PO-CH/NL/0110

PART G

Part G.

SECRET

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PART G

Chancellor's (Lawson) Papers:

THE WORLD FINANCIAL
MARKETS 1987 - 1988

Disposal Directions: 25 Yea

16/8/95 -

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SECRET

MG NOON REPORT

FINANCIAL MARKETS — Wednesday 10 February 1988

Previous Close	Opening	10 AM		NOON
73.9	74.0	74.2	£ERI	74.2
1.7430	1.7515	1.7575	$/£	1.7587
2.9701	2.9691	2.9728	DM/£	2.9734
1.7040	1.6952	1.6915	DM/$	1.6907
129.25	129.05	128.90	Yen/$	128.87

Oil Price (11 AM)

Feb	$16.35
Mar	$16.60
Apr	$16.47

UK interbank £			Eurodollars	
7 7/8	(N/A)	7 day	6 5/8	(-)
8 3/4	(-1/8)	1 month	6 11/16	(-)
9 5/8	(+1/4)	3 month	6 3/4	(-)
9 25/32	(+1/32)	12 month	7 1/8	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar eased slightly in New York and the Far East in thin technical trading. It has continued to ease this morning with more technical trading ahead of US trade figures on Friday. Sterling is quiet and on the sidelines.
The US, Japanese and Hong Kong equity markets closed higher. Dow Jones 1914.5 +18.7, Nikkei 23772 +109 and Hang Seng 2233.5 +10.4. The FTSE100 opened at 1710.6 +3.4 and at 12.10 was 1709.0 +1.8.
The gilts market is a little firmer but quiet.

R McRobbie

MARKET INTERVENTION ($m)

Overnight -

Today so far -

Total -

OTHER COUNTRIES INTERVENTION ($m)

Canada +8 Yen (on 9.2.88)

GILTS

	Latest market movements	Price change since previous close
Shorts	Better	+3/32
Mediums	Better	+3/32
Longs	Better	+4/32
Futures (Long Contracts)		+2/32 (Vol:10141)

Gilt Sales since market opening

+£16.5 million

Index Linked

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

SECRET

pmp

CHANCELLOR OF THE EXCHEQUER

FROM: MOIRA WALLACE

DATE: 10 February 1988

MR NEILSON

cc PS/Financial Secretary
PS/Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Monck
Mr Scholar
Mrs Lomax
Mr Peretz
Mr Ilett
Miss Noble
Miss O'Mara
Mr Courtney
Mr Cropper
Mr Call

STOCK EXCHANGE: ANALYSIS OF MARKET CRASH

The Chancellor was grateful for your minute of 9 February. He has noted the report's reference to tax factors contributing to the slow development of the futures/option markets in the UK. The Chancellor thinks it is very fortunate that we do not have a futures market of any consequence: these have proved, either directly or indirectly, to be the system's Achilles heel (because investors take greater risks, imagining themselves to be covered).

MPW.

MOIRA WALLACE

Andrew –
to see RL's
comment.

M.

Moira

Thanks. At the time,
Sir NG set much store by
keeping the market open.
Now he's boasting about it –
and with some justification,
actually. But no wonder the
press say "complacent".

AHH

see p 5 on especially, which raises some of the
right questions, even if the answers aren't
always closely reasoned or wholly convincing

ce. PPS
PS/EST
Sir P. Middleton
Sir G. Littler
Mr Scholar
Mr Peretz
Mr R G Allen
Mr Ilett

PMP.

THE STOCK MARKET FALL AND ITS LESSONS

RL 11/2

SPEECH BY SIR NICHOLAS GOODISON, CHAIRMAN OF THE INTERNATIONAL STOCK EXCHANGE, AT THE CITY UNIVERSITY SYMPOSIUM ON INDUSTRY AND FINANCE, 11TH FEBRUARY, 1988.

I shall dwell this evening particularly on the events of last October. They subjected our new International Stock Exchange, its market system and its supervision, to a very severe test. Did the reforms of 1986 pass the test? Are there lessons for the future? Will the sharp loss of confidence implicit in the October collapse halt the development of the international capital market which we have tried to establish in London?

What Happened?

The events of the week of 19th October 1987 have been the subject of several official reports in the U.S., much comment and many speeches.

All of them have analysed in some detail what happened and why it happened. The "why" is a good starting point this evening.

With the benefit of hindsight, it can be seen that the market rise in 1987 was excessive. Many of us were arguing during those buoyant months that on fundamental grounds world equity markets were valued too optimistically. Investors appeared to disregard certain fundamental points in their enthusiasm for rising markets:

- the yield gap between bonds and equities, after allowing for inflation, was too wide. In London the average PE ratio was the highest since the last wave of excessive optimism in 1973.

- the acute imbalances in the world, and particularly the U.S. external and fiscal deficits, were cause for caution and not for optimism.

- the world was, indeed is, by no means out of the wood in its attempts to solve the problems of Third World debt.

The correction came in October. It reflected these worries and was probably triggered by a sudden loss of confidence as people saw interest rates rising, the dollar weakening and apparent disagreements among the U.S. and German authorities on the way forward.

When it came, the correction was steep and rapid.

The causes will no doubt be the basis of several doctoral theses in due course, and I shall not attempt to write one now. I would be more interested, since I do not regard the extent of the falls as surprising, in learning more of the reasons for the rise of the equity markets in 1987. This seems indeed an instinctive field for study. We need to know about the actions and attitudes of the dominant investors during 1987, because they have much to teach us for the future.

Here, for now, are a few simple observations on the sequence of events -

- Although the major fall in world markets happened on Monday, 19th October, the U.S. markets had been falling in the previous week. On the last three trading days of that week the Dow Jones Index fell nearly 200 points in total.

- Because of the gale London lost a trading day - Friday - on which it could have reacted to the week's events in the U.S. Market-Makers in London came into work on Monday with bull positions of about £1.25 bn.

- The stock market in New York and the futures markets in Chicago became disconnected. Instead of one being a hedge against the other, the two markets were chasing each other's tails in a downward spiral.

The fact is that the markets' ability to absorb new stock was soon exhausted. The weight of selling was such that it needed heavy buying to stabilise prices. There were not enough buyers. The investors who had bought all the way up on the theory that someone else would buy at even higher prices learned a sharp lesson. So did the practitioners of portfolio insurance, who assumed that there would always be enough liquidity around to effect the insurance. It is a myth that liquidity in any market is limitless.

In the U.K. institutional investors had run down their liquidity by buying during 1987 and were faced with large potential underwriting liabilities on rights issues as well as an enormous liability on B.P. The market fall made them even shorter of liquidity as these underwriting commitments came home. And on the Monday the market-makers' bull positions were themselves a downward pressure.

The difficulties in the U.S. market, relying as it does on the specialists trying to match supply and demand at declining prices, have been well publicised. The enormous selling pressure overwhelmed the system until in the case of many stocks an equilibrium price was reached far below the previous day's close. The specialists were shown to be acutely short of capital. In London the market went faster to its floor owing to the system of competing market-makers, but capital was no problem, as I shall show.

London's Response

What was the response of our market to this crisis?

First, we stayed open.

Second, we ensured that our financial monitoring of firms was put into high gear.

We were able to stay open because of the new market structure introduced in 1986. Our system of competing market-makers, many owned by banks and other financial institutions, showed that it had the strength of capital to absorb the shocks, and to adapt to violently changing conditions. Our electronic systems had the capacity to handle record volumes of business. Customer transactions went over 100,000 bargains per day on October 21st and 22nd, which far exceeded the planned capacity of the systems.

For several very short periods during the week of the crash, we were obliged to declare a "fast market", a convention which relieves market makers of the obligation to quote <u>firm</u> prices. But I stress that these were for limited periods. Our quality of Markets specialists, who have looked into the matter very carefully, have found strong evidence that customer business was generally executed at prices close to the quotes on our SEAQ screens. In other words, the fall consisted not simply of market makers marking down their quoted prices, continuously there was actual business at the quoted prices all the way down.

So our market stayed open, and allowed market forces to play against each other until equilibrium was reached at a lower level. It coped with the crash in a way that the old jobbing system could not have coped.

As for financial supervision unusual circumstances demanded unusual action, and we took it.

I have mentioned the fact that market makers in London are well capitalised. The strength of the careful financial monitoring and regulatory system which we have built up over many years, and close co-operation between us and the Bank of England, ensured that the market makers <u>stayed</u> well-capitalised. There were no defaults among Member Firms. Without the regulatory base and the co-operation I mentioned, there could well have been a different story.

Our regulatory actions also showed how effective the Stock Exchange's flexible approach to day to day financial regulation can be. Firms were asked by our Surveillance Division to introduce capital as necessary in order to meet their basic capital requirements on a day to day basis, and did so. There were no automatic suspensions or defaults just because a firm had temporarily fallen short of its capital requirements.

<u>The Recommendations of American Studies</u>

I referred at the start to numerous studies recently published in America on the crash. We have seen the report of the Presidential Task Force, known as the Brady report, the SEC report, reports published by the Chicago futures exchanges, and the Katzenbach report on the impact of programme trading commissioned by the New York Stock Exchange. Their authors represent different points of view, different markets and different institutions. There is much disagreement between them on such fundamental questions as whether the futures markets contributed to the speed of the fall. New York says yes. Chicago says no. Our financial papers have reported the recommendations of these studies and I will not take up your time by listing them all. But there are a number of points that are particularly important in themselves or could be relevant to London.

They focus on five main themes.

First a wish to reduce volatility, because it increases the risks inherent in market making. If market makers perceive a greater risk, liquidity will be reduced, and this in turn can affect investors' confidence in shares. Several steps to reduce volatility have been suggested. Brady suggested "circuit breakers" in the form of price limits and co-ordinated trading halts. The SEC proposed among other things increased margins on options and futures and physical delivery of securities in the futures market. I note that Katzenbach declared that setting limits to the movement of share prices within the trading day would be 'futile'. The SEC has also rejected the idea.

The second theme is the interaction of the markets in derivative products with those in the underlying instruments, particularly the influence of the market in stock index futures on the equity market. The American derivative markets had grown far larger than the underlying markets. Turnover in the Standard and Poors 500 stock index future was four times the New York Stock Exchange's turnover in equities. The derivative tail had outgrown the equity dog. Both the SEC and the authors of the Katzenbach report were clearly convinced that this gigantic tail wagged the dog on the Monday and Tuesday of the crisis week in October. In their eyes the index future drew the equity market down behind it and was the villain which brought the system close to collapse. They both recommend a most radical remedy which I mentioned just now under the heading of volatility: that henceforth settlement in index futures should be in kind, instead of cash. This would mean purchase and delivery of a basket of stocks, in the form of a certificate of ownership in an open-end market fund, based on the index in question and fully backed by shares.

The third theme, which grows out of the second, is the need for unified regulation across the underlying and derivative markets. Brady said the Federal Reserve Board should become the final regulator, while the SEC would prefer to assume that role itself.

Fourth, the Brady Report also talks about making margins consistent across all the connected markets, in order to correct the bias in favour of operating through the futures market rather than through the equity market.

A fifth major recommendation is for curbs on programme trading and portfolio insurance. The mechanical application of these techniques, and index arbitrage, by major institutions added to the weight of selling pressure. The New York Stock Exchange and some of its member firms have already introduced curbs on these techniques.

Now, these are all very important issues and recommendations and I doubt if other reports and studies due in the United States will add much to them. We clearly need to think about them here. Perhaps I can best contribute to this thinking process by drawing my own present conclusions from the events of October. Here they are.

Conclusions

First, do not shoot the messenger. He is trying to tell you something.

There is a tendency, natural among humankind, to blame the market itself in some way for the behaviour of the commodity in which it deals. I am not arguing that changes in market structure and market technology have had no effect on price formation. To deny it would be absurd. The way information is now disseminated, almost instantaneously, across the world, and the speed at which our own systems disseminated prices simultaneously to many intermediaries and investors, throughout Britain and overseas have accelerated the speed of operations and increased their volume. But what should our response to this be? To introduce treacle into the system, or to seek ways of enabling operators to work faster.

In London we do not regard the speedy and efficient settling of prices as a bad thing. We are committed to building a free and efficient market, one that offers buyers and sellers the best system possible for them to set the price. Our post Big Bang market system and technology are built on that principle.

We adopted a competitive market maker system because in our firm view it is best able to cope with the fast-moving international and round-the-clock markets of today. In such a system price limits or other artificial devices for putting treacle into the system would be futile.

The main finding of the Quality of Markets study of the crash which was presented to the press this morning, is that our market worked rather well in that testing time. But that gives us no grounds for complacency. There are lessons to be learned.

We will want to consider, for example, what lessons to draw from American experience in automated execution before our own SAEF system is introduced later this year. We shall want to look at the scope which our new telephone system, installed since Black Monday, gives us for monitoring and enforcing rules governing the answering of telephones by market-makers. In London, we also need to think about options and futures.

The availability of hedging is important to investors in equities, but when the derivative markets grow to such a size that the tail wags the dog they become dangerous. What attitude should we take to their development here? At present trading on the "Footsie 100" future is only 10% of the trade in the underlying equities, compared to 400% for its American equivalent. At this stage, our aim should be to encourage their development and improve their connection with the equity market by more index arbitrage, and by making sure that SAEF, our small order automated execution facility, is introduced on schedule. Likewise we have little to fear from programme trading and portfolio insurance both of which are still in their infancy here. Of course we must follow developments in the U.S.A. with close attention and we must be careful that we do not find our markets exposed to the sudden application of techniques by operators which have been deemed harmful in the US. There could be important lessons in the American experience for our markets in a few years time.

not very logical

Next, a strong system of financial regulation is vital. The investing public will not participate in a market-place unless it is soundly financed and can be seen to be such by the presence of strong regulatory and monitoring systems. The systems must however be flexible in their ability to react to events. Financial rules should not be based on unusual events and extraordinary market movements. There should be a sound basic capital structure for normal times (bearing in mind the likely increase in volatility arising from the globalisation of markets) and a readiness and ability to impose extra requirements in abnormal times. The events of October fully vindicated the Stock Exchange's practised methods of financial regulation and surveillance. Rigid new rules imposing excessive normal capital requirements with an inability to react to abnormal events flexibly are not the way to do it.

?

Close co-operation between financial regulators is crucial. Again, it should be re-active and not too rigid, so that ad hoc measures can be instantly adopted. It should be international and not just national and it must be led by Central Banks.

Let me explain this further. The various American reports talk of the need for unified regulation. They are right. In London, as I have shown, we already have it to a large extent. Our options market is part of the Exchange. The futures market is not, but its members will be regulated, insofar as financial futures are concerned, by The Securities Association which will also regulate members of the Exchange. During October, LIFFE staff and our own kept in close touch and stood ready to act together in case it was required.

But this is only part of the need. I have long maintained that the growing role of banks in the securities business means that banking and securities regulators are set on a path of co-operation and convergence. The events of October brought this need into sharp relief. It is my view, given the heavy involvement of banks in securities markets and the risk which this brings to the world financial system, that Central Banks must and will become the prime regulators. The Bank of England is already in this role in the gilt-edged market and we greatly welcomed its active interest and co-operation, during the events of October, in our supervision of our other markets.

meaning? moral hazard?

For their part Governments will need to pay increasingly close attention to the markets in risk capital. They will need to do this not only because excessive and sudden swings in values upset confidence among ordinary savers and might damage the desirable cause of wider share ownership. They also need to concern themselves because the ordinary share market is a crucial and influential part of the mechanism for providing long-term capital. The most worrying effect of a sharp collapse of confidence, coupled with a shortage of liquidity, such as we saw in October, was the disappearance of the market for new equity capital. It takes time after such a savage event for the capital market to revive.

