

ECONOMIC NOTES

32nd Government Stock Tender

Government Stock Tender No. 32 was held on 12 June 1986. A total of \$500 million of stock was offered for sale in three maturities: \$200 million maturing in November 1989, \$200 million maturing in September 1991 and \$100 million maturing in October 1996. Valid bids received totalled \$1,317 million, 2.6 times the amount on offer. This total was slightly down on the \$1,531 million of bids received in Tender 31, which was also for \$500 million.

The weighted average yields on successful bids were 15.2 per cent for the 1989 and 1991 stocks and 14.8 per cent for the 1996 stock. The average yields for the 1991 and 1996 stocks were down by around 0.5 and 0.3 percentage points respectively on the yields for these stocks in Tender 31, held on 15 May. The average yield on the November 1989 stock was approximately 0.7 percentage points below the rate on the September 1989 stock in Tender 31. The rates in the tender were generally slightly below secondary market rates immediately prior to the Tender.

Treasury Bill Tenders and Open Market Operations

Liquidity conditions eased over the start of the review period (5 June — 3 July) but then firmed towards the end of the period as normal end-of-month revenue flows to Government occurred. System cash balances averaged \$37 million over the period. Primary liquidity (settlement balances plus government securities with 30 days or less to maturity) ranged between a peak of \$745 million in mid-June, when the government stock maturing on 15 July entered PL, and a trough of \$444 million at the end of the month. The average level of primary liquidity was \$619 million. A total of \$76 million of government securities was discounted on six separate days between 5 June and 3 July, with the largest amount being \$18 million on 27 June.

Treasury Bills totalling \$850 million were sold in Tenders 70–73 which were held during the review period. The relatively large volume of bills sold was due to the strong net public sector injections over June. Almost all of the bills were sold out of primary liquidity i.e. had greater than 30 days to maturity at point of sale, reflecting the fact that the end-of-June liquidity withdrawals associated with tax and other revenue flows to Government were already adequately covered by Treasury bill maturities. A large proportion of the Treasury bills sold during the review period had end-of-August and end-of-September maturities, designed to offset forecast liquidity withdrawals.

Over the review period, the Reserve Bank continued to conduct open market operations with the aim of maintaining cash balances at about \$50 million. The policy was implemented by offering to sell government securities when cash balances were forecast to be greater than the aiming level and offering to purchase outright government securities within PL, or conduct sell-back operations, when cash was forecast to decline substantially below the aiming level.

Open market operations were structured not only with the aim of injecting or withdrawing cash as required, but also so as to maintain PL at appropriate levels. As a consequence of these operations, a total of \$110 million was transferred out of PL during the review period through the sale of bills which had greater than 30 days to maturity. Similarly, on a number of occasions when the Bank sought to inject cash through open market operations, it offered to do so only through outright purchase of government securities without offering the alternative of sell-backs (the latter have the effect of temporarily adding to PL as well as cash). Sell-back transactions carried out during the review period totalled \$510 million, while a further \$180 million of cash was injected by way of outright purchases of short-dated securities.

Settlements for Stock Tender 31 ended on 9 June and settlements for the 32nd tender began on 16 June. By 3 July \$386 million of the \$500 million of stock sold in Tender 32 had been settled, with the final day for settlement being 7 July.

Treasury Bill Tenders & Open Market Operations

Treasury Bill Tenders:

Tender	Amount Offered \$m	Term	Amount Sold \$m	Weighted Average % Rate
70	50	14 days	50	15.149
	100	42 days	100	15.221
	100	77 days	100	15.221
	50	105 days	50	15.118
71	30	42 days	30	14.228
	50	70 days	50	14.213
	120	98 days	120	14.366
72	100	63 days	100	14.641
	100	91 days	100	14.647
73	50	56 days	50	15.247
	100	84 days	100	15.346

Open Market Operations:

	Amount Offered	Term	Amount Sold	Amount Purchased	Amount Injected
4 June	80				
Sell-back		12 days	—	—	80
Government Stock		11 days	—	—	—
9 June	20				
Treasury Bills		1 day	—	—	—
13 June	130				
Sell-Back		5 days	—	—	29
Sell-Back		10 days	—	—	101
16 June	70				
Treasury Bill		46 days	70	—	—
18 June	10				
Treasury Bills		44 days	10	—	—
20 June	25				
Sell-Back		5 days	—	—	25
Treasury Bills		5,10 days	—	—	—
23 June	70				
Government Stock		22 days	—	18	—
Treasury Bills		30 days	—	52	—
24 June	50				
Government Stock		21 days	—	4	—
Treasury Bills		29 days	—	46	—
25 June	30				
Treasury Bills		64 days	30	—	—
26 June	20				
Government Stock		19 days	—	20	—
27 June	80				
Sell-Back		6 days	—	—	55
Sell-Back		11 days	—	—	25
Government Stock		18 days	—	—	—
30 June	150				
Sell-Back		15 days	—	—	110
Government Stock		15 days	—	40	—
1 July	45				
Sell-Back		8 days	—	—	45
Government Stock		14 days	—	—	—
2 July	15				
Government Stock		13 days	—	—	—
3 July	40				
Sell-Back		4 days	—	—	40

Reserve Bank Appointment Announced

The Reserve Bank of New Zealand announced on 10 June 1986, the appointment of Mr Allan A. Smith as Chief Manager, Financial Markets Department. Mr Smith succeeds Mr K.G. Morrell who has been appointed Chief Manager, Financial Institutions Department, a new department taking over responsibility for the Bank's prudential supervision and financial structure reform.

Public Debt Programme for 1986/87

The Governor of the Reserve Bank, Mr Spencer Russell, on 27 June 1986, announced the Government's intended borrowing programme for the September quarter, and gave an indication of the expected programme for the full 1986/87 fiscal year.

Mr Russell said that it was intended to hold three tenders of \$500 million each during the September quarter. On the basis of present information, the Government has tentatively scheduled a further three tenders, also for \$500 million each, during the December quarter.

Stock Tender Timetable for 1986/87

Tender Date	Settlement Period	Working Days
10 July	14 July — 4 Aug.	16
7 August	11 Aug. — 1 Sep.	16
18 September	22 Sep. — 13 Oct.	16
16 October	20 Oct. — 10 Nov.	15
13 November	17 Nov. — 8 Dec.	16
11 December	15 Dec. — 22 Dec.	6

Mr Russell said that he hoped to give a firmer indication of expected public sector injections and the full-year debt programme after release of the budget which was scheduled for early August. Mr Russell added that the Government remained committed to fully funding net public sector injections over 1986/87.