ECONOMIC NOTES

22nd Government Stock Tender

Government Stock Tender No. 22 was held on 19 September 1985. A total of $300 million of stock was offered for sale, comprising $50 million of March 1987 stock, $150 million of March 1991 stock and $100 million of August 1993 stock. Valid bids received totalled $865 million, which was down on the total of $1,220 million received in the previous tender, also for $300 million. However, bids received were still well in excess of the amount of stock on offer, with bids on the shorter-dated 1987 maturity more than three times greater than the amount on offer.

The weighted average yields on successful bids for the 1991 and 1993 stock were 19.6 per cent and 18.8 per cent respectively, with the average rate on the 1991 stock around one percentage point higher than that for the same stock in the previous tender held in July. The weighted average yield on the 1987 stock was 22.2 per cent.

See Table E1 for the results of this and other Government stock tenders.

Treasury Bill Tenders and Open Market Operations

September commenced with strong cash injections into the financial system, reflecting the timing of social welfare payments and other normal government expenditures. $98 million of securities were discounted over 12–13 September in response to cash withdrawals associated with the September tax drain to Government. A further $249 million of discounting occurred during the final week of September, reflecting normal quarterly interest payments by government corporations and end of month tax flows to Government.

A total of $150 million of Treasury bills were sold by tender during September, comprising bills with maturities from mid to late October. The sale of these maturities reflected the relatively low levels of holdings of short-term government securities and a desire to provide liquidity around the end of the settlement period for Stock Tender 22 (18 October).

The Reserve Bank conducted open market operations on two occasions in September. On 16 September $100 million of early to mid October Treasury bills were sold in response to a strong cash injection on that day from maturing government securities and government stock interest payments. The Bank had previously indicated its intention to undertake open market operations at this time, once the precise magnitude of the flows had been ascertained. On 19 September the Bank sold a further $50 million of October Treasury bills in response to the continued high levels of cash balances held by settling institutions.

Primary liquidity began the month at $915 million and steadily increased from this level to reach a peak of $1,924 million on 18 September. This growth predominantly reflected the entry into the primary liquidity aggregate of $781 million of March 1986 Treasury bills and government stock. Primary liquidity declined to $1,493 million at the end of September as a result of strong flows to Government over this period.

Treasury Bill Tenders and Open Market Operations

Treasury Bill Tenders:

Tender	Amount Offered $m	Term	Amount Sold $m	Weighted Average Rate %
32	Nil			
33	50	35 days	50	25.01
34	50	28 days	75	24.726
	50	42 days	25	25.192
35	Nil			

Open Market Operations:

	Amount Offered $m	Term	Amount Sold $m	Amount Purchased $m
16 September	20	16 days	20	—
Treasury bills	25	18 days	25	—
	55	32 days	55	—
19 September	50	28 days	50	—
Treasury bills				

Exchange Rate Developments

The statistical information included in this note was finalised on 2 October 1985.

The New Zealand dollar has now been floating for just over seven months. During the first three months of that period the value of the New Zealand dollar, as measured against the Reserve Bank's trade weighted index, remained reasonably stable but around the middle of June the dollar began to appreciate gradually so that by the middle of July it had risen about 1 per cent above its pre-float level against the index. From late July the rate of appreciation accelerated and by the beginning of September the New Zealand dollar had strengthened about 12 per cent against the index relative to its value before the float. This higher level was maintained over September.

As the following table shows, the largest exchange rate movements were against the US and Australian dollars. From March to the beginning of October the New Zealand dollar appreciated by 24 per cent against the US dollar and 23 per cent against the Australian dollar. A smaller appreciation of 2 per cent was recorded against the yen. The New Zealand dollar depreciated against sterling and the deutschmark, weakening by 6 per cent and 4 per cent respectively.

The overall appreciation of the New Zealand dollar has reflected three main factors: a weakening of the US and Australian dollars in international currency markets, relatively high domestic interest rates, and growing confidence in the Government's medium-term economic strategy. Even if New Zealand had retained a fixed exchange rate system (pegged against a basket of currencies) the New Zealand dollar would have appreciated substantially against both the US and Australian dollars. Following a re-appraisal by foreign exchange market participants of the outlook for the Australian economy the Australian dollar depreciated 14 per cent in trade-weighted terms over February and March. It had weakened a further 6 per cent by the beginning of October. The US dollar has followed a generally downward trend since reaching very high levels in February and March, and it weakened sharply in late September following an announcement by the five major industrial countries that they were concerned about the value of the US currency and would be co-ordinating action to achieve a more appropriate alignment of exchange rates. From mid-September to the beginning of October the US dollar depreciated 8 per cent against the deutschmark and 12 per cent against the yen.

The effect of these adjustments in the exchange rates of other currencies has been reinforced by developments in the New Zealand economy which have had the effect of putting upward pressure on the New Zealand dollar exchange rate. Comparatively high domestic interest rates, which reflect the Government's firm monetary policy stance, have encouraged direct foreign investment into New Zealand and overseas borrowing by New Zealand residents. Underpinning these trends has been a growing private sector confidence in the Government's medium-term economic strategy. This has contributed to an increase in business investment and has maintained the demand for borrowed funds in the face of the high nominal interest rates. As a result New Zealand residents have, in recent months, been borrowing funds from abroad in order to finance a higher level of investment expenditure than can be financed from domestic savings.

New Zealand Dollar Exchange Rate Movements from 1 March 1985 to 2 October 1985

Against:	Movement: per cent
Index	+ 11.5
US dollar	+ 24.3
Sterling	− 5.5
Australian dollar	+ 23.2
Yen	+ 2.0
Deutschmark	− 2.3

Note:
+ = appreciation of New Zealand dollar
− = depreciation of New Zealand dollar