But I mean more than just this. Governments themselves in different parts of the world have an increasingly immediate interest in equity markets. Some have created this interest because they have successfully embarked on large programmes of wider share ownership or privatisation of state-controlled businesses or both. Others have run out of money and are trying to convert overseas debt into equity holdings in national enterprises. Yet others, worn down by the inefficiencies of communist bureaucracy, are thinking of ways to tap private savings and bring a greater element of democratic control into state-owned industries. This worldwide move to finance industrial capital formation more through the issue of equity can only mean a greater Government interest in smoothing out excesses of enthusiasm and fear, and in considering the needs of equity investors when taking economic and fiscal decisions. The internationalisation of investment adds a dimension to all this with which Governments who manage their own debt markets are already familiar.

From all this, you will have gathered that I think it would be unwise for us in in the United Kingdom to rush into early radical changes.

Let us be thankful that our stock market displayed in October a combination of sturdiness and flexibility that allowed it to bend but not break in the great wind that blew. Our Big Bang reforms have now been tested both by the huge increase in volumes during 1987, and by the savage market falls in October. They handled both in a way we can be proud of. International trading in equities will surely revive because all the forces that gave it birth are still in being. When that revival comes London will make new advances as the leading capital market in Europe and the world's greatest market for international issuers and investors.

pmp

SECRET

MG NOON REPORT

FINANCIAL MARKETS Thursday 11 February 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
74.4	74.3	74.2	£ERI	74.3		
1.7625	1.7590	1.7572	$/£	1.7591	Feb	$16.15
2.9772	2.9762	2.9735	DM/£	2.9746	Mar	$16.45
1.6892	1.6920	1.6922	DM/$	1.6910	Apr	$16.47
128.75	129.00	129.00	Yen/$	128.97		

UK interbank £			Eurodollars	
8	(-1/8)	7 day	6 1/2	(-)
8 3/4	(-1/32)	1 month	6 5/8	(-)
9 1/4	(-1/32)	3 month	6 11/16	(-)
9 11/16	(-)	12 month	7 1/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar was little changed in New York and Hong Kong. Japanese markets closed for National Founding Day. It has remained steady this morning in lethargic pre-trade figures market. Sterling is steady and on the sidelines. US and Hong Kong markets closed higher than yesterdays close. Dow Jones 1962.0 +47.6 and Hang Seng 2256.3 +23.0. The FTSE100 opened at 1727.4 +8.9 and at 12.10 was 1734.7 +16.2. The gilts market is quiet and steady close to last nights levels.

R McRobbie

MARKET INTERVENTION ($m) OTHER COUNTRIES INTERVENTION ($m)

Overnight -

Today so far -

Total -

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	0
Mediums	Steady	0
Longs	Easier	-1/32
Futures (Long Contracts)		0 (Vol:8666)

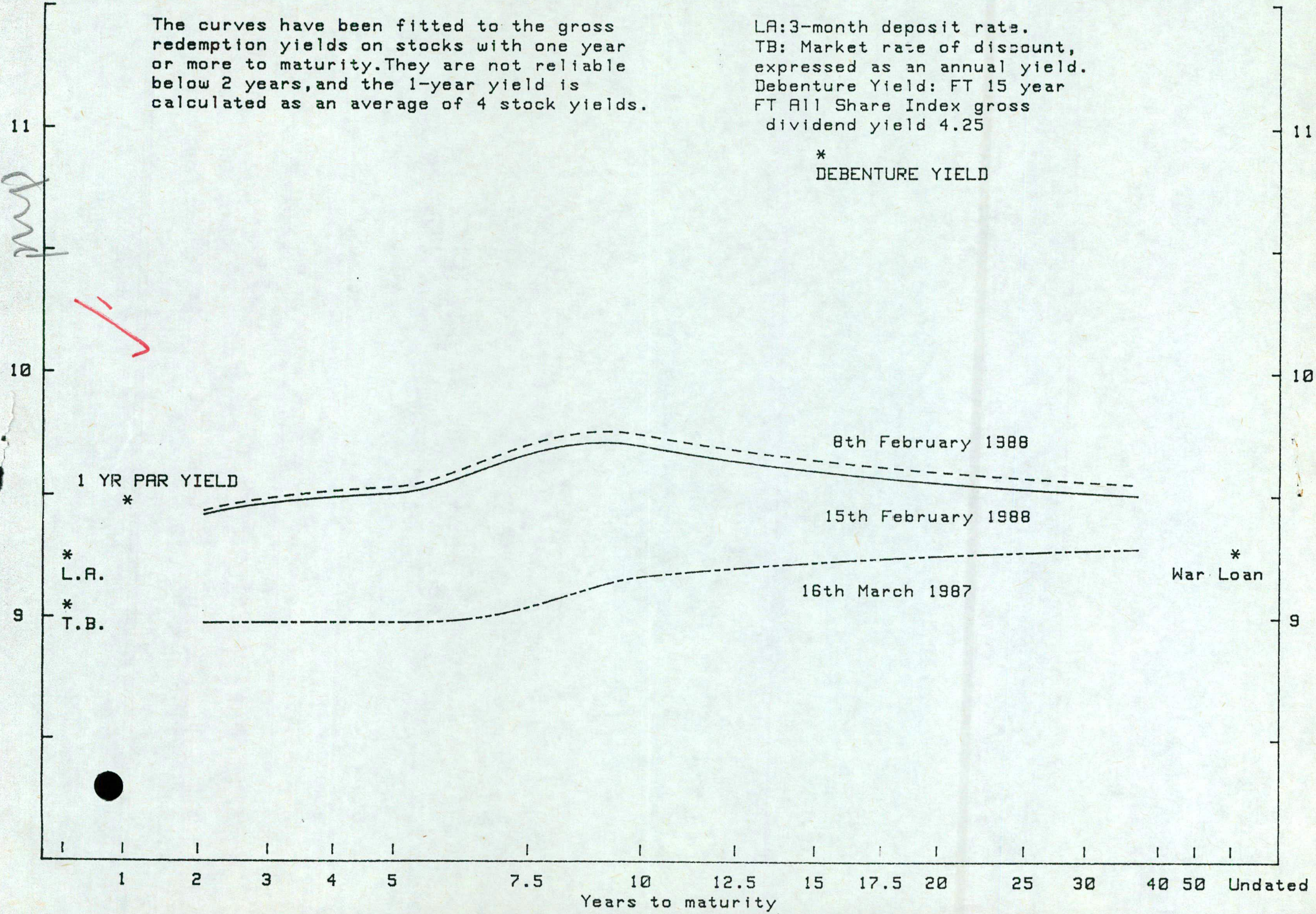
Gilt Sales since market opening

+£16.0 million (of which +15.8 is Index Linked).

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

SECRET

Per cent Time / Yield Curves of British Government Stocks 15th February 1988



CALCULATED PAR GROSS REDEMPTION YIELDS
ON BRITISH GOVERNMENT STOCKS AT
CLOSE OF BUSINESS ON 15 2 1988

MATURITY (YEARS)	YIELD (PERCENT)
2	9.412
3	9.465
4	9.492
5	9.508
6	9.559
7	9.635
8	9.692
9	9.715
10	9.700
11	9.672
12	9.649
13	9.630
14	9.613
15	9.599
16	9.587
17	9.577
18	9.568
19	9.560
20	9.553
21	9.547
22	9.541
23	9.536
24	9.532
25	9.528

BANK OF ENGLAND

42aG/NH/4149/4

Pl cc Mr Pickford
Mr Ars Allan

& return

Rc

373
15

FROM: M M COURTNEY
DATE: 15 February 1988

MR CULPIN

cc Mrs Lomax
Mr Riley

SHARE PRICES AND STEADY-STATE GROWTH

You posed the paradox of how in steady-state growth both share prices and dividends could grow at the natural rate of growth without rewarding capitalists twice over. I think the paradox can be resolved as follows - I give the intuition first and then the algebra which led me to it (which I think would apply to the general neo-classical case).

2. Suppose the economy is in steady-state growth at the natural rate n. This must be lower than the real interest rate which is equal to the rate of profit and equal to the rate of time preference r (otherwise people would want to save and invest more now to add to future consumption, and shares would be infinitely valued). Assume there are no new capital isues: then the capital and profits of existing firms must grow at the natural rate n. Since no new capital is raised, all dividends are consumed and it is reinvested retained profits which keep the capital stock of the existing firms growing at rate n. The dividend payout ratio which is necessary to maintain steady-state growth is then (r-n)/r.

3. Thus capitalists see both dividends and the value of their shares growing at the natural rate of growth of the economy n, while receiving a dividend yield of (r-n). Taken together this represents the same return as if they had lent money at the real interest rate r. Capitalists are not rewarded twice.

4. Or, to take a numerical example, if the natural rate of growth of the economy is 2% pa and the real rate of interest is 5%, then in steady-state growth, share prices will grow at 2% and there will be a 3% dividend yield.

5. A special type of golden age growth is that governed by the golden rule, where the investment rate is set equal to the profit rate of

the economy (i.e. all profits are invested). In that case r=n. Either there are no dividends paid out (in which case share prices are indeterminate), or there are new capital issues (in which case, share prices will rise at less than the natural rate of growth).

To put this slightly more rigorously, assume a Cobb-Douglas production function with technical progress at a rate g and no labour growth

$$Y = A e^{gt} K^{\alpha} L^{1-\alpha}$$

$$\frac{d}{dt} \log Y = \alpha \frac{d}{dt} \log K + g$$

In steady-state growth at rate n, $n = \frac{d}{dt} \log Y = \frac{d}{dt} \log K$

Therefore, if steady-state growth is possible $n = \frac{g}{1-\alpha}$

With a given savings ratio, s, setting savings = investment gives

(1) $$\frac{sY}{K} = \frac{d}{dt} \log K = n$$

And one has the usual neo-classical result that the capital-output ratio adjusts until the equality (1) is satisfied and steady-state growth occurs.

A second equilibrium condition is obtained by setting the rate of profit equal to the rate of time preference r.

(2) $$\alpha \frac{Y}{K} = r$$

Thus, if steady-state growth is taking place the savings ratio must be related to the real rate of interest. From (1) and (2)

$$Y/K = \frac{n}{s} = \frac{r}{\alpha}$$

$$s = \frac{n\alpha}{r}$$

Assume that there are no new capital issues: all saving is represented by reinvested profits and all dividends are consumed.

$$\text{Dividends} = \text{Profits} - \text{Savings}$$
$$D = \alpha Y - sY$$

The dividend payout ratio, $D/\alpha Y$, is then given by

$$\frac{D}{\alpha Y} = 1 - \frac{s}{\alpha} = 1 - \frac{n\alpha}{r\alpha} = \frac{r-n}{r}$$

And the dividend yield D/K, is $(r-n)$

Thus, in steady-state growth dividends (capitalists' consumption) grow at the natural rate of growth n, with a dividend yield of $(r-n)$

Share prices are the discounted present value of future dividends, and so also grow at the steady-state rate of growth, n.
Formally, the value of shares at time t, V_t, is given by

$$V_t = \sum_{i=0}^{\infty} \frac{D_0 (1+n)^{t+i}}{(1+r)^i}$$

$$\Delta V_t = V_{t+1} - V_t = (1+n) V_t - V_t$$

And so $$\frac{\Delta V_t}{V_t} = n$$

Mark Courtney

M. M. COURTNEY

MONDAY FEBRUARY 15 1988

Financial Times Monday February 15 1988

Pg

FINANCIAL TIMES

Total of Japanese banks in London rises to 46

8

BY DAVID LASCELLES, BANKING EDITOR

SIX MORE Japanese banks opened offices in London last year, bringing their total to 46.

At the same time, the US banking contingent extended its recent decline with a net loss of four banks, reducing their total to 64 and highlighting the gradual shift in the composition of the foreign banking presence.

These figures emerge from the latest survey of foreign banks in London by Noel Alexander Associates, the banking consultancy firm.

The survey shows that 19 banks arrived in London during 1987. Apart from the Japanese, there were 11 from Europe, one from the US and one from Australia.

However, there was also an exodus of 18 banks – the most ever recorded by the survey – leaving a net gain of only one. The total foreign banking presence in London is now 463, its highest on record.

The new arrivals included the three newly created banking subsidiaries of three large Japanese brokerage houses, Daiwa, Nikko and Yamaichi. There was also ASLK-CGER, Belgium's largest savings bank, and McDonnell Douglas Bank, a banking venture created by the US aircraft manufacturing company.

Some of the departures were caused by mergers. Interfirst Bank of Dallas closed its office after merging with Republic Bank of Dallas, and several Indian banks were told by their regulatory authorities to combine their operations.

The figures underline the changes that have occurred in London's foreign banking community in the past five years. In 1982, the US banks hit their peak with 77. In the same year there were only 29 Japanese banks.

European banks have also grown strongly: in 1982 there were 153 of them compared to 189 now.

New foreign bank offices in London - 1987. Noel Alexander Associates, Wardrobe House, Wardrobe Place, London EC4V 5AH. Tel: 01-236 1851.

Japanese SE faces capital gains tax

26

THE JAPANESE stock market, which has weathered last October's market crash remarkably well, may soon be faced with another challenge – the introduction of a general capital gains tax.

Political pressure is building rapidly for such a tax, and the powerful securities industry, which has fought long and hard against it, is showing signs of giving in to the inevitable.

Mr Setsuya Tabuchi, head of the Japan Securities Dealers Association, acknowledged at a press conference in a village in northern Japan at the weekend that the lack of a general capital gains tax contributed to a feeling of unfairness among taxpayers.

Mr Tabuchi is chairman of Nomura Securities, Japan's largest securities group. However, he is also a member of the Government's tax commission which is now touring the country listening to people's views on tax reform.

Other securities industry officials have also observed recently that a capital gains tax seems inevitable and they expect it will prevent the stock market from continuing its current recovery.

Until recently, it was widely believed that the ruling Liberal Democratic Party (LDP), which raises a lot of its money through contacts with the securities industry, would continue to sympathise with the industry's opposition to the application of a capital gains tax to securities transactions.

Indeed, many senior party leaders continue vigorously to oppose the idea. Last month, Mr Michio Watanabe, chairman of the LDP's policy research council, said: "Such a tax could lead to a stock market crash." Mr Kiichi Miyazawa, the Finance Minister, has expressed his fear that it would reduce the competitiveness of the Japanese stock exchanges compared with others in the world.

However, the politicians' position has been undermined to some extent by the disclosure two weeks ago that a senior LDP Diet member and former vice-minister of finance had evaded paying taxes on Y200m ($1.54m) of profits from share dealing.

Although there is no capital gains tax on share dealing profits in Japan, taxes are payable if a person does enough deals so that the operation can be considered a principal occupation and not just a sideline.

In the politician's case, he concealed the true volume of his transactions by putting some of them in his wife's and fictitious names. Many critics have also pointed out that with the so-called Maruyu system of tax relief on small savings due to be removed at the end of next month, profits on share deals will remain the only type of income not taxed.

Meanwhile, the Government has a practical problem in trying to push through its general tax reform, aimed at reducing income taxes and introducing a value added tax. The opposition parties oppose the introduction of VAT, but have indicated that they would give way if the Government agreed to impose capital gains taxes on all transactions.

Ian Rodger

Financial Times Monday February 15 1988

INTERNATIONAL CAPITAL M

Euromarket first for Katokichi

27

BY CLARE PEARSON

KATOKICHI, A frozen foods maker, this week becomes the first Japanese company to offer its equity directly in the Euromarkets, with an issue raising the equivalent of between $60m and $65m.

The move marks a significant departure – Japanese companies have previously issued shares in the US or UK in depository receipt form or, the more usual route, through equity-related bonds in the Eurobond market.

It will provide a test case to determine whether the Euromarket distribution method is capable of achieving firm placement of Japanese shares with foreigners.

Although issues of bonds bearing warrants to buy shares in Japanese companies have boomed in the Eurobond market over the past few years, the underlying shares have almost invariably been sold back into Japan.

Last month, foreign investors became net buyers of Japanese shares for the first time in two years, buying $1.73bn more shares than they sold.

Katokichi is offering 3m shares, which will represent 11 per cent of its equity. Yamaichi International (Europe) is lead managing the issue, with Morgan Stanley, Kleinwort Benson and Kokusai Securities as co-lead managers.

