ECONOMIC NOTES

31st Government Stock Tender

Government Stock Tender no. 31 was held on 15 May 1986. A total of $500 million of stock was offered for sale in three maturities: $200 million maturing in September 1989 and September 1991 and $100 million maturing in October 1996. Valid bids received totalled $1,532 million, three times the amount on offer. This was down on the $2,756 million bids received in the 17 April tender (No. 30), which was also for $500 million.

The weighted average yields on successful bids were 16 per cent for the 1989 stock, 15.3 per cent for the 1991 stock and 15.1 per cent for the 1996 stock. The average yield for the 1989 stock was down about 2.6 percentage points on the yield for the same stock in the previous tender. Direct comparisons of the yields on the other two stocks are not possible since they had not previously been offered. However, the average yield on the September 1991 stock was around 2.2 percentage points lower than the rate on June 1991 stock in Tender 30, while the yield for the 1996 stock was approximately 2 points below the secondary market rate for a 9 year stock at the time of the previous tender.

Treasury Bill Tenders and Open Market Operations

Over the review period (8 May — 4 June) liquidity conditions were generally stable and firm. System cash balances averaged $31 million over the review period. Primary liquidity (settlement balances plus government securities with 30 days or less to maturity) ranged between $470 million and $836 million and averaged $608 million over the period. A total of $95 million of government securities was discounted between 8 May and 4 June.

Treasury bills totalling $910 million were sold by tender during the review period. The large volume of bills sold reflected strong liquidity injections resulting from net government expenditure and maturities of government stock during the month of May. The choice of maturities (from June to September) reflected the policy of stabilising the level of primary liquidity, while at the same time matching bill maturities with forecast future liquidity withdrawals from the system.

Over the review period, the Reserve Bank continued to conduct open market operations in order to influence the daily level of cash balances. This involved selling Treasury bills when cash balances were forecast to build up and offering to conduct sell-back operations or to purchase securities when cash balances were forecast to decline substantially. During this period the Bank continued to use a daily aiming level for cash balances of $50 million. The Bank sold $336 million of government securities through open market operations during the review period, purchased $10 million of Treasury bills, and injected $275 million into the system through sell-back operations. The Bank's open market operations contributed to the generally settled conditions in the market during the review period.

Stock Tender 30 settlements were completed on 12 May and totalled $264 million over the period 8–12 May. The settlement period for Stock Tender 31 commenced on 19 May and will end on 9 June. By 4 June, $233 million of the stock sold in Tender 31 had been settled.

Treasury Bill Tenders & Open Market Operations

Treasury Bill Tenders:

Tender	Amount Offered $m	Term	Amount Sold $m	Weighted Average % Rate
66	100	7 days	100	16.750
	50	21 days	50	16.610
	300	42 days	300	17.810
	100	49 days	100	17.949
	50	119 days	50	17.349
67	30	14 days	30	16.230
	80	63 days	80	17.319
68	30	7 days	30	15.818
	70	56 days	70	16.014
69	70	56 days	70	15.804
	30	112 days	30	15.643

Open Market Operations:

	Amount Offered	Term	Amount Sold	Amount Purchased	Amount Injected
8 May					
Sell-back	20	6 days	—	—	20
9 May					
Treasury Bills	20	13 days	1	—	—
Treasury Bills	20	20 days	19	—	—
12 May					
Treasury Bills	20	15 days	20	—	—
13 May					
Government Stock	50	2 days	50	—	—
14 May					
Government Stock	10	1 day	—	—	—
Treasury Bills	10	8 days	10	—	—
20 May					
Sell-back	30	1 day	—	—	30
Sell-back	30	8 days	—	—	—
21 May					
Treasury Bills	15	15 days	15	—	—
22 May					
Treasury Bills	80	5 days	20	—	—
	80	14 days	31	—	—
23 May					
Treasury Bills	100	6 days	—	10	—
Sell-back	100	11 days	—	—	1
Sell-back	100	18 days	—	—	89
27 May					
Treasury Bills	100	9 days	19	—	—
Treasury Bills	100	10 days	34	—	—
Treasury Bills	100	38 days	47	—	—
28 May					
Treasury Bills	45	58 days	45	—	—
29 May					
Sell-back	15	5 days	—	—	15
30 May					
Sell-back	40	12 days	—	—	40
3 June					
Treasury Bills	25	1 day	20	—	—
Treasury Bills	25	2 days	5	—	—
4 June					
Government Stock	80	11 days	—	—	—
Sell-back	80	12 days			80

