 ($3¼ billion in the year 1977). As pointed out in the September *Bulletin,* not all such announcements represent new borrowing: a significant proportion—at least a quarter—of the credits announced between January and September resulted from borrowers either restructuring or refinancing loans early in order to benefit from lower spreads[4] and lengthening maturities (see footnote [3]).

New issues in the foreign and international bond markets amounted to nearly $7 billion in the third quarter, considerably lower than the record $8¾ billion in the previous three months. Completed issues of international dollar bonds fell by $1 billion to $1½ billion, reflecting the uncertainty surrounding the US dollar and US interest rates.

The London euro-currency market expanded rapidly in the third quarter. The gross foreign currency liabilities of reporting institutions rose by some $21 billion; however, after adjustment for currency valuation changes, the underlying increase was around $16 billion, more than twice as fast as the underlying increase in the previous quarter.

By area, most of the new funds came from countries of 'other Western Europe', which supplied $2 billion, and 'other countries', which switched from being net borrowers to net lenders and thus provided $1¾ billion. Among the net borrowers from London the off-shore banking centres increased their outstanding net borrowing by $2¼ billion and countries in the EEC borrowed a further $1¾ billion.

A quarterly maturity analysis of the foreign currency liabilities and assets of reporting institutions was completed as at 16th August (see Table 21 in the statistical annex). Liabilities rose by $20 billion, or $15 billion after adjustment for currency valuation changes. This compares with an adjusted increase of $3 billion in

[1] Defined as the domestic and foreign currency business of banks in the Group of Ten countries, Austria, Denmark, Republic of Ireland and Switzerland, and of branches of US banks in certain off-shore centres.

[2] Data for the first quarter, which were not available when the September *Bulletin* was published, are shown in Table 23 in the statistical annex.

[3] The Bank of England record medium-term euro-credits with maturities of three years or more on the date of announcement, but such credits show up in the BIS figures only when they are taken up and only to the extent that they are not replacing maturing debt. Foreign and international bond issues (see next paragraph) are recorded by the Bank of England on completion.

[4] The 'spread' is the amount by which the interest rate is to exceed the London inter-bank offered rate (LIBOR).

UK banks' liabilities and assets by customer[a]

The London euro-currency market expanded rapidly in the third quarter.

$ billions

	1977		1978		
	30 Sept.	31 Dec.	31 Mar.	30 June	29 Sept.
Foreign currency liabilities of UK banks to:					
Other UK banks	50.1	51.2	55.2	56.5	59.9
Other UK residents	6.6	7.1	7.3	8.7	8.7
Overseas central monetary institutions	38.9	41.0	42.0	42.3	45.0
Other banks overseas	100.7	108.6	109.7	110.5	123.8
Other non-residents	23.5	24.5	26.3	27.8	29.4
Other liabilities [b]	1.5	1.5	1.8	2.3	2.6
Total liabilities	**221.3**	**233.9**	**242.3**	**248.1**	**269.4**
Foreign currency assets of UK banks with:					
Other UK banks	51.3	53.2	56.4	56.8	60.7
Other UK residents	18.3	19.0	19.2	19.4	19.9
Banks overseas	110.2	116.6	118.6	121.9	135.2
Other non-residents	39.8	43.3	46.2	48.3	51.8
Other assets [b]	2.5	2.8	2.9	3.5	3.8
Total assets	**222.1**	**234.9**	**243.3**	**249.9**	**271.4**

[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

Total outstanding net deposits rose by $½ billion in the third quarter.

$ billions outstanding

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

	1977		1978		
	30 Sept.	31 Dec.	31 Mar.	30 June	29 Sept.
United States	− 5.7	− 6.1	−10.2	− 9.1	− 9.8
Canada	− 1.4	− 1.3	− 2.0	− 1.0	− 1.8
European Economic Community	+ 6.4	+ 7.1	+ 8.9	+ 9.6	+11.3
Other Western Europe	−12.4	−13.6	−14.6	−16.0	−18.1
Eastern Europe	+ 7.3	+ 7.0	+ 7.3	+ 8.3	+ 9.0
Japan	+ 9.9	+ 9.9	+ 9.9	+ 8.9	+ 8.9
Oil-exporting countries [a]	−23.8	−22.7	−21.6	−18.7	−18.4
Countries engaged in off-shore banking	+10.2	+ 8.6	+ 7.4	+ 7.4	+ 9.7
Other countries	− 2.3	− 1.1	+ 2.9	+ 0.7	− 1.1
	−11.8	−12.2	−12.0	− 9.9	−10.3

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

Maturity structure of UK banks' net foreign currency position

Net liabilities up to one year rose by $4 billion between mid-May and mid-August.

$ billions

Net liabilities −/net assets +

	1978	
	mid-May	mid-Aug.
Less than 8 days [a]	−15.0	−15.2
	−11.5	*−11.5*
8 days to less than 3 months	−18.9	−20.1
3 months to less than 1 year	− 7.3	− 9.8
Net borrowing up to 1 year	−41.2	−45.1
Net lending at 1 year and over	+41.4	+45.7
	+ 0.2	+ 0.6

[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.

the previous three months and is a much greater rise than in any recent analysis. Net liabilities at up to one year rose by $4 billion, $2½ billion of the increase being in net liabilities at three months to less than one year; net liabilities at less than eight days rose only marginally. An expectation of higher interest rates may have led reporting institutions to lengthen the term of their liabilities. The modest change in the net position at less than eight days was made up of a reduction of just over $1 billion in the American banks' net liabilities, offset by a similar rise in those of the Japanese banks; the positions of other groups of banks were little changed.