The company recorded a Y1.9bn ($14.7m) net profit on Y74.34bn turnover in the year to last November. Its shares closed in Tokyo on Saturday at a one-year high of Y2,670, producing a historic price/earnings ratio of 36. The new shares will be priced next Friday at a 3½ per cent discount to that day's close.

Katokichi has also issued a SFr70m five-year convertible bond in the Swiss franc foreign bond market through Union Bank of Switzerland.

This was its first bond issue in Europe.

The main attraction to Japanese companies of issuing equity-related bonds in Europe has been the low borrowing cost in yen terms that they provide.

Currently, the proceeds of an equity warrant bond can be swapped into yen to give a cost of borrowing of less than 2 per cent.

13/LD

mjd 2/116Jn

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

15 February 1988

Sir Nicholas Goodison
Chairman
Stock Exchange
London EC2N 1HP

Dear Sir Nicholas

The Chancellor has asked me to thank you for your letter of 9 February, drawing his attention to Mr Wilkinson's report.

Yours sincerely

Jonathan Taylor

J M G TAYLOR
Private Secretary

mjd 2/117Jn

UNCLASSIFIED

bj 21/2

FROM: J M G TAYLOR

DATE: 15 February 1988

MRS LOMAX

cc PS/Economic Secretary
Sir P Middleton
Sir G Littler
Mr Cropper

STOCK EXCHANGE: REPORT BY MR WILKINSON

Sir Nicholas Goodison's letter of 9 February to the Chancellor ... (attached) refers to an internal report by the Stock Exchange's Director of Surveillance, Mr Bob Wilkinson. The Chancellor would be grateful for a short note on this report.

J M G TAYLOR

THE INTERNATIONAL STOCK EXCHANGE OF THE UNITED KINGDOM AND THE REPUBLIC OF IRELAND LIMITED

THE STOCK EXCHANGE

SIR NICHOLAS GOODISON
CHAIRMAN

LONDON EC2N 1HP
TELEPHONE 01-588 2355
TELEX 886557

9th February, 1988

Dear Nigel

A little while ago I sent you a draft of our report on the quality of our markets during October. This will be published on the 16th February but we will be talking to the media about it tomorrow. We have also passed to Rachel Lomax a copy of our internal report written by the Director of Surveillance, Bob Wilkinson, whose role in the surveillance of our member firms during the very difficult market conditions was of the greatest importance in ensuring the stability of the market. I thought you would like to know about this report even if it does not reach your desk.

Yours ever
Nicholas

The Rt. Hon. Nigel Lawson, M.P.,
Chancellor of the Exchequer,
H.M. Treasury,
Parliament Street,
London SW1P 3AG.

83/G/MAD/1322/20

CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 16 February 1988

CHANCELLOR

Ch / I have already acknowledged Sir N Goodison's letter, so no need for you to write. JF 16/2

Thanks. I virtually agree with X.

cc: PS/Economic Secretary
Sir P Middleton
Sir G Littler
Mr Scholar
Mr Cropper

STOCK EXCHANGE: INTERNAL REPORT

Sir Nicholas Goodison's letter of 9 February alerts you to the existence of an internal Stock Exchange report by Bob Wilkinson, the Head of Surveillance. I have been sent a copy, which I found quite interesting, but it is long, detailed, and understandably preoccupied with technical issues, so I would not recommend it as general reading.

2. The report is less formal than the Quality of Markets survey. It is Bob Wilkinson's day-by-day recollection of events, as seen from the cockpit, together with his personal checklist of regulatory issues raised by the crash. It is clearly written from memory, and in some haste: I spotted a number of errors, including the date of the start of trading in BP shares, which was out by a week. The action points reflect Wilkinson's technical perspective, and are something of a rag bag.

3. Perhaps the main interest, from our point of view, lies in the detailed picture it provides of the working of the Bank/Stock Exchange liaison group. This was set up on "terrible Tuesday", following consultation between the Governor and Sir Nicholas Goodison, and chaired by the Deputy Governor. As well as providing a focus for UK supervision, the group was in daily contact with the Fed in Washington and New York, and with the Ministry of Finance in Tokyo. We were kept in touch with its activities by Brian Quinn, and the Stock Exchange was in contact with DTI. The Wilkinson report describes in some detail how this group monitored the daily position of Stock Exchange member firms, and maintained close contact with those

banks who were lending to broker dealers (especially around account day).

4. Neither the SIB nor TSA were involved at all, though had the FS Act been in force, TSA would probably have taken the place of the Stock Exchange. The respective roles of the Bank and the SIB in any future crisis is something we plan to discuss with the Bank and DTI at Sir P Middleton's next trilateral: we see a strong case for the Bank continuing to take the lead.

5. Other points of interest include:-

- neither the BP underwriting stick, nor the problems in Hong Kong seem to have been a major headache. By the Wednesday after the crash it was apparent that only five London firms had open BP underwriting commitments (the largest being an exposure of £40 million). As for Hong Kong, a ring round on the Wednesday quickly established that Stock Exchange members had been wary of the Hong Kong market for some time, and had no large exposures, and particularly no large open futures positions. The message I received from the Bank at the time was consistent with this, but less definite, and therefore less reassuring;

- options were the main problem. Wilkinson says that <u>every</u> potential default was caused to a greater or lesser extent by options trading. And his main conclusion is that very strict regulation of the option and futures market is called for, plus an improvement in the monitoring of controls on firms.

6. On a couple of points Wilkinson's emphasis is a little different from the published reports:-

- he stresses that a very close study of US events should be undertaken before programme trading and portfolio insurance are allowed in the UK; what the press picked up was Goodison's call for more index arbitrage. The real point to emerge from all these studies, however, is the enormous difference in the scale of derivative product markets in the UK compared with the US: futures and options account for around 10% of the market in underlying shares in the UK, but are <u>five times</u> the size of the cash market in the US;

- while the Governor was quoted as calling for a review of the Stock Exchange account, the Stock Exchange itself is clearly still at sixes and sevens about this. While the surveillance people, including Wilkinson, are with the Bank in favouring an early move to five-day rolling settlement, for prudential reasons, other sections of the Exchange (including the settlements division) are strongly against any change until TAURUS is in place. I see no evidence that the Stock Exchange have yet addressed the issue systematically.

7. The Wilkinson report is not suitable for publication, but I cannot help feeling that the Stock Exchange would have produced a more satisfactory published report if there had been more pooling of the efforts of the Surveillance Division and the Quality of Markets team. In particular, it looks as if the Surveillance Department under Wilkinson had access to more information than the authors of the published report. This is something we will be pursuing further with the Bank, the DTI and the Stock Exchange.

8. Not that I necessarily go along with much of the press criticism of the UK analysis. To a large extent the problems that have been the focus of such extraordinary attention in the US - programme trading and NYSE specialists - did not really arise here. And the proliferation of US reports owes at least as much to regulatory turf politics as to the urgency of the underlying issues. That said, however, we do need to take a dispassionate look at our own market system, which is still in its early days. We have not yet quite succeeded in doing that.

9. I attach a draft acknowledgement to Sir N Goodison's letter.

RL

RACHEL LOMAX

83/G/MAD/1322/21

DRAFT LETTER TO SIR NICHOLAS GOODISON

Thank you for your letter of 9 February alerting me to the existence of Bob Wilkinson's internal report. It is reassuring to know that every effort is being made to learn the lessons of the crash.

[NIGEL LAWSON]

83/G/MAD/1322/22

FROM: MRS R LOMAX
DATE: 17 February 1988

PS/FINANCIAL SECRETARY

cc: PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
Miss Sinclair
Mr Ilett
Mr R I G Allen
Mr McGivern, IR
Mr Elliott, IR
PS/IR

TAX TREATMENT OF TRANSACTIONS IN OPTIONS AND FUTURES

The Financial Secretary might like to know that the draft Statement of Practice attached to Mr Elliott's submission of 16 February has been discussed at some length with FIM and the Bank. We believe that the line the Revenue are taking is reasonable; in particular, we see no case at present for giving capital gains tax treatment to all transactions in futures or options. Nor are we persuaded that the events surrounding the stock market crash provide market arguments for more generous tax treatment of futures and options - possibly even the reverse, though the debate on this continues.

RL

RACHEL LOMAX

mjd 2/128Jh

CONFIDENTIAL

FROM: J M G TAYLOR
DATE: 17 February 1988

MRS LOMAX

cc PS/Economic Secretary
Sir P Middleton
Sir G Littler
Mr Scholar
Mr Cropper

STOCK EXCHANGE: INTERNAL REPORT

The Chancellor was grateful for your minute of 16 February. He has commented that he very much agrees with Wilkinson's emphasis that a very close study of US events should be undertaken before programme trading and portfolio insurance are allowed in the UK.

2. I have acknowledged Sir Nicholas Goodison's letter on the Chancellor's behalf.

J M G TAYLOR

CONFIDENTIAL
until 11.30 on THURSDAY 18 FEBRUARY 1988, THEN
UNCLASSIFIED

The 1987 outturn for manufacturing investment is disappointing and may attract attention. However there was an unusually poor response to DTI's statistical enquiries. A revised figure is due in early March. It is to be hoped that the revisions will be upward; but it is not a foregone conclusion

FROM: S BROOKS
DATE: 17 FEBRUARY 1988

1. MR HIBBERD
2. CHANCELLOR OF THE EXCHEQUER

Tim Hibberd 17/2

cc : PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Sedgwick
Mr R I G Allen
Mr Pickford
Mr Patterson

CAPITAL EXPENDITURE IN 1987Q4 AND STOCKBUILDING IN 1987Q4

The DTI will publish at 11.30 am on Thursday 18 February two press notices showing latest figures for industrial investment and for stockbuilding by the manufacturing and distribution industries. They are the first estimates for 1987 as a whole.

Capital Expenditure

2. A poor response to the DTI's survey means that the preliminary estimates of manufacturing investment in 1987Q4 are even less well based than usual. Revised figures will be available in time for the Industry Act Forecast. But, on the basis of the current estimates, investment in 1987Q4 looks to have fallen by more than 6 per cent (table 1). In 1987 as a whole investment increased by 3.4 per cent but remained below the level of 1985. Investment in new building work increased by over 10½ per cent in 1987, with investment in plant and machinery increasing by just over 2 per cent and investment in vehicles by ½ per cent.

3. The response to the DTI's survey of firms in the **construction, distribution and financial industries** (CDFIs) was also poor but better than in manufacturing. CFDIs investment has been revised up by £157m. (5.1 per cent) in the third quarter. In the fourth quarter CDFIs' investment increased by 4.7 per cent, as a result of higher investment by financial industries - investment in the other sectors fell. In 1987 as a whole CFDIs' investment grew by 10.1 per cent, with investment in vehicles rising by 16½ per cent, investment in new building work by 10 per cent and investment in plant and machinery by 8 per cent.

4. Total industrial investment (the sum of manufacturing and CDFIs) increased by nearly 8 per cent in 1987, to the highest level yet recorded.

5. The fourth quarter figure for manufacturing is disappointing and will attract attention. As recently as December, the DTI's Investment Intentions Survey was projecting manufacturing investment growth of 6 per cent for 1987, 2½ per cent higher than the current estimate of the outturn.

Stockbuilding

6. Table 2 shows the latest figures for stockbuilding in manufacturing and distribution. They are not likely to attract much attention. Distributors' stockbuilding which was very high in the third quarter fell back in the fourth quarter.

7. **Line to take on Manufacturing Investment.** Preliminary figures disappointing, but based on less information than usual. Best to wait for revised estimates. Good figures for construction, distribution and financial industries.

S Brooks

S BROOKS

Table 1: **Investment in the Manufacturing, Construction, Distribution and Financial Industries**

£m, 1980 prices, seasonally adjusted

		Manufacturing (including leasing)	Construction, distribution and financial industries. (excluding assets leased to manufacturers)
1985		7525 (14.7)	12064 (11.4)
1986		7145 (-5.0)	11890 (-1.4)
1987		7389 (3.4)	13093 (10.1)
1987	Q1	1797	3211
	Q2	1922	3268
	Q3	1893	3230
	Q4	1776	3383

Percentage changes on previous year shown in brackets.

Table 2: **Stockbuilding (£m. 1980 prices seasonally adjusted)**

		Manufacturing	Distribution	
			Retailing	Wholesaling
1986		- 406	583	72
1987		264	591	245
1987	Q1	- 136	16	42
	Q2	47	228	14
	Q3	326	335	102
	Q4	27	12	87

SECRET

MG NOON REPORT

FINANCIAL MARKETS — Thursday 18 February 1988

Previous Close	Opening	10 AM		NOON
74.3	74.2	74.2	£ERI	74.2
1.7502	1.7490	1.7482	$/£	1.7486
2.9853	2.9803	2.9807	DM/£	2.9808
1.7057	1.7040	1.7050	DM/$	1.7047
130.35	130.00	130.15	Yen/$	130.10

Oil Price (11 AM)	
Mar	$15.75
Apr	$15.92
May	$15.92

UK interbank £			Eurodollars	
8 3/16	(-1/8)	7 day	6 3/4	(-)
8 3/4	(+1/16)	1 month	6 13/16	(+1/16)
9 9/32	(-)	3 month	6 3/4	(-1/8)
9 25/32	(+1/32)	12 month	7 5/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT:The dollar eased in New York and the Far East as a result of profit taking and a lacklustre market.It has firmed slightly this morning in quiet markets.Sterling opened firmer but eased slightly on an early bout of selling mainly from Eastern Europe.It then steadied with little change occuring with the publication of the money figures. The US equity market closed lower and the Japanese market closed higher. Hong Kong markets still closed.Dow Jones 2001.0 -5.0 and Nikkei 24675 +245.The FTSE100 opened at 1745.5 -2.6 and at 12.10PM was 1743.1 -5.0.
The gilts market opened 1/8 to 1/4 lower in longs but has dipped slightly after the money figures.It seems fairly steady now. RJMcRobbie

MARKET INTERVENTION ($m) — OTHER COUNTRIES INTERVENTION ($m)

Overnight -

Today so far -

Total -

GILTS

	Latest market movements	Price change since previous close
Shorts	Easier	-4/32
Mediums	Easier	-5/32
Longs	Easier	-11/32
Futures (Long Contracts)		-12/32 (Vol:11179)

