

ECONOMIC NOTES

29th Government Stock Tender

Government Stock Tender No. 29 was held on 3 April 1986. A total of \$350 million of stock was offered for sale, comprising \$100 million maturing in September 1989, \$150 million in June 1991 and \$100 million in July 1994. Valid bids received totalled \$1,327 million, nearly four times the amount on offer.

The weighted average yields on successful bids were 20.4 per cent for the 1989 stock, 19.7 per cent for the 1991 stock and 18.8 per cent for the 1994 stock. Average yields were lower than those in the previous tender by 0.1 of a percentage point for the 1989 and 1991 stocks, while the average yield on the 1994 stock was down 0.2 of a percentage point from the rate in Tender No. 28.

Treasury Bill Tenders and Open Market Operations

Over the review period (17 March — 8 April) which encompassed the second half of the March tax flow period and the normally large end of fiscal year revenue flows to government, liquidity conditions were relatively stable. System cash balances averaged \$74 million during the last two weeks of March but then declined to \$46 million in the period 1 — 8 April as the variability in daily liquidity flows reduced. Primary liquidity, while averaging \$1,273 million over the last two weeks in March, displayed an aggregate fall of \$1,200 million over the period to a trough of \$781 million on 27 March, the last day of the fiscal year. This substantial decline was due mainly to large direct tax and end-of-quarter interest payments to government. Since the beginning of April primary liquidity has averaged \$963 million. A total of \$206 million of government securities were discounted over the review period, with a large proportion of this occurring on 27 March.

A total of \$705 million of Treasury bills were sold by tender during the review period. Of these, \$445 million

were maturing in April and \$260 million were May maturities. In both cases the maturities are heavily weighted toward the last week in these months to coincide with forecast liquidity withdrawals from the system.

To smooth the volatility in daily liquidity flows, the Reserve Bank conducted open market operations on eight days in the last two weeks of March and on three days in April. Treasury bill sales accounted for eight of these operations, undertaken in response to forecast cash injections on these days. The remaining three operations were sellback transactions conducted in order to inject liquidity into the system on those days when liquidity conditions were expected to tighten. The size of open market operations in late March was considerably larger on average than those undertaken in April. This reflected the greater variability in liquidity flows in the former period. The Bank has continued to operate the strategy of influencing the daily level of cash balances through open market operations which, during March, successfully contributed to reduced uncertainty in financial markets about daily flows and resulted in generally settled liquidity conditions.

There was no stock tender held in March. However up to 8 April, stock tender settlements for Tender No. 29 held on 3 April have totalled \$10 million.

Treasury Bill Tenders & Open market Operations

Treasury Bill Tenders:

Tender	Amount Offered \$m	Term	Amount Sold \$m	Weighted Average % Rate
58	25	14 days	25	17.995
	25	21 days	25	17.866
59	150	28 days	150	19.274
	50	35 days	60	19.139
60	50	56 days	40	20.688
	200	21 days	200	21.057
61	100	49 days	100	21.495
	60	56 days	60	21.642
	45	49 days	45	20.407

Open Market Operations:

	Amount Offered		Amount Sold	Amount Purchased	Amount Injected
	\$m	Term	\$m	\$m	\$m
17 March					
Treasury Bills	55	2 days	55	—	—
	45	3 days	45	—	—
	55	7 days	55	—	—
	45	9 days	45	—	—
	161	10 days	161	—	—
18 March					
Sellback	160	58 days	—	—	20
19 March					
Sellback	18	19 or 26 days	—	—	8
TCDs	51	16 — 44 days	—	—	35
Bank Bills	16	7 — 27 days	—	—	3
Comm. Bills	50	19 — 36 days	—	—	21
Notes	2	27 days	—	—	—
20 March					
Treasury Bills	15	14 days	15	—	—
21 March					
Sellback	75	3 days	—	—	—
		6 days	—	—	—
24 March					
Treasury Bills	85	10 days	—	—	—
	100	11 days	10	—	—
	50	17 days	24	—	—
	50	18 days	34	—	—
25 March					
Treasury Bills	85	9 days	85	—	—
	90	10 days	90	—	—
	26	16 days	—	—	—
	16	17 days	—	—	—
26 March					
Treasury Bills	26	15 days	—	—	—
	16	16 days	—	—	—
	50	28 days	5	—	—
2 April					
Treasury Bills	30	22 days	30	—	—
4 April					
Treasury Bills	15	20 days	15	—	—
7 April					
Treasury Bills	30	3 days	4	—	—
Government Securities		8 days	26	—	—

Definition of Primary Liquidity

The Governor of the Reserve Bank, Mr S.T. Russell, on 3 April 1986, clarified the way in which the new one month definition of primary liquidity will operate in practice. He stated that a rolling 30 day definition of primary liquidity will be used. Each day, government securities which have 30 days to maturity will come within the definition of primary liquidity and therefore be discountable on demand. He noted that, as the Bank has already indicated that it will discount on demand government securities maturing up until 15 May 1986, the rolling 30 day definition will effectively commence on 15 April 1986, i.e. on 15 April 1986 the primary liquidity definition will extend up to (and including) 15 May 1986.

The Governor also said that, as the 30 day definition would include weekends and other non-banking days, pre-defined rules would govern the treatment of government securities which enter primary liquidity or mature on a non-banking day. The treatment of these government securities will be as follows:

1. Government securities which enter primary liquidity on a non-banking day will be discountable from the first subsequent banking day
2. Government securities which mature on a non-banking day will be treated as having an effective maturing date equivalent to the first banking day on which value for that security at maturity can be received, i.e. the first subsequent banking day.

The Governor said that these operational rules will mean that market participants should be in no doubt as to when securities enter primary liquidity and therefore become discountable on demand.

Reserve Bank Appointments Announced

On 27 March 1986, the Minister of Finance, the Hon. R.O. Douglas, announced the appointment of Mr R.L. Knight as Deputy Governor of the Reserve Bank of New Zealand. Mr Knight's appointment was effective from 1 April 1986 and he replaced Dr R.S. Deane who has become Chairman of the State Services Commission.

Following the appointment of Mr R.L. Knight as Deputy Governor, Mr R.J. Lang, Executive Adviser of the Reserve Bank, took up the appointment of Assistant Governor of the Bank from 1 April 1986.