A maturity analysis of institutions' issues and holdings of US dollar certificates of deposit (and small amounts of other negotiable paper) is included in the additional notes to Table 21 in the statistical annex. In the period to mid-August, outstanding issues rose by $200 million.

As noted in the June *Bulletin* (page 179), central banks in the BIS reporting area[1] are now conducting half-yearly maturity analyses of the external claims of banks in their territories and submitting aggregated data to the BIS. The contribution of banks in the United Kingdom to the end-June 1978 analysis appears as Table 22 in the statistical annex; the BIS will consolidate these data with those of other reporting countries and publish the results in due course. Total external sterling and foreign currency claims of banks in the United Kingdom on countries outside the reporting area totalled some $95 billion at end-June 1978, an increase of around $8½ billion in the period from end-December 1977. The increases were well spread amongst the broad geographical groupings; and the maturity distribution of lending was little changed at end-June compared with end-December. Unused credit facilities, which include informal, revocable facilities as well as those which are legally binding, rose by $3 billion. It should be noted that in both the BIS half-yearly maturity analysis and the general maturity analysis above, 'roll-over' loans[2] are classified according to the remaining period to maturity rather than to the next roll-over date.

Oil money movements

The total estimated oil revenues of the oil-exporting countries recovered slightly in the third quarter but remained lower than in the first. The volume of exports rose in the period May to July, despite a fall in those from the Middle East, and with a general rise continuing in August and September, revenues are likely to increase again in the fourth quarter.

Since the publication of the September *Bulletin*, there have been considerable revisions to the estimates for the first half of 1978. In particular, it now appears that in the second quarter the disinvestment from the United Kingdom and the United States was not accompanied by any significant investment elsewhere and that the outturn for the quarter was a small deficit.

Preliminary indications suggest that there was a modest surplus in the third quarter; disinvestment from the United States continued but there was some increase in investment in the United Kingdom and in loans to developing countries. The surplus for the year as a whole is certain to be very much smaller than that for 1977.

[1] For this purpose, the Group of Ten countries, Austria, Denmark, Republic of Ireland and Switzerland.

[2] These are loans made for, say, five years where the interest rate is fixed every three, six or nine months, depending on the agreement between the lender and borrower.

Estimated oil revenues of exporting countries

Oil revenues in the third quarter were higher than in the second.

$ billions

1976	1977	1978		
Year	Year	1st qtr	2nd qtr	3rd qtr
113.2	129.1	31.9	29.1	30.1

Estimated deployment of oil exporters' surpluses[a]

A small surplus reappeared in the third quarter.

$ billions

	1976	1977	1978	
	Year	Year	1st qtr	2nd qtr
United Kingdom				
British government stocks	0.2	—	—	−0.2
Treasury bills	−1.2	−0.2	—	0.2
Sterling deposits	−1.4	0.3	0.2	−0.4
Other sterling investments [b]	0.5	0.4	—	0.1
British government foreign currency bonds	—	0.2	—	—
Foreign currency deposits	5.6	3.4	−0.4	−1.6
Other foreign currency borrowing	0.8	—	—	—
	4.5	4.1	−0.2	−1.9
United States				
Treasury bonds and notes	4.2	4.3	−0.1	−0.7
Treasury bills	−1.0	−0.8	0.3	−1.1
Bank deposits	1.6	0.4	0.5	−0.7
Other[b]	7.2	5.3	0.8	1.3
	12.0	9.2	1.5	−1.2
Other countries				
Bank deposits	6.5	7.5	1.5	−0.5
Special bilateral facilities and other investments [b][c]	12.2	12.4	1.5	1.7
	18.7	19.9	3.0	1.2
International organisations	2.0	0.3	—	—
Total	**37.2**	**33.5**	**4.3**	**−1.9**

[a] This table excludes liabilities arising from net borrowing and inward direct investment and also, on the assets side, changes in credit given for oil exports. A table reconciling the figures with the estimates for current account surpluses is given below.

[b] Includes holdings of equities, property, etc.

[c] Includes loans to less developed countries.

Reconciliation between 'deployment' table and current account surpluses

$ billions

	1975	1976	1977 [a]
Current account surpluses	31	37	33
Net borrowing	3	7	7
Oil sector capital transactions [b]	1	−6	−2
Cash surpluses available for investment	35	38	38
'Deployment' table estimates	35	37	34
Errors and omissions	—	1	4

[a] The figures for 1977 are likely to be revised as fuller information becomes available.

[b] Includes credit given for oil exports and oil companies' investment/disinvestment in oil-exporting countries.

Commodity markets

During August to October, trading was more active than in the earlier months of the year, and most prices were significantly higher at the end of the period in spite of the stability of sterling; many of the increases reflected supply difficulties in individual markets. *The Economist* sterling all-items index rose by 8%, wholly reversing the fall of the previous three months.

On the London Metal Exchange (LME), tin rose substantially, as a result of recurring shortages which brought LME stocks of the metal to their lowest for more than a decade. The difficulties were aggravated during October by the failure of the US Congress to pass a bill authorising stockpile releases, and the cash price reached an all-time peak of over £8,000 a tonne after the end of the month. During August, copper, lead and zinc were affected by labour disputes in South America. In the remainder of the period, lead and zinc remained in short supply and further price increases were recorded; although LME stocks of copper continued to decline to their lowest for three years, the price of copper remained steady. Trading in aluminium began on 2nd October.

In the soft commodity markets, the downward trend in coffee prices was reversed during August, following a fairly severe frost in Brazil; subsequent confirmation of crop damage helped maintain higher prices through the following two months. The London Daily Price for raw sugar, which in July had fallen to its lowest since December 1972, rose in August and September because of increased Chinese buying and some expectations of an end to the world surplus.