Gilt Sales since market opening

+£4.2 million

Mostly Low Coupon

NAME: Miss R J McRobbie, MG1 Division

mjd 3/133m

UNCLASSIFIED

pmp -

FROM: MISS M P WALLACE
DATE: 18 February 1988

MR S BROOKS

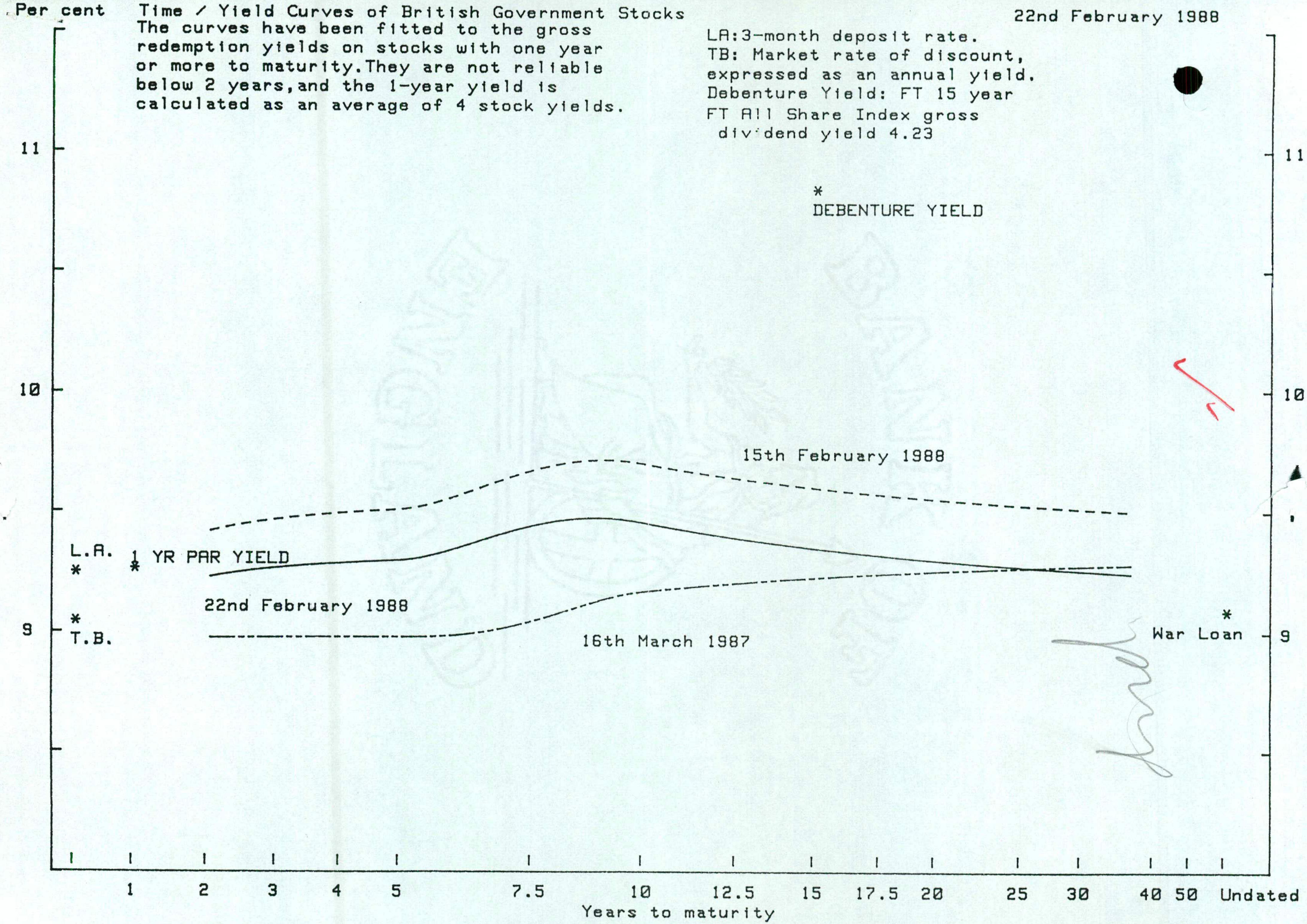
cc Mr Hibberd

CAPITAL EXPENDITURE IN 1987Q4 AND STOCKBUILDING IN 1987Q4

The Chancellor was grateful for your minute of 17 February.

MPW.

MOIRA WALLACE


Per cent
Time / Yield Curves of British Government Stocks
The curves have been fitted to the gross redemption yields on stocks with one year or more to maturity. They are not reliable below 2 years, and the 1-year yield is calculated as an average of 4 stock yields.
22nd February 1988
LA: 3-month deposit rate.
TB: Market rate of discount, expressed as an annual yield.
Debenture Yield: FT 15 year
FT All Share Index gross dividend yield 4.23
11
10
9
DEBENTURE YIELD
15th February 1988
L.A.
1 YR PAR YIELD
22nd February 1988
T.B.
16th March 1987
War Loan
1
2
3
4
5
7.5
10
12.5
15
17.5
20
25
30
40
50
Undated
Years to maturity

CALCULATED PAR GROSS REDEMPTION YIELDS
ON BRITISH GOVERNMENT STOCKS AT
CLOSE OF BUSINESS ON 22 2 1988

MATURITY (YEARS)	YIELD (PERCENT)
2	9.224
3	9.264
4	9.284
5	9.296
6	9.342
7	9.410
8	9.458
9	9.473
10	9.455
11	9.426
12	9.401
13	9.381
14	9.364
15	9.349
16	9.337
17	9.326
18	9.316
19	9.308
20	9.300
21	9.294
22	9.288
23	9.283
24	9.278
25	9.274

BANK OF ENGLAND

ACTUAL YIELDS ON CERTAIN STOCKS ,
AND CALCULATED PAR YIELDS FOR COMPARISON.

FIVE YEAR PAR YIELD			=	9.296
YIELD ON TREASURY	10 %	1992	=	9.407
YIELD ON EXCHEQUER	12 1/4%	1992	=	9.459
YIELD ON TREASURY	10 %	1993	=	9.428
EIGHT YEAR PAR YIELD			=	9.458
YIELD ON EXCHEQUER	10 1/4%	1995	=	9.532
YIELD ON TREASURY	12 3/4%	1995	=	9.615
YIELD ON CONVERSION	10 %	1996	=	9.561
TWELVE YEAR PAR YIELD			=	9.401
YIELD ON CONVERSION	10 1/4%	1999	=	9.534
YIELD ON TREASURY	10 %	2001	=	9.456
TWENTY YEAR PAR YIELD			=	9.300
YIELD ON CONVERSION	9 3/4%	2006	=	9.289
YIELD ON TREASURY	8 %	2009	=	9.083

pe14

22/2/88

PPS 12/2

Economist Commodity Price Indices **1980=100**

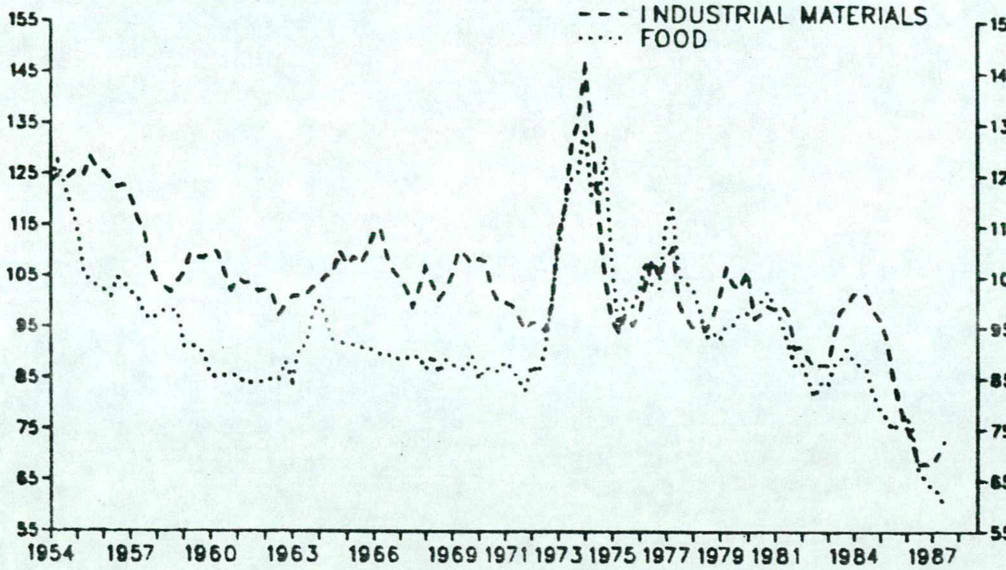
	All items indices			SDR indices			
Annual	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982	87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983	102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984	105.7	83.4	144.9	97.8	116.1	105.1	89.5
1985	95.8	74.8	135.2	86.5	103.4	94.2	84.3
1986	86.9	77.7	124.0	74.5	97.3	85.0	70.5
1987	88.8	88.4	125.2	73.7	84.4	98.8	82.1
Quarterly							
1986 Q1	93.7	80.9	130.8	81.7	109.7	87.1	73.6
Q2	91.0	81.1	125.0	79.5	104.9	86.9	71.8
Q3	81.4	75.2	117.4	70.3	88.8	80.1	68.3
Q4	82.4	76.4	123.9	70.1	87.4	86.5	68.4
1987 Q1	81.6	79.2	119.2	68.9	82.4	91.0	69.0
Q2	86.8	86.4	122.2	73.3	85.5	98.0	75.2
Q3	91.4	89.6	128.9	73.9	82.6	107.1	87.5
Q4	95.3	98.2	130.4	78.2	87.0	99.0	96.8
Monthly							
February	81.7	79.6	120.5		82.6	91.7	68.5
March	82.9	81.0	118.2		82.1	92.4	71.8
April	84.2	83.8	119.0		83.2	94.8	72.6
May	87.3	87.6	122.0		87.1	97.2	74.8
June	88.9	87.8	125.2		86.2	101.7	78.3
July	90.7	88.4	127.8		84.0	105.1	84.7
August	92.2	89.8	130.9		81.2	109.7	90.2
September	91.4	90.6	128.2		82.7	106.6	87.6
October	94.8	94.2	132.2		86.7	101.9	94.3
November	93.6	97.0	127.6		86.5	97.1	93.8
December	97.4	103.4	131.4		87.9	97.9	102.2
January	99.4	105.2	135.8		90.2	98.6	104.4
Weekly							
December 1	96.5	101.2	129.2		89.4	98.9	96.9
8	96.0	100.4	129.8		88.1	98.3	97.7
15	96.2	102.5	130.1		87.0	97.0	100.5
22	98.3	104.8	133.1		87.6	98.0	105.1
29	99.8	108.0	134.9		87.3	97.1	110.6
January 5	98.9	106.2	134.9		88.5	98.6	105.4
12	99.0	105.2	134.3		89.0	98.0	105.4
19	100.3	104.9	137.1		91.6	99.3	104.8
26	99.4	104.4	136.8		91.7	98.5	102.2
February 2	97.8	102.2	134.1		90.0	101.4	98.5
9	99.1	103.1	137.2		90.5	101.4	101.6
16(prov)	101.6	105.8	140.6		91.2	101.5	107.7

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals.

REAL COMMODITY PRICES *

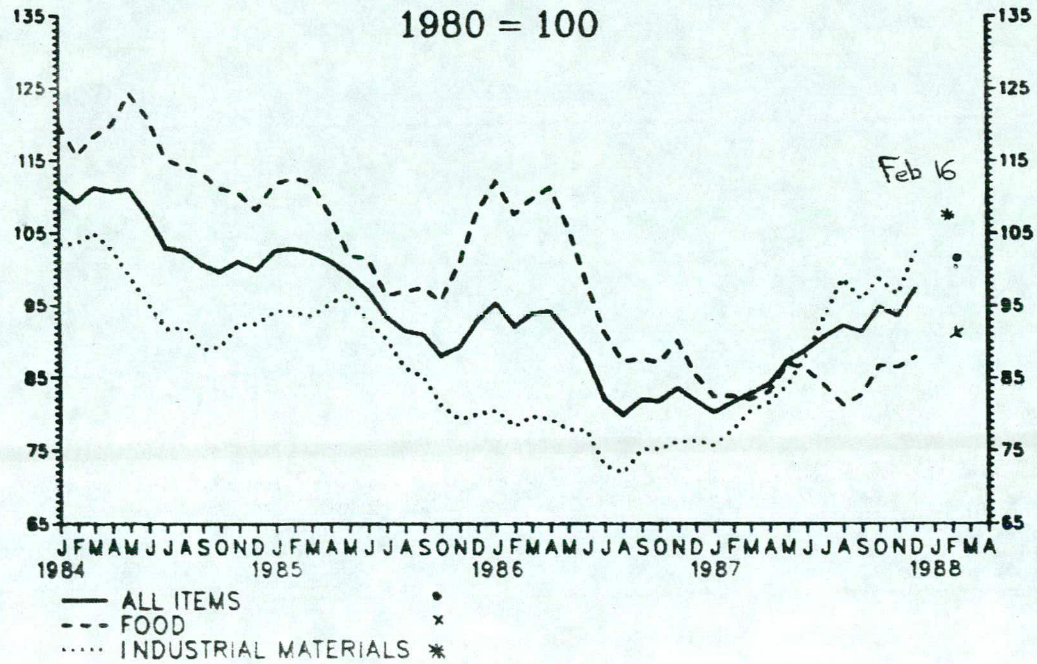
UN INDEX, 1980=100



* IN RELATION TO PRICES OF MANUFACTURES

CHART B : ECONOMIST SDR COMMODITY PRICE INDICES

1980 = 100



THE STOCK EXCHANGE

SIR NICHOLAS GOODISON
CHAIRMAN

LONDON EC2N 1HP
TELEPHONE 01-588 2355
TELEX 886557

25/1

CH/EXCHEQUER
REC. 24FEB1988
ACTION Mrs Lomax
COPIES TO PS/EST, Sir P Middleton
Sir G Littler
Mr Scholar
Mr Peretz
Mr Grice
Mr Ilett
Mr Cropper

22nd February, 1988

I think it is right that I should send you a summary of our concerns arising from the sharp set-back in stock markets last October and to tell you of the main improvements to our markets which we are working on in order to ensure that we give the best possible service to industry and to investors.

I summarise my comments under four headings -

1. The market and the technical systems
2. Options and Futures markets
3. Regulation
4. Wider Share Ownership

1. <u>The market and the technical systems</u>

I have already sent you the report of the Quality of Markets Committee. Their brief is to keep an independent eye on the functioning of our four markets and to report regularly (they have now produced four reports in the period since October 1986). Their analyses help us to decide what improvements can be made. I will not repeat the conclusions of that Committee in this letter but I enclose a copy of their "summary of key points".

It is worth making the point that stock markets exist to serve the issuers of capital by providing the means for investors to buy and sell securities. Stock markets do not change prices. They operate in reaction to the views of investors.

What happened in October was a massive change in sentiment about the levels stock markets had reached around the world. One can debate the reasons for that change and the suddenness of it, and we would certainly like to see a study done. But the Quality of Markets report was concerned only with the way in which our markets functioned in response to the enormous pressure which came upon them in October.

In general terms the conclusion of the report is that our markets functioned efficiently and that they did not exaggerate the selling pressures which were being experienced. The changes to the structure and capitalisation of the market leading up to Big Bang were the most radical ever either here or anywhere else in the world. In our view calls for further and immediate radical change are not justified.

This is not to say that we are satisfied. We will always work to effect any improvements which can be made to the market structure or to the systems which support it. This is a continuous process and the areas which particularly interest us at present are the following:-

(i) The Telephone delays. SEAQ is not a dealing system. It is a quotation display system on the basis of which member firms trade with each other over the telephone. There is no problem about the capacity of our central private telephone network. Even before the Big Bang market makers had ordered hundreds of new lines, in almost every case greatly in excess of their capacity to man the telephone sets at the ends of the lines. More recently still we have installed at substantial cost a new System X exchange which increases the capacity still further and will enable us to monitor the length of time that telephones remain unanswered in a market making office.

The most important solution to the problem of telephone delays is the introduction of the first phase of our automatic execution system, known as Saef, which is expected in the Autumn of this year. Once Saef is fully operational we would, on present figures, expect it to handle 40-45% of the number of transactions which at present have to be handled individually on the telephone.

(ii) Price spreads. Market makers reacted to the fall on 19th October by quoting wider spreads in the face of the greater volatility. Turnover is at present at very low levels. There is nothing that the central authority can do about this. We must wait until confidence returns and turnover increases. Once this happens we are confident that competition will lead to closer spreads again.

(iii) Account system. For some years we have been considering changing the account system. This has not taken high priority because it would have required very substantial systems changes at a time when firms were having to make extensive changes for the new market in October 1986. Further technical improvements during 1987 and the enormous number of systems changes required to achieve compliance with the rules of TSA have had to take priority and it would not be reasonable to overload firms with yet another major change.

The account system does not lead to a large amount of short term speculation. Only about 12-13% of the turnover by volume - the amount by value is much smaller

- is closed within the account. The argument advanced in favour of the account system has always been that it helps liquidity. It does however potentially increase counter party risk and it is out of tune with other markets overseas. A staff working group has been looking at this question carefully for the last six months and in due course we will be considering whether a change would be advisable.

(iv) The Quality of Markets Committee makes a good case for facilitating index arbitrage between the Options and Futures markets and the underlying equity market. We will need to study what measures we can take, particularly in systems development, to achieve this aim.