Monetary and Credit Aggregates

The Governor of the Reserve Bank, Mr Spencer Russell, on 16 May 1986 released provisional figures for the monetary and credit aggregates as at the end of March 1986.

Mr Russell said that the statistics showed a continuation of the decline in credit growth which had been recorded over the latter half of 1985. Private sector credit (PSC) grew by 3.1 per cent (seasonally adjusted) during the March quarter, which compares with growth of 4 per cent in the December quarter of 1985, 5 per cent in the September quarter and 5.8 per cent in the June quarter. The annual growth rate for the year ended March was 19.1 per cent, down from 22.8 per cent in the year to December 1985. The falling trend in credit growth indicated that the Government's firm monetary policy stance was having an effect, Mr Russell said.

Mr Russell indicated that the influence of seasonal factors had made growth in the broad monetary aggregate, M3, more difficult to interpret than usual. Over the year to March, the provisional figures indicated that M3 expanded by an estimated 23.7 per cent, an increase from 20.6 per cent growth for the year to December 1985. However, Mr Russell said that this increase was in part due to a base period distortion associated with the sharp fall in M3 during the March quarter of 1985, when there was a large foreign exchange outflow prior to the dollar's float in March 1985.

In contrast, the quarterly (seasonally adjusted) growth in M3 of 3 per cent for the March quarter was well down on the 5.3 per cent increase in the December quarter of 1985.

The growth rates for the narrow monetary aggregate, M1, were also affected by the influences which have distorted the M3 growth rates for March, Mr Russell said. The expansion in M1 over the year to March was 21.3 per cent, well up on the annual growth of 12.3 per cent recorded in the year to December 1985. However, in quarterly (seasonally adjusted) terms, M1 grew by only 0.6 per cent during the March quarter, down sharply from the 8 per cent growth in the December quarter.

Mr Russell repeated his previous warnings that all the aggregates need to be treated with caution at present, given the major changes that have been taking place in the financial sector.

Liquidity Projections for the Month of June 1986

The Acting Governor of the Reserve Bank, Mr Lindsay Knight, on 30 May 1986 released liquidity projections for the month of June 1986. These forecasts included an estimate of the net effect of the Reserve Bank's expected liquidity management operations during the month. He said that underlying these projections was the assumption that the Bank will continue to conduct open market operations to smooth liquidity flows around a daily cash balance level of $50 million.

Mr Knight explained that the release of the forecasts was a further step by the Reserve Bank to improve the market's understanding of the policy actions undertaken by the Bank to achieve the Government's monetary policy objectives. He emphasised that because of the difficulty of forecasting liquidity flows, the actual level of primary liquidity could be expected to differ from that indicated below, and the detailed forecasts should therefore be used with caution.

Mr Knight said that the forecasts indicated a net liquidity withdrawal over the month of $85 million. Assuming a primary liquidity level at the end of May of about $600 million, the end of June primary liquidity level is forecast to be around $515 million. He said that the pattern of forecast liquidity flows indicated large positive influences in the settlement weeks ending 17 and 24 June, reflecting government debt coupon and redemption payments and strong net Government expenditure flows. As a consequence, large Treasury bill tenders are expected to be held in those weeks with the majority of bills likely to have maturities greater than 30 days. He explained that primary liquidity is forecast to fluctuate during the month and it is expected to average about $680 million over the month as a whole. He also noted that the appropriateness of the level of primary liquidity would continue to be assessed in the context of emerging economic and monetary conditions.