(v) One of the potential changes being discussed in the United States is the introduction of some artificial means of smoothing the rate at which prices change in the equity market. Ideas such as limits on the movement of equity prices during the trading day, temporary trading halts and even closing the market altogether have been mooted. We have thought about these ideas but do not consider any of them them appropriate to a market which is built on a system of competing market makers. Such a system establishes more quickly than an auction system the level at which supply and demand can be equated. We believe that investors would be worse served if the market was artificially closed against them.

Other matters fall outside the terms of reference of the Quality of markets Committee and I have commented on them publicly:

2. <u>Options and Futures markets</u>

The conclusions of the various reports in the USA are extremely interesting.

There are two aspects which deserve comment.

(i) The first concerns arbitrage between the derivative markets and the equity market. As I have said in 1.(iv) above we believe that in this country arbitrage between the two needs to be made easier. This conclusion is completely at variance with the conclusions drawn by the studies in the United States. The difference is entirely accounted for by the relative size of the markets in each country. Turnover in the Standard and Poors 500 stock index future has been larger than the turnover in the underlying equities on the New York Stock Exchange by a factor of four or five times. In this country turnover in derivative products is no more than 15-20% of the turnover in the underlying equities. Our conclusion therefore is that the U.S. experience does not have immediate application to the management of our markets in the United Kingdom. We must, however, watch very closely what happens in the United States and learn from both past experience and any changes which are implemented so that we and other regulatory authorities in this country can be prepared with suitable measures ahead of what I hope will be a considerable expansion of the derivative product markets.

(ii) Regulation. A theme of the U.S. reports is the need for consistent regulation across the underlying and derivative markets. Thus, it should not be possible to trade more easily and cheaply in options or futures than it is in stocks. Although margin trading is little known here, of course we agree with the general point. We already have unified regulation to a large extent. Our options market is part of the exchange. The futures market is not but during October our own staff and the staff of Liffe kept in close touch and were ready to act together in case the need arose.

3. Regulation

I have just dealt with the need for co-ordination between the equity and derivative product markets. There are other aspects of regulation which we have frequently mentioned in the past and which are worth repeating following the events of October.

(i) There is no doubt whatever that the close co-operation between ourselves and the Bank of England in the regulation and surveillance of the gilt-edged market has served investors well over many years. Since banks have become major participants in equity markets the regular contact between our Surveillance Division and the Bank of England has increased. During the week of 19th October our Surveillance Division intensified supervision of member firms and particularly market makers and broker dealers acting as principals. We had daily meetings with the Bank of England in carrying out this work. Investors were well served by this high degree of co-operation and by the alertness of the Surveillance teams in both institutions.

(ii) The Stock Exchange has for many years administered tough rules on financial adequacy and reinforced these with strong and regular surveillance. These rules have however always been administered flexibly, by which I mean that if a firm suddenly finds itself short of the capital requirements we give it a reasonable - depending on the circumstances in each case - but very short time to restore its capital. There were a number of instances of this during October and substantial capital was introduced into firms at the direction of our Surveillance Division. Capital rules under which firms would have to be suspended instantly with no flexibility would do a grave disservice to investors and the financial system if it brought about defaults which could be avoided by swift corrective action.

4. Wider Share Ownership

There has been much criticism recently of the increased cost incurred by private investors. The events of October are not particularly relevant to this issue except that our Quality of Markets Committee showed that price spreads had increased - a matter which I have dealt with earlier in this letter. But since October criticism of brokers' charges has intensified.

The main concern, which we share, is that commissions have risen at the lower end. This was an inevitable result of the abolition of fixed commissions in 1986. You will know that I said to your predecessor in 1983 that it was likely to happen. For many years large business for institutions had subsidised smaller business for private investors. The fact that it did not happen immediately after October 1986 is no doubt due to the time it took for broking firms to learn the effect of the abolition of fixed commissions and to take commercial decisions accordingly.

Unfortunately there is very little the central authority can do to reverse the trend since the decision on the level of charges made by firms lies with them and no longer with us. It is also a grave pity that the complexity and cost of the new regulatory system laid down by the Financial Services Act will inevitably further increase the cost of providing a service to private investors and therefore the charges which they will be asked to pay. The provisions of the Act provide little if any perceptible improvement in the protection of clients of Stock Exchange firms: indeed, with the introduction of the new statutory Compensation Fund the protection is likely to be greatly reduced. There is an urgent need to review the Act and to cut the complexity and cost of its effects.

We, like you, are extremely keen to see the widest possible spread of share ownership in this country. We will do everything we can to provide Member Firms with the technology they need to hold down costs. I mention particularly our automatic execution system, the first phase of which starts later this year, and the project to simplify the transfer of shares from seller to buyer and to do away with the share certificate, the first phase of which will be introduced in the Autumn of 1989, providing the necessary legislation is passed in time.

I am encouraged by the development of certain country-wide services for the buying and selling of shares and hope that this will continue to develop at a competitive cost. They are doing so at present - the cheapest service in the USA would not get good marks with competitors in this country - but further widespread development is needed.

The Quality of Markets Committee's next quarterly report will be looking specifically at the services provided to public investors.

It occurs to me that you may like us to send you a report of this sort on an annual basis. Our regular and close contact with you and your Department ensure that you receive regular commentary on the International Stock Exchange and its affairs and our annual report summarises our work. But there are other matters which might be considered of particular interest to you and your Department and I would be happy to institute an annual summary to yourself if you would like me to.

The Rt. Hon. the Lord Young Graffham,
Secretary of State for Trade and Industry,
1 Victoria Street,
London SW1H 0ET.

SUMMARY OF KEY POINTS

UK EQUITY MARKET

- The market crash in the week October 19th saw a fall of 22% in the FTSE 100 Index. It ushered in a period of far greater price volatility than has existed previously.
- Volumes in the week of the crash reached unprecedented levels. Customer transactions peaked at over 100,000 bargains per day on October 21st and 22nd. Customer value exceeded £3.5 bn on October 20th.
- Intra market turnover was proportionately lower during the three week period from October 19th to November 6th. However, equity IDBs gained and have retained a considerably higher proportion of intra market business.
- The pattern of customer business during this three week period suggests that individual investors were substantial net buyers.
- Market makers performed a valuable stabilisation function on October 19th when they were net purchasers of UK equities to the tune of £250m. In subsequent days, market makers were able substantially to reduce their positions.
- Despite the declaration of "fast markets" for limited periods and despite the difficulties of keeping pace in a rapidly moving market, there is strong evidence to show that customer business was generally executed at close to SEAQ screen quotes. There is no evidence that market makers screen prices were significantly away from the market for anything but short periods.
- Fears that the high level of visibility of the market may have caused panic among market makers and thus precipitated price cuts appear to have been unfounded. Results show that price falls were associated with selling pressure.

FOREIGN EQUITY MARKET

- During the week of October 19th, over 50% more customer bargains per day were transacted compared with September's daily average. Average daily customer turnover value during the week of the crash was £890 million, 69% higher than September's daily average.
- Customer turnover in Japanese equities peaked on October 23rd at £331 million, compared to about £60 million per day normally.
- Over 70% more customer bargains per day transacted in US equities during the week of the crash.
- Average daily customer turnover in French equities during the week of October 19th was more than two and a half times the September average.

INTER-RELATIONSHIPS BETWEEN MARKETS

- All three markets (cash, traded options and futures) saw record volumes during the crash; traded options traded a record 121,000 contracts on October 21st while LIFFE traded over 9,000 FTSE contracts daily on Monday 19th and Tuesday 20th.
- All three markets traded continuously throughout the week of the crash. Spreads increased significantly in all markets as trading risk increased. In general, the size in which deals could be made decreased. Market quality has recovered in all three markets though equity spreads and option premia are still higher than pre-October levels.
- A significant number of investors were short of FTSE puts at the start of the week. Limited trading on October 16th (due to storms) meant that these investors had no opportunity to close positions before substantial losses had been incurred. These investors were seeking to close positions at almost any price on the Monday and Tuesday.
- Margins were raised in the options market on Tuesday 20th, and also at various times during the week for FTSE futures. This, together with the principle of marking to market, ensured the robustness of the markets by limiting the credit risk associated with highly leveraged instruments.
- Index arbitrage and portfolio insurance trading are not yet well developed in the UK. Trading

difficulties, largely relating to access to the cash market, restricted index arbitrage even further than usual during October 19th and 20th.

- The absence of effective index arbitrage, combined with the perceived difficulties of access to market makers in the equity market, allowed FT-SE to trade at a significant discount.

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The Futures & Options Exchange

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Futures and Options Trading in
Cocoa
Coffee
Sugar

23 February 1988

26 FEB 1988

Mr. Cayley IC
PPS, EST
Mr. Neilson
Mr Ilett

Mr N Lamont, MP
Financial Secretary to the Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

Dear Mr Lamont

In the summer of 1987, the London Fox introduced a white sugar futures contract using an Automated Trading System. This was in direct competition with Paris, and is now the highest volume automated commodity trading contract in the world.

Nevertheless, the competition amongst the world's futures markets is extensive and increasingly so, with the globalisation of the world financial markets and the major firms.

The French government, for example, has (perhaps responding in part to London Fox's new contract) produced tax changes to assist their market. In particular tax rates appear to have been rationalised so that commodity futures and stocks are treated similarly. I attach an article from the 28 January edition of the Financial Times.

The desire of London Fox and its London-based members is to increase trading volumes in London, to the clear benefit of the UK economy. In particular, there are at present tax ambiguities in the treatment of commodity funds which mean that substantial funds are managed from the UK but are active in the US futures markets, rather than London.

The problem has been very clearly set out by Mr Roger Butler of Arthur Young to Mr Tim Smith on behalf of the London Fox and the Association for Futures Investment (AFI) and we are currently awaiting the Treasury response.

I consider this latest move by the Paris government makes the situation so much more urgent for London, and would ask for a response to our representations and if necessary, a meeting to discuss the London Fox/AFI position.

I look forward to hearing from you.

Yours sincerely

Saxon Tate

Saxon Tate
Chairman

LONDON FOX
The Futures & Options Exchange

FINANCIAL TIMES

28 January 1988

Paris traders hope tax change will halt market slide

BY GEORGE GRAHAM IN PARIS

THE NEW law governing France's commodities exchanges comes into effect on Monday – not a day too soon for the markets' operators.

It amends taxation of commodities dealing and cuts capital-gains tax to the same level as on other investments. Dealers hope it will give a boost to the market, which has seen volume fall sharply over the past year.

The Paris cocoa-butter futures contract is long dead and last year the cocoa-bean contract almost joined it. A total of only 1,250 lots of 10 tonnes each changed hands, down 72 per cent from the previous year. Both London and New York saw significant rises in turnover in their cocoa contracts last year.

In coffee, other exchanges also suffered falls in volume in a lifeless market. However, while London's turnover fell 40 per cent in the year, it was still 80 times as great as that of Paris for the same 5-tonne robusta coffee contract. Paris turnover plunged 71 per cent, to only 10,910 contracts.

Most worrying of all, however, was the fall in the Parisian mainstay futures contract, white sugar.

Last year 485,633 of the 50-tonne white-sugar contracts changed hands in Paris, a drop of 7 per cent from the previous year when London and New York both saw rises of 7 per cent to 8 per cent in their main raw-sugar contracts.

In the fourth quarter, too, white-sugar volume stood at only half the level of the first three quarters. This was an ominous sign, with London and New York markets launching their own white-sugar contracts to compete with Paris.

The New York contract has proved an almost total flop, with only 903 lots traded from its opening in October to the end of last month. The shadow of the major raw-sugar pit has proved suffocating.

However, London white-sugar turnover, 98,863 lots in the last quarter, outstripped Paris, even if the French market authorities claim the London figures are inflated by intra-market activity.

London has lower dealing costs but the French say its spreads between buying and selling prices are wider and that it cannot deal in volume.

A Paris dealer said: "London has been a factor in the fall in turnover. When the market is quiet, as it has been, they have taken business away from us; but when the market is moving, London is a waste of time. You cannot fill your orders."

Paris dealers hope the new law, which will put the commodities markets and the Matif, the new but fast-growing financial futures market, under the same organising authority, will provide the edge they need to get going again.

The Matif, largely populated by banks and stockbroking firms, has regularly raided commodities dealers' personnel, the dealers having been only experienced futures tı ers in France.

The law cuts the capital-gı tax rate on commodity-deal profits from 58 per cent to 16 per cent now prevailing the stock market and the Ma

It will also allow mut funds to be set up, to invest futures in France and abroad

The exchange, after introd ing a dollar-conversion faci which evaded French excha controls and opened the mar to international dealers, ho the new rules will help s domestic-investor interest.

dti

the department for Enterprise

The Hon. Francis Maude MP
Parliamentary Under Secretary of State for
Corporate Affairs

Sir Nicholas Goodison
Chairman
The Stock Exchange
LONDON
EC2N 1HP

/25/1

CH/EXCHEQUER
REC. 25FEB1988
ACTION Mrs Lomax
COPIES TO PS/EST, Sir P Middleton
Sir G Littler
Mr Scholar
Mr Perez
Mr Grice
Mr Ilett
Mr Cropper

Department of
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Your ref
Date 24 February 1988

Dear Nicholas

Thank you for your letter of 22 February to David Young. He has asked me to reply.

We very much welcome the work you have set in hand at The Stock Exchange to effect further improvements in the services it provides. As you have noted, the new market system stood up very well to the test of events last October and all of us concerned with the success of the City should be proud of our achievement in making London not only the leading capital market in Europe but the world's greatest market for international issuers and investors.

Your letter identifies many of the key areas for further consideration. It also makes a constructive contribution to the debate on how we should all achieve the objectives we have set for wider share ownership, an internationally competitive financial sector and a level of investor protection which provides confidence to industry and the public that their interests are well looked after.

As you know, my Department is reviewing the various reports and studies of last October's crash in stock market prices, in consultation with the relevant market authorities. The analysis by the Quality of Markets Committee of The Stock Exchange's performance and scope for future improvements will be of great help. We shall also of course be taking into account the experiences of other markets, in Britain and overseas, and of the recommendations of other studies which have been undertaken.

J04DJT

In the longer term, we would very much welcome the regular reports from The Stock Exchange which you have suggested on developments over the previous year to complement the frequent contacts which Ministers and officials have with you and your own staff.

FRANCIS MAUDE

J04DJT

FROM: M NEILSON

DATE: 25 February 1988

ECONOMIC SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Sir P Middleton
Sir G Littler
Mr Scholar
Mrs Lomax
Mr Peretz
Mr Ilett o/r
Miss Noble
Mr Cropper
Mr Call

NICHOLAS GOODISON ON STOCK MARKET CRASH

You may have seen press reports of Sir Nicholas Goodison's letter to Lord Young setting out the Stock Exchange's considered views on the implications of the Stock Market Crash, and of Mr Maude's reply (which is little more than an extended acknowledgement). DTI have now sent us the exchange of correspondence, which I attach.

2. Most of this is familiar stuff, reflecting Sir Nicholas' view that the London market stood up well in October, and that the need for change is limited. We are of course awaiting DTI's "study of studies" and the work currently being done by the Bank, before taking a view on whether this rather complacent attitude is justified. A number of specific points merit comment:

i. Sir Nicholas responds to suggestions that the account system should be changed. He claims that a review has been going on for the last 6 months, but concludes rather lamely that - "in due course we will be considering whether a change would be advisable". It is pretty clear, from this and from official contacts, that the Stock Exchange is reluctant to contemplate early changes. We are pressing DTI to consider this issue carefully in their study of studies, but any real progress is likely to result from the work that the Bank is doing on it. It is notable that in discussion of the need for "consistent regulation across the underlying and derivative markets" (page 4 ii) Sir Nicholas accepts the case for consistency of treatment between equity and derivative product markets. What he fails to do is accept that the account system is itself a source of inconsistency, since it allows traders to take positions without putting up margin. The need for consistent margining, both between equity and derivative markets, and across international markets, is another reason for looking very carefully at the account system.

ii. Sir Nicholas points out that the underdevelopment of UK futures markets make many of the US proposals irrelevant. He would like to see a considerable expansion of the derivative product markets in the UK, matched by careful study of US experience to avoid the same problems occurring here. He does not explain why he would like to see a considerable expansion of the derivative product markets, nor consider whether we can have thriving futures markets without the problems encountered in the US.

iii. Sir Nicholas makes another strong attack on the costs imposed by the Financial Services Act, particularly on small investors, and argues that, "there is an urgent need to review the Act and to cut the complexity and cost of its effects".

iv. Autumn 1989 is cited as the official target date for introducing TAURUS. It is not clear whether this means that Sir Nicholas has abandoned the idea of introducing TAURUS in spring 1989. We shall explore this further, once we have a clearer idea of the timetable for the TAURUS legislation.

v. Sir Nicholas stresses that the major contribution to reducing the problem of telephone delays will be the introduction of the automatic execution system for small bargains (SAEF) in autumn 1988. He does not however mention that SAEF will be suspended during "fast market" conditions (i.e. when prices are moving so quickly that market makers cannot keep their screen quotes up to date. In fast market conditions market makers are not committed to dealing at the prices quoted on the screen, which are treated as indicative only). It is during fast market conditions, when the volume of transactions is heaviest, that SAEF is most needed. But market makers argue that they cannot be expected to accept automatically executed deals based on out of date screen quotes. This view is understandable, and the solution is probably to increase the speed at which price changes can be inputted, so that "fast markets" have to be declared less often.

Bob Blower

pp M NEILSON

CONFIDENTIAL

2162C — 25. 2.88

FROM: D W GREEN

MR LOEHNIS

Copies to:

Copies	The GPS	Mr Kirby
PPS	The DGPS	Mr Plenderleith
PS/EST	Mr George	Mr Price
Sir G. Littler	Mr Walker	Mr Quinn
Mr Scholar	Mr Galpin	Mr C T Taylor
Mr H.P. Evans	Mr W A Allen	Mr Townend
Mr Peretz	Mr Barnes	Mr Bond
Mr Ilett	Mr Beverly	Mr Cobbold
Miss Noble	Mr P A Bull	Mr Collins
	Mr Charkham	Mr Exeter
	Mr Clark	Mr Farrant
	Mr Coleby	Mr Iles
	Mr Cooke	Mr Midgley
	Mr Flemming	Mr Latter
	Mr Foot	Mr McConnachie
	Mr Gill	Ms Stonefrost
	Mr Hewitt	Mr Webster
	Mr Kent	ID Group 1
	Mr Kentfield	ID Group 9

Interesting, if inconclusive, analysis of present state of play on G-S. Doesn't look as if anything much is going to happen, as a result of post-crash studies. Re. 1/3.

GLASS-STEAGALL AND THE STOCK EXCHANGE CRASH - SOME IMPRESSIONS & POINTERS TO THE FUTURE, NEW YORK & WASHINGTON, JANUARY/FEBRUARY 1988

Summary

The attached lengthy note covers three main topics:

(a) prospects for Glass-Steagall legislation (paras 4-24);

(b) prospects for follow-up action after the stock market crash, including an account of a discussion with Brady (paras 25-32); and

(c) some rather disjointed material picking up points made by bankers about what effect Glass-Steagall abolition might have on type and location of business (paras 33-44).

The first section attempts to outline the complexity of the forces shaping the current legislative debate over Glass-Steagall reform. For those interested only in a conclusion, all that can be said at this stage is that no one knows what the outcome will be, not even whether there will be legislation. No legislation at all this year is perhaps the front-runner by a hair's breadth and would leave the progress of deregulation to continue on a piecemeal basis through the actions of the regulators and through liberalisation at state level. The main point of this note, however, is to take readers through the views of the many parties involved.

There is a short section on prospects for action following the stock market crash. Most of this consists of notes on a discussion with Brady. The main conclusion to be drawn is, perhaps, that Brady has a good eye for politics but, if he becomes Treasury Secretary, will have an extremely long learning curve in relation to international financial matters.

The last section describes a number of comments on what life might be like after Glass-Steagall. The only threads which can be drawn out are that, on the face of it, bankers may not have done all that much thinking about what they will actually do if Glass-Steagall goes and that if business is indeed lost to London, as is one of the purposes of the legislation, British houses are not yet very well positioned to pick it up inside the US domestic markets. However, this may be reading more into a few unsystematic discussions than is warranted. Clearly, however, it is a big topic for the future if Glass-Steagall really does go.

International Division HO-3
25 February 1988

D W Green (4752)

GLASS-STEAGALL AND THE STOCK EXCHANGE CRASH -
SOME IMPRESSIONS & POINTERS TO THE FUTURE, NEW YORK & WASHINGTON, JANUARY/FEBRUARY 1988

Introduction

1 This note draws on impressions picked up during a large number of visits on my recent trip to New York and Washington. In addition to speaking at the Fed Board to Bradfield (General Counsel), Winn (Assistant to the Board for Congressional Relations) and Ryback in Banking Supervision, I called on the general counsels of Bankers Trust and Chase Manhattan, and on the chief executives in North America of Barclays, NatWest and Warburgs. I also met NatWest's outside counsel who is one of the leading experts on "creeping deregulation" and provided useful background material. Richard Pratt at the British Embassy arranged an extensive series of meetings with members of Congress and their staff. In addition to informal round-table discussions with quite large groups of staff from the three main committees responsible for legislation, the Senate Banking Committee, the House Banking Committee and the House Energy and Commerce Committee, Pratt and I called on a number of members of Congress, including Senators Garn and Graham (the latter being a joint sponsor of the bill enshrining the blueprint of Corrigan's paper), and on Congressman St Germain and Congressman Wylie (the ranking minority member of the House Banking Committee). I also saw Bob Litan at Brookings, one of the leading academic thinkers on financial deregulation. Finally, I attended a day-long conference organised by the Institute for Strategy Development at which the Congressional staff responsible for each of the various pieces of legislation currently on the table spoke to an audience of bankers and lawyers.

2 The question of response to the stock exchange crash naturally came up in discussions with a number of the above. On this subject I also called on Brady himself and on Roger Kubarych, who is now the chief economist of the New York Stock Exchange, as well as a number of banks and securities houses.

3 It might be supposed that such an investment of time and effort would produce a relatively clear picture of the ways in which the US financial structure might be expected to change. Unfortunately this was not the case and the benefits have probably to be seen more in terms of a broadening of the Bank and the Embassy's range of contacts and of an increase in the depth of understanding of the many conflicting forces at play which will enable us to have a better grasp of the implications of any consensus when, and if, it finally starts to emerge.

Glass-Steagall

4 At the end of the visit it proved impossible to say what the outcome will be on the legislative front this year. The state of ferment is such that some change in banks' powers seems inevitable at some stage in the not too distant future. However, many Congressmen and staffers are far from making up their minds about some of the most basic issues and Pratt and I were faced with a tremendous thirst for knowledge about how things operate elsewhere. How could it be that equity business is done actually on the books of a bank? How could it be left to a supervisory authority to determine boundaries between banking and insurance business, or between banking and commerce? How far should a Federal safety net for financial institutions extend? Does it make a difference whether you have deposit insurance or not? Does the character of deposit insurance make a difference? Does the fact that retail banking is concentrated in four or five institutions in the UK mean that parallels are simply not available for transportation across the Atlantic? Does the fact that those banks which are proportionately most heavily involved in the securities business are not, generally speaking, retail banks make a difference? And so on.

5 Everywhere we found ferment and the tossing around of ideas, each of them actively pursued by some or other interested group of lobbyists. The result of all this confusion is, however, that at the time of my visit no single legislative proposal had the support of more than about five senators of either party in the Senate Banking Committee.

and it is reported today (25/ii) that Proxmire has produced yet another bill which we have not yet seen

6 The picture shifts all the time and it may be that some consensus could emerge quite rapidly, but the recent history of discussion is not encouraging. Most readers will recall that it is only a month or so ago that everyone "knew" that there was a majority in the Senate Banking Committee for the Proxmire-Garn Bill which also had the wholehearted support of the Administration and of the regulators. It was thought that this bill to give banks a wide range of securities powers up to and including equity underwriting might well go through the Senate, but there was considerable doubt as to whether the House could agree on any legislation at all since it was most improbable that St Germain would show any sign of leadership.

7 During the course of my visit, the picture shifted completely. Before Pratt and I called on St Germain word was already out that there was no longer a majority in the Senate Banking Committee behind Proxmire-Garn. Garn explained that in fact there never had been a majority and said that Proxmire appeared not to have consulted his Democratic colleagues as to whether they did indeed support the bill which he had agreed with Garn. As a result, Garn was very pessimistic as to whether there would be legislation. He had been crusading for reform for many years, had time and again thought that there was a prospect of success, and each time it was snatched from him. A major difficulty was that there was virtually no electoral interest in the topic - this is an important point to bear in mind in an election year - and consequently there was never enough popular momentum behind change to get it through.

8 As many explained to us, marshalled against any one particular change are the array of special interests. Not only are the securities houses divided between the stand-alone houses like First Boston and Morgan Stanley, and the completely different group consisting of those which are part of much wider financial conglomerates like American Express and Sears, but even amongst the banks the interests of the money centre banks do not coincide with those of the regional banks, nor with those of the small, community banks.

9 Furthermore, within these banking groups, opinions about what powers are wanted may be shifting. The great impetus for securities powers had come from the money centre banks, but it is not clear that wholesale securities business retains the profitability it was once thought to have, and in any case, most money centre banks are stretched for capital. By contrast, the regional banks had not previously been interested in securities business but as they have turned into super-regionals, they are beginning to realise that retail brokerage business might make a lot of sense if it was tacked on to their expanded networks and they can see scope for doing investment banking business with smaller regional companies who have not yet formed links with the giant investment banks. Furthermore, they may even have capital to spare for such projects.

10 Although the investment and commercial banks are the groups we are most familiar with, in fact the most powerful lobbyists of all are the insurance and real estate groups who have by far the largest number of members and the most effective lobbying groups, whose influence is spread out across every single Congressional district. It will be very difficult for any legislation to pass without at least the tacit consent of these two groups. However, it is, of course, insurance and real estate brokerage powers at the consumer level that the vast majority of smaller banks in the US are most interested in.

11 Garn raised the subject of lobbying by interest groups himself and expressed surprise that legislators should feel particularly pressed by the threat of withholding of finances by such groups. He said that he did not feel at all threatened in this way and was confident that each of the groups would make a campaign contribution to him whatever happened. It was not quite clear why Garn raised the subject in a way which seemed perhaps naive - interest groups might very well feel that it made sense to continue to support the finances of the most senior Republican member of the Senate Banking Committee come what may but also wise not to take undue steps to influence someone who is a leading member of the Mormon Church.

12 The remarks showed that the subject was at the very least much on his mind as an issue which others maintained affected voting. St Germain himself remains under investigation by the Justice Department over allegations of back-door support from various Savings and Loans, even though he has been cleared by the House Ethics Committee.

13 St Germain's other problem is that he has been accused for many years of totally failing to exercise leadership in the Banking Committee. However, when we called on him, he contradicted the view that no leadership was to be expected from his Committee and suggested that he hoped to be in a position of offering some kind of bill, possibly even before the Senate Committee. It is not entirely clear what has produced this change in circumstances. At the Institute for Strategy Development Conference there was a consensus that if legislation was to get through, it was now unlikely to be Proxmire-Garn and would be either something offering broader powers or something more restricted. One possibility is that St Germain sees the apparent collapse of Proxmire-Garn as an opportunity to steal a political march over the Senate and over his critics on the Banking Committee, though others have also suggested that his scheme is to force a vote in the House Banking Committee on each separate power, one by one, and lead to paralysis by a different route.

14 St Germain would not give anything detailed away beyond saying that, when children were asking for Christmas presents, the combined shopping list amounted to more than could possibly be granted and the result on such occasions was generally that a pared-down list was what got through. Such a pared-down list already exists in the form of more limited securities powers - commercial paper, mortgage backed securities, municipal revenue bonds and mutual funds - which even had Volcker's support some time ago, and to which the Securities Industries Association may have dropped its opposition. A number of people mentioned that the SIA had effectively been the ones who set this latest deregulation effort running again by, for the first time, showing willingness to retreat from their most extreme position.

15 The difficulty, of course, when such a retreat has been started, is to know where to draw the line which makes it a tactical one rather than a rout. This short-list of powers, while acceptable to many of the stand-alone securities houses (eg First Boston), is not at all acceptable to the big financial conglomerates (eg Shearson/Amex) who want a much wider range of powers and are quite happy to let banks into the securities business in return for the opportunity themselves to get into the retail banking business. Their wishes are not met even by the "Corrigan Bill", sponsored by Senators Wirth and Graham, which still maintains a barrier between commerce and banking. Senator Graham said that his bill had been received with a "great yawn" and, while there is much respect for Corrigan, particularly in the light of the role he played during the October crisis, this piece of legislation seems not likely to run on this occasion.

16 I sensed, however, from American Express that they at least were not very hopeful that the demands of the big conglomerates, encapsulated in the Cranston-D'Amato Bill, a version of which has been introduced into the House by Congressman Barnard, would get through either. Although we saw Congressman Barnard, he appeared only a rather cautious advocate of his own bill. American Express suggested that they and other interested parties, which include the John Hancock insurance group and Ford Motor Corporation, as well as Sears Roebuck and General Electric, might just be prepared to settle for something much more modest, provided that there was a "route map for the future" requiring at the very least compulsory reconsideration of the issues in the forseeable future. However, if this was not achievable, and it seemed rather a tricky legislative operation to bring off, then their next best preference would be no legislation at all.

17 No legislation does not mean that nothing will happen. Instead it means that the process which has been going on gradually over the last few years of expansion of powers through regulatory and legal loopholes, as well as through the exploitation of legislation at the state level, can continue, provided the legal moratorium on this process comes off in a few days, which almost everyone expects it will. For many this will be the least worse outcome. This includes many Congressmen who

would be let off the hook of having to register a clear vote against one or other of the interest groups.

18 It would also find more positive support from politicians from the states which think that they might get some mileage out of liberalisation of state legislation. Congressman Carper from Delaware, for instance, could see attractions in going down this route. The most important place for this purpose would, however, be New York. At present, the New York state banking legislation includes legislation which has the effect of imposing Glass-Steagall restrictions on state chartered banks. There is now a good deal of talk about the possibility that, in the absence of federal legislation, New York would abolish its own local Glass-Steagall thus opening the door for New York state banks to set up banks under a state charter which would then be able to undertake securities business. I was told that a number of the money centre banks were actively exploring this route. I must admit that I did not quite grasp how the state legislation would mesh with the existing bank holding company legislation, but apparently it would be technically possible to do it. The Chase Manhattan general counsel said that they knew that Bankers Trust were looking at this, as were Morgan, and they thought that it would be quite easy for a number of banks to take such a step. They themselves would apparently have considerably greater difficulties because of the present complexity of their holdinng company structure which already includes a number of separate banks. Other lawyers, however, told me that although difficult, it would be possible for Chase to follow this route if it seemed sufficiently worthwhile.

19 This kind of abrogation of responsibility by the Congress might seem curious to outsiders but it would parallel the kind of lack of federal legislative guidance which has been shown over interstate banking, where the Congress has resolutely failed to reach a decision and has left it to individual states gradually to dismantle interstate barriers. The presumption is that when all the big barriers have been taken down, Congress would then bring federal legislation up to date. Thus for very many proponents of deregulation, this course seems a viable, if messy, one.

20 It would not, however, satisfy those who are concerned at the creeping encroachment of the banks who would, therefore, prefer legislation which blocked formally these various loopholes in return for granting a specified expansion of power. Thus there is a constituency, largely comprising the independent securities houses and the insurance and real estate people, which, although fundamentally opposed to deregulation for banks, would nevertheless be prepared to settle for some deregulation in return for setting up a fixed legislative barrier against yet further deregulation.

21 Congressman Schumer of New York appears to have been working with these groups (especially Morgan Stanley) and has been working on legislation through a series of drafts, the final form of which I have not yet seen. In addition to granting only a limited number of powers and to closing loopholes, he would also, apparently, place constraints on the way banks' existing securities business was handled. In particular, one version of the bill has it that the banks' new powers would go into a separate securities subsidiary into which the banks' existing overseas securities operations and, perhaps, foreign exchange activities, would all be placed, and which would fall directly to the SEC to supervise rather than the Fed.

22 After my visit the New York Appeals Court upheld a lower court's decision to uphold the Fed's approval of the application of a number of banks to engage in activities not normally permitted under Glass-Steagall. This reduces the possibility of a bill emerging from the Senate since it may reinforce the banks' desire not to be tied down by a compromise bill which only offered modest expansion of powers at some possible cost in terms of added restrictions. However, in the House it may increase the desire for a bill to protect the securities houses from creeping deregulation, together with which various pro-consumer items might be thrown in. The net effect of this may be to reduce the possibility of any legislation at all.

23 Behind all the different manoeuvrings over bank powers lie a number of issues concerning the regulatory structure. At one level, these represent a turf battle between the SEC and the Fed

staff. At another, they concern the issue of whether the federal safety net should implicitly extend to securities operations. The view at the time of my visit was that the securities operations of a bank should be subject to maximum insulation from the bank and should be undertaken by a sibling subsidiary owned by a holding company. The general view is that there should also be very powerful constraints preventing a bank from lending to the securities operation.

24 The events of October did not seem to have altered views about this, though at working level bank supervisors were wondering whether such arrangements in practice make sense, and a number of Congressional staff were also interesting themselves in the apparent aid to stability given in London by the fact that a large number of the major securities operations clearly had a strong bank parent standing not far away. Subsequently the GAO have taken a more measured line and would not cut off entirely lending between a bank holding company and a securities subsidiary.

Response to the October crash

25 It is uncertain how this debate will play out. It does not seem as if the October crash was fatal for Glass-Steagall reform. Indeed, some are suggesting that losses on equity holdings by financial institutions last year might have been smaller than losses on fixed interest instruments. Nevertheless, it has made for a much greater degree of attention to the issue of whether federally insured funds ought properly to be used to support securities activities.

26 This kind of concern also lies behind the Fed's cool response to Brady's suggestion that they should become involved as a super-regulator. Another element in the debate is the publicity given to the Fed's findings of poor performance and inadequate controls in the London securities operations of US commercial banks. Even before the GAO Report gave additional publicity the Fed's findings were common gossip and were deployed as a factor in the debate according to whichever conclusion particular lobbyists wish to come up with.

27 As regards the various reports dealing with the stock market crash, there is not a great deal to add. When I called on Brady he said that he felt that his own report had been well received. No one had spoken out against it, though there had been a certain amount of criticism from Chicago which he regarded as not very convincing. However, he was to a degree disappointed that the respective bodies in New York and Chicago already seemed at that time to be setting off on their own tracks to deal with the solutions to the problems identified, without really getting together. There was little opportunity to ask him about the idea of the Fed as a super regulator since he himself drew on Greenspan's testimony earlier in the week to say that the Fed were really not prepared to take that role on (as was confirmed by Governor Heller).

28 When I asked him how he thought proposals for improvements in the regulatory structure might be advanced, he said that what was planned was that legislative proposals would emerge through the Senate Banking Committee, and he had reason to suppose that these proposals "would not be opposed" by the White House. I said that this seemed a rather weak sort of endorsement from the Administration and Brady responded that we needed to understand that in an election year the White House had to be very cautious about what it did and did not endorse. There was little electoral mileage in structural reform of the supervisory superstructure of financial markets. Brady has been reported as being the front runner to be Treasury Secretary if Bush gets in. However, his political antennae seemed not to be very well tuned on the day I visited him since the following morning the Senate Banking Committee concluded that legislation was not in fact the way forward, and would only be introduced as a last resort if the regulators failed to sort out collaborative procedures amongst themselves. There is, of course, evidence that they are now working at this.

29 At the suggestion of colleagues in the Bank, I asked Brady why he had given so little attention to international questions in his report. Were there any lessons which he might have for the rest of us which he had failed to report because his mandate was purely domestic? Brady said that he regarded the international angles

of the crash as very much secondary. There was no question but that New York was the world's trading centre - "what was the turnover in London anyway?" - and it would have been quite wrong for him to have diverted attention from his central theme of the need to understand that there was only one market by looking into the secondary international questions. He did not seem to have much time for international matters generally and in another context mentioned that Henry Kaufman's ideas about the need for an international supervisory body for securities matters were interesting but wholly impractical, indicating no proper understanding of the realities of the real world.

30 It seems fairly plain that Brady himself was keen to come out with a report which would have a favourable political impact. I spoke separately to his personal assistant and asked why, having spent so much time identifying an alleged problem arising out of the differences between the margin requirements on futures and on stocks, Brady had given little hint as to what kind of a solution was needed. The assistant said that the Task Force had deliberately avoided detailed solutions, not only because of lack of time, but also out of a desire not to produce items which would provoke unduly hostile criticism and undermine the overall impact and reception of the report. Brady himself said that it had been put to him that there should have been more critical examination of the role of specialists in the report. He said that he had thought that this was not really worthwhile because the specialist system had been under criticism for years and the arguments on this were well worn.

31 More generally on Brady, a number of people made the point that, as more time passes since October, the urgency to do something is reduced and the apparent restoration of stability to the markets increasingly suggests that the root cause of the crash was an underlying speculative bubble. This is not to say that there is no need for action on identified shortcomings, but suggests that, not surprisingly, the easiest things will receive the most attention. Kubarych at the New York Stock Exchange said that they were clearly very concerned about the problems which had shown up in their computer systems. Margin requirements will clearly be looked at, though the differences in concept between

stock and future margins, exemplified by Brady's failure to come up quickly with a way of harmonising them, shows that this will be controversial.

32 Circuit breaker mechanisms are seen as more difficult still. The Brady Commission had not done any study of circuit breakers in other markets. Many made the point that anything which drove business to London was unacceptable unless, of course, there could be international harmonisation of some kind. The unacceptability arises out of two rather different ideas: (a) the threat of loss of business to the US, and (b) fear that diversion of pressure to London would lead even more rapidly to breakdown there. Steps to reduce the possibility of inter-market breakdown, perhaps including trading pauses, seem the most profitable lines of enquiry. Circuit breakers related solely to price fall limits were not generally seen as particularly useful. The New York Fed thought that the scope for integrating clearing systems was limited because of the huge technical difficulties involved, and because there was insufficient agreement as yet that something needed to be done. Only the Options Clearing Corporation had a clear incentive to press for reform and the degree of progress would probably be determined by the strength of that pressure.

Consequences of Glass-Steagall reform

33 The last part of this note turns to a number of discussions about what would actually happen to the location and structure of business if the Proxmire-Garn bill or something like it were actually to go through. I had a sense, perhaps quite mistaken, that this question had not received a great deal of thought. Certainly I found contradictory answers even within institutions who are at the forefront of Glass-Steagall reform. The following notes some of the observations which people made, though without reaching much of a firm conclusion.

34 One of the principal arguments advanced domestically in the United States for Glass-Steagall abolition is that presently US business is being transacted overseas which could otherwise be done onshore in the US. Greenspan and Corrigan have both used this argument when testifying in favour of Proxmire-Garn. The

obvious question to ask, then, is what is the business that will be repatriated if Glass-Steagall goes. No one seemed to be very sure just what would be repatriated.

35 One senior official at Morgan Guaranty said that he thought that abolition was bound to make a difference. In the securities market it was necessary to be where the investors were. The borrower could be anywhere. However, he concluded from this that while London might lose some securities market business to the US, it would be much more likely to lose business to Tokyo on the assumption that Article 65 would soon crumble if Glass-Steagall went. Sandy Warner, formerly head of Morgan's London branch, saw no reason for much business to move. He agreed that the important thing was the investor. Morgans were constantly thinking about how they might best serve their clients. This was something they had to keep an eye on within Europe and were currently debating how best to service Germany; could it be serviced from outside or did they need to have a presence of substance? On balance, they thought that they probably did in order to have vehicles which could be brought into play to deal with changes in tax regimes (a further reminder of the central role which taxation plays in determining the location of financial activity).

36 Warner was of the view that Morgans had invested mightily in building up a centre in London and they were unlikely to run it down in a hurry. It was impossible to say at present what business might move and in any case people liked being in London. Others of his colleagues, however, differed, saying that even substantial investment in London and Americans' appreciation of town and country life in the UK would not be sufficient to maintain London's role if the economics firmly pointed against it. Warner finally said that he sometimes thought that it was Congressional staffers who were the strongest proponents of Glass-Steagall abolition, and not actually the bankers themselves.

37 There were variants on this theme in a number of other places. The general counsels at both Bankers Trust and Chase said that they were very much being driven by their managements to find ways of getting round Glass-Steagall, but neither of them

were able to identify which was the most important power they were after in business terms.

38 At an interesting lunch where NatWest's Deputy Chief Executive in North America, Roy Hall, hosted a lunch for the Chief Financial Officer of the North American retail bank, the Head of County's North American operations, and NatWest's outside counsel, there was at times quite a strong flavour that County might not necessarily want to go everywhere that their lawyer was prepared to fight for them. Thus far, NatWest has won quite a bit of prestige for breaking down the legal frontiers in the US but clearly in the current climate they will be looking carefully at just which securities avenues to go down. At lunch the Deputy Chief Executive observed that, so far as he knew, the only parts of NatWest which were making money were the domestic retail operation and the North American retail operation, which were essentially carrying the whole bank. His tentative conclusion from that was that the most attractive new powers in the US would be those which would enable the bank to develop a retail securities distribution operation to tack on to the retail network, and also, I imagine, might make them interested in insurance and real estate retail brokerage powers also.

39 At a dinner later the same day where only the new Chief Executive in North America, Frank Leeson, and Hall were present, Hall spoke in much stronger terms and appeared to view County's North American ambitions through the traditional jaundiced eye of the commercial banker. Interestingly, his boss made little direct comment on these remarks but observed that he was frankly not all that fussed about extra powers. His principal regulatory concern in the US at present related to matters related to risk-based capital. His main worry related to the possibility that the capital requirements for various kinds of credit enhancement activity would drive the business away from banks altogether. He was also concerned at the treatment of asset sales, where he thought there was a genuine intellectual problem about whether interposing another bank in the risk chain when an asset was sold made the position more or less risky for the first bank. (Barclays also took an aggressive line on credit enhancement, as well as on the unfair advantage they thought American banks were getting over provisioning.)

40 Barclays' North American Chief Executive said that the thing that they were most interested in was equity underwriting and distribution. Their ever-increasing concentration in North America on the middle and top end of the wholesale markets meant that they fell into that class of banks which one day might be prepared to surrender their banking licence for an investment banking one.

41 Warburgs (who have an investment, not commercial bank, presence) also were most keenly interested in developing their equity business in North America. However, apart from across-border equity business, they agreed that they were trying to gain a share of a relatively fixed size US domestic market in which, if Glass-Steagall went, there would be many more players and competition would get tough. Warburgs thought they would have more of an edge in M&A business where it seemed to them that the big US commercial banks were likely to keep on coming up against conflict of interest problems if asked to act in takeover bids for companies to whom they were lead banker. This could, to some extent, offset their ability to mobilise large amounts of funds. (In that connection, Wojnilower at First Boston said that he had personal doubts as to whether Wasserstein and Perella, the two First Boston M&A staff who had left to set up their own firm, would be able to mobilise sufficient resources, notwithstanding all their deal-making skills.) Warburgs had more M&A business than they knew what to do with. They already had a staff group of ten and had just hired someone senior from Lazards.

42 Returning to Glass-Steagall abolition and location of business, Warburgs thought that if business was to be repatriated, it would not be equity business but bond business, since the international bond market was much more highly developed than the equity market. Although they had not considered it hitherto, it was conceivable that they could be disadvantaged by this in that they had no US corporate bond capacity nor any intention to put any on. They supposed that they had implicitly been assuming that the typical euro-bond investor would not turn out after all to be a US domestic investor prepared to buy registered US corporates, rather than bearer euro-bonds. However, there was also the possibility that issuers' preferences could change if the

SEC introduced easier issue conditions in the US for "world class borrowers", as had been mooted some time ago.

43 On balance, therefore, they were hard put to it to know which areas of business were most likely to shift. Nevertheless, at the margins, if greater capacity was going to be put into the securities markets in the US, it ought to lead to some loss of business elsewhere and notably London.

44 The only other thoughts I gleaned on the implications of Glass-Steagall for the intermediaries themselves were from Bob Litan of Brookings, all of whose ideas are recorded in a paper for a conference Mr Loehnis recently attended in Tokyo, and are not therefore described here.

International Division HO-3
25 February 1988

D W Green (4752)

pmp

SECRET

MG NOON REPORT

FINANCIAL MARKETS — Friday 26 February 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)
74.6	74.7	74.7	£ERI	74.6	
1.7655	1.7725	1.7715	$/£	1.7710	Mar $14.62
2.9920	2.9929	2.9921	DM/£	2.9916	Apr $15.05
1.6947	1.6885	1.6890	DM/$	1.6892	May $15.10
128.71	128.35	128.50	Yen/$	128.39	

UK interbank £		Eurodollars
8 7/8 (-1/8)	7 day	6 5/8 (-)
8 31/32 (-)	1 month	6 11/16 (-)
9 5/16 (+1/16)	3 month	6 3/4 (-)
9 3/4 (+1/16)	12 month	7 3/8 (-)

Figures in brackets show change since previous market close

MARKET COMMENT The dollar eased in New York overnight on weaker bond prices. Volcker's comment that US interest rates would rise in the short term did not help. The bearish mood continued in the Far East. The dollar has been steady today in advance of US CPI and personal income/expenditure figures out this afternoon. Sterling remains firm against the Mark trading above DM2.99. The Japanese and Hong Kong equity markets closed higher while the US market closed lower. The Dow closed at 2017.6 (-22.4), the Nikkei closed 25165 (+64) and the Hang closed 2383.9(+28). The FTSE 100 opened at 1781.1(-1.3) and at 12.10PM was 1770.4(-12.0). The Gilt market saw a small recovery after earlier weaknesses. Icd

MARKET INTERVENTION ($m)

Overnight -

Today so far -

Total -

OTHER COUNTRIES INTERVENTION ($m)

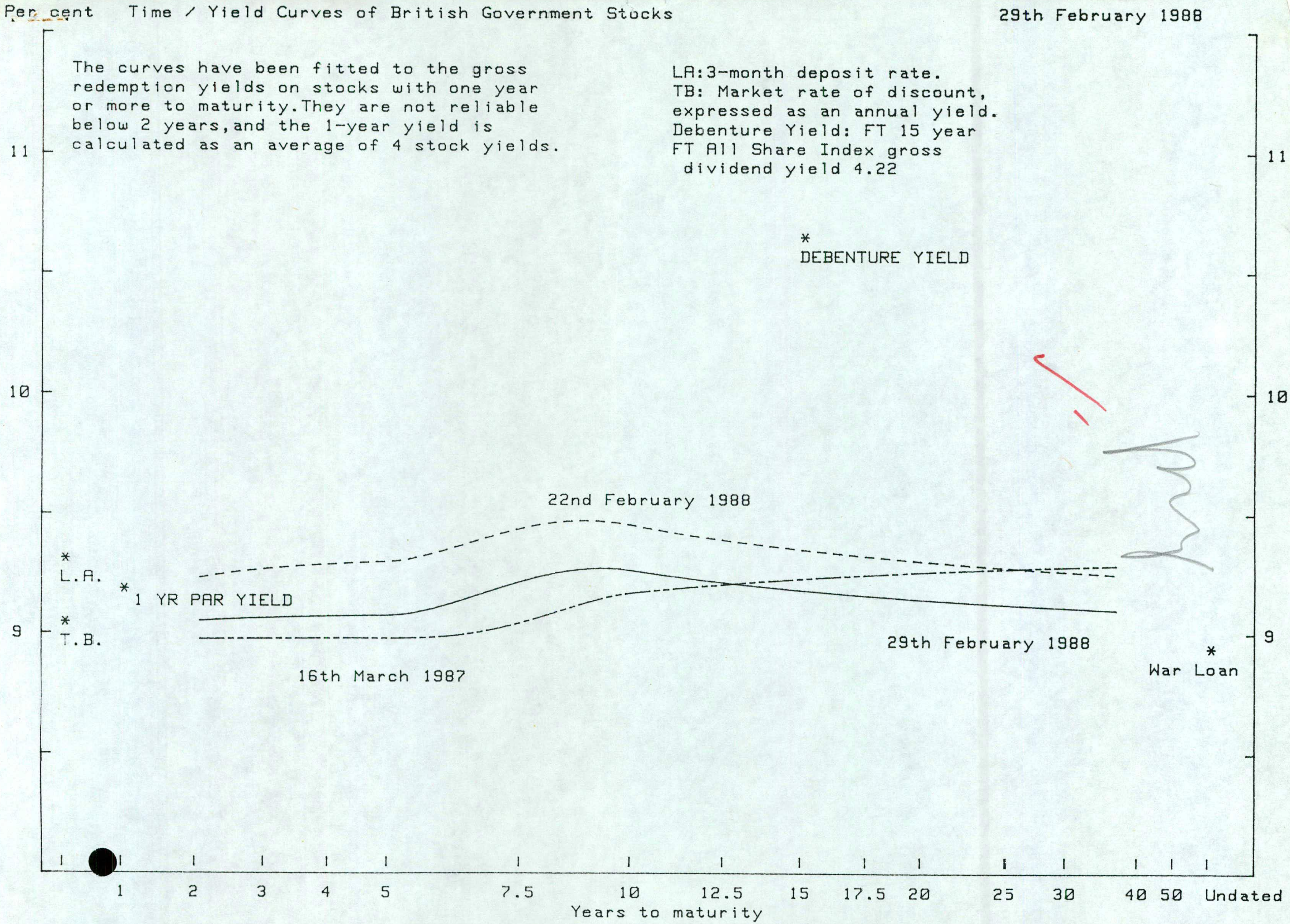
CANADA +22$(on 25.2.88)

GILTS

	Latest market movements	Price change since previous close	Gilt Sales since market opening
			+£7.5 million All index-linked.
Shorts	Steady	0	
Mediums	Steady	-3/32	
Longs	Steady	-3/32	
Futures (Long Contracts)		-9/32 (VOL:14210)	

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

SECRET


Per cent
Time / Yield Curves of British Government Stocks
29th February 1988
The curves have been fitted to the gross redemption yields on stocks with one year or more to maturity. They are not reliable below 2 years, and the 1-year yield is calculated as an average of 4 stock yields.
LA: 3-month deposit rate.
TB: Market rate of discount, expressed as an annual yield.
Debenture Yield: FT 15 year
FT All Share Index gross dividend yield 4.22
DEBENTURE YIELD
22nd February 1988
L.A.
1 YR PAR YIELD
T.B.
29th February 1988
16th March 1987
War Loan
11
10
9
1
2
3
4
5
7.5
10
12.5
15
17.5
20
25
30
40
50
Undated
Years to maturity

CALCULATED PAR GROSS REDEMPTION YIELDS
ON BRITISH GOVERNMENT STOCKS AT
CLOSE OF BUSINESS ON 29 2 1988

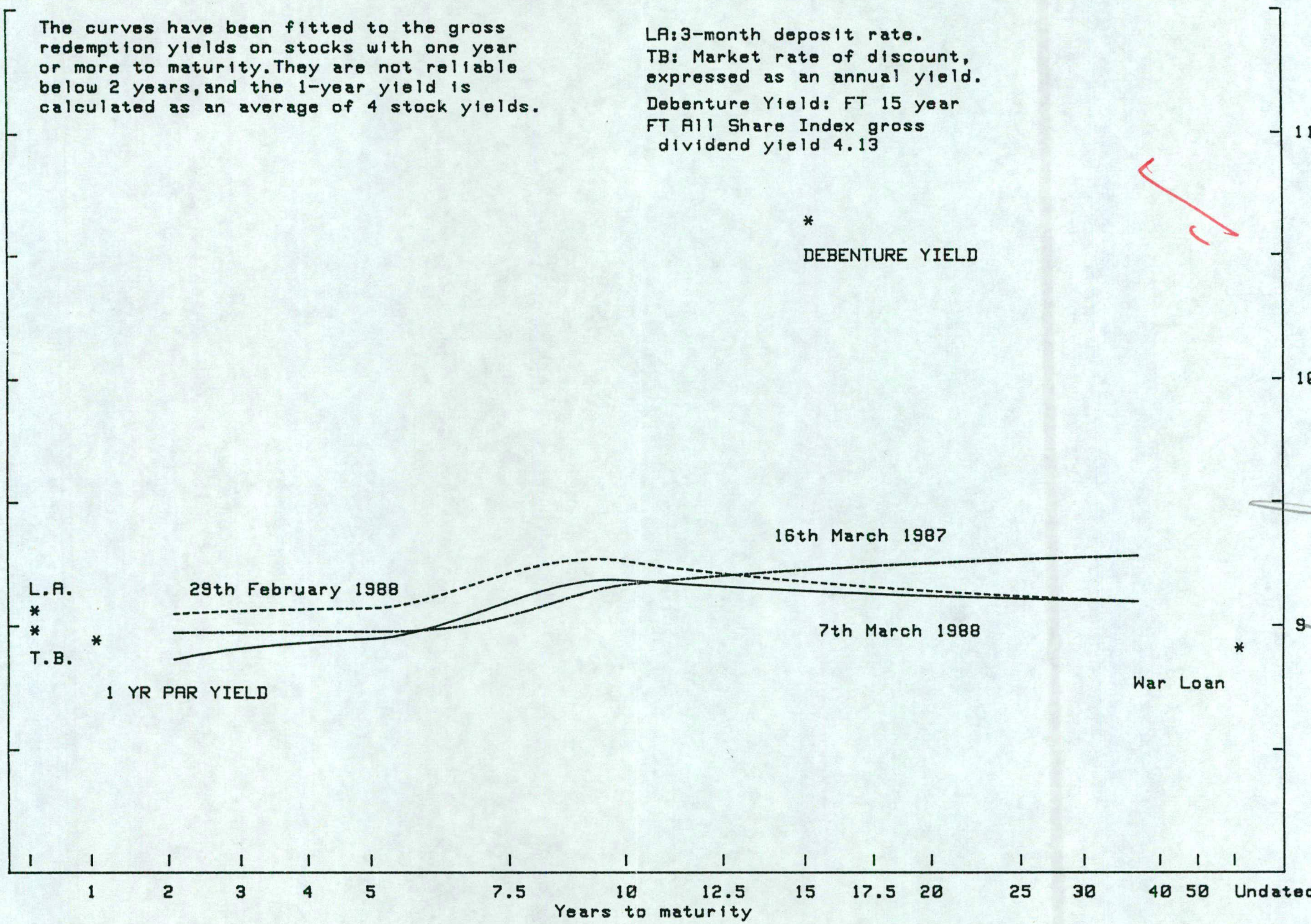
MATURITY (YEARS)	YIELD (PERCENT)
2	9.048
3	9.062
4	9.069
5	9.074
6	9.114
7	9.182
8	9.239
9	9.268
10	9.262
11	9.239
12	9.220
13	9.204
14	9.191
15	9.179
16	9.169
17	9.161
18	9.153
19	9.147
20	9.141
21	9.136
22	9.131
23	9.127
24	9.124
25	9.120

BANK OF ENGLAND

ACTUAL YIELDS ON CERTAIN STOCKS ,
AND CALCULATED PAR YIELDS FOR COMPARISON

FIVE YEAR PAR YIELD			=	9.074
YIELD ON TREASURY	10 %	1992	=	9.196
YIELD ON EXCHEQUER	12 1/4%	1992	=	9.277
YIELD ON TREASURY	10 %	1993	=	9.221
EIGHT YEAR PAR YIELD			=	9.239
YIELD ON EXCHEQUER	10 1/4%	1995	=	9.316
YIELD ON TREASURY	12 3/4%	1995	=	9.397
YIELD ON CONVERSION	10 %	1996	=	9.358
TWELVE YEAR PAR YIELD			=	9.220
YIELD ON CONVERSION	10 1/4%	1999	=	9.366
YIELD ON TREASURY	10 %	2001	=	9.280
TWENTY YEAR PAR YIELD			=	9.141
YIELD ON CONVERSION	9 3/4%	2006	=	9.130
YIELD ON TREASURY	8 %	2009	=	8.937

Per cent Time / Yield Curves of British Government Stocks 7th March 1988



CALCULATED PAR GROSS REDEMPTION YIELDS
ON BRITISH GOVERNMENT STOCKS AT
CLOSE OF BUSINESS ON 7 3 1988

MATURITY (YEARS)	YIELD (PERCENT)
2	8.861
3	8.910
4	8.934
5	8.949
6	8.992
7	9.064
8	9.133
9	9.178
10	9.186
11	9.174
12	9.164
13	9.155
14	9.148
15	9.142
16	9.137
17	9.132
18	9.128
19	9.125
20	9.122
21	9.119
22	9.117
23	9.114
24	9.112
25	9.111

BANK OF ENGLAND

ACTUAL YIELDS ON CERTAIN STOCKS ,
AND CALCULATED PAR YIELDS FOR COMPARISON

FIVE YEAR PAR YIELD			=	8.949
YIELD ON TREASURY	10 %	1992	=	9.070
YIELD ON EXCHEQUER	12 1/4%	1992	=	9.120
YIELD ON TREASURY	10 %	1993	=	9.143
EIGHT YEAR PAR YIELD			=	9.133
YIELD ON EXCHEQUER	10 1/4%	1995	=	9.176
YIELD ON TREASURY	12 3/4%	1995	=	9.278
YIELD ON CONVERSION	10 %	1996	=	9.284
TWELVE YEAR PAR YIELD			=	9.164
YIELD ON CONVERSION	10 1/4%	1999	=	9.298
YIELD ON TREASURY	10 %	2001	=	9.247
TWENTY YEAR PAR YIELD			=	9.122
YIELD ON CONVERSION	9 3/4%	2006	=	9.109
YIELD ON TREASURY	8 %	2009	=	8.909

END

psl/9A

SECRET

FROM: A C S ALLAN

DATE: 7 March 1988

NOTE FOR THE RECORD

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Peretz

MARKETS

The Chancellor had a brief word on the phone with the Deputy Governor at about 3.00pm this afternoon. The Deputy Governor reported that demand from the US was strong. Intervention for the day now totalled some $500 million, with the rate still bumping against DM3.05. He thought it would be wise to step aside for a while, wait for a pause and then try to pull the rate back. He also noted that the Bundesbank were unhappy about us buying deutschmarks when the DM/$ rate was below 1.6875; we should need to deal in dollars and consider switching it into other currencies later.

2. The Chancellor agreed. In the event the demand eased and the rate remained below 3.05.

ACSA

A C S ALLAN

FROM: M M COURTNEY

DATE: 9 March 1988

c PPS
PS/FST
Mr Scholar
Mr Cropper

MRS LOMAX

PS/EST

The EST may be interested in this evidence that equity markets - even in London - are recovering their nerve at last.

RL 9/3

cc Sir T Burns
Mr Evans
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr Bottrill
Mr Grice
Mr Ilett
Mr S Matthews
Mr Mowl
Mr Murphy
Mr Neilson
Mr Savage
Mr Hurst

THE SHARE MARKET RECOVERY

I attach some charts showing share price indices and turnover for the four major markets. Turnover data for the UK before January and for Germany are shown monthly. Otherwise the data are weekly for August 1987 to January 1988 and daily from then to 4 March. There is also a chart of the expected volatility of the FTSE 100 index implied by the pricing of index options.

2. The recent increases in share prices and particularly in turnover in London have parallels in the other world stockmarkets. However there are significant differences. In particular:

i. In price terms Japan is now very close to pre-crash levels. The other countries are still around 20% below pre-crash levels, with the US showing the strongest performance and W Germany lagging somewhat.

ii. No other market had a slump in turnover in February in the way London did. (There has been no convincing explanation for this - suggestions have included a reaction to the rise in base rates on 2 February and to the narrow trading range for most of the month). In Germany and Japan the trough in turnover came in December, from whence there has been a slow recovery in Germany and a spectacular one in Japan. In the US turnover never dropped away much post-crash and is now

23/23/9

back to pre-crash levels. (These are in volume terms - with prices below pre-crash levels turnover by value is still down).

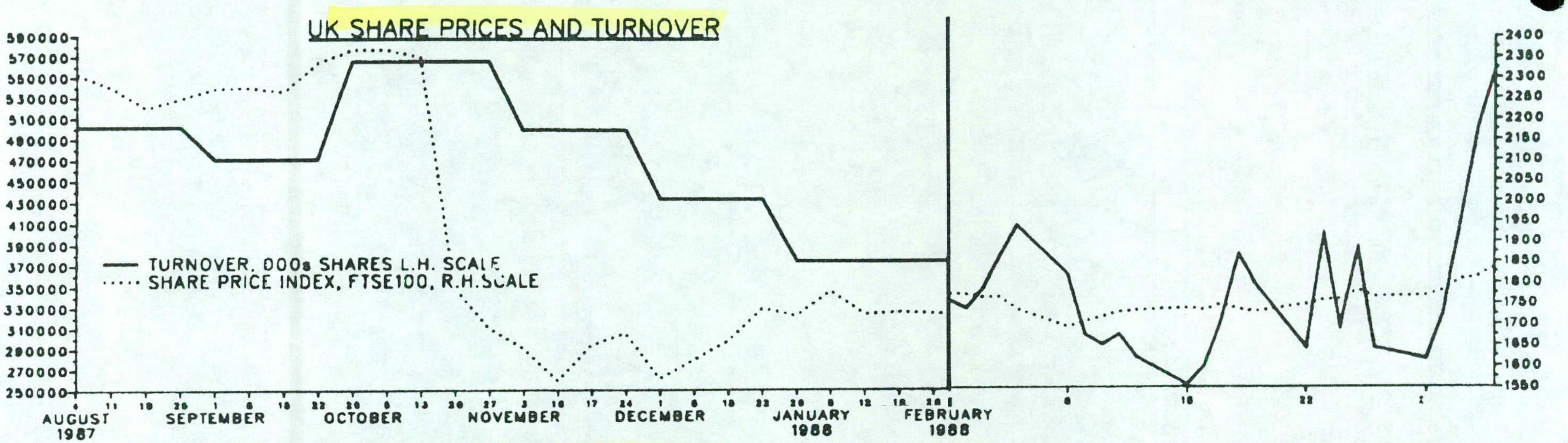
3. The expected volatility in the FTSE 100 index implied by options prices is now down to pre-crash levels (Chart 5). This evidence of a return to a less nervous market is reinforced by movements in the market touch - the spread between the highest bid and lowest offer price. For alpha stocks at largest market size the touch is now around 1.2% (c.f. 0.8% pre-crash and 2.3% at its peak after the crash). For beta stocks the touch now is 2.4% (c.f. 1.8% pre-crash and around 4½% in November). Only for gamma stocks has the touch stayed high: 5.2% now compared to 3% pre-crash and over 6% in November.

4. These signs of a recovery and a return to normality may well have chartists waiting for the second wave of the bear market. The most that can safely be read into them is that the markets have recovered from the immediate trauma of the October crash.

Mark Courtney

M M COURTNEY

Chart 1


UK SHARE PRICES AND TURNOVER
TURNOVER, 000s SHARES L.H. SCALE
SHARE PRICE INDEX, FTSE100, R.H.SCALE
AUGUST 1987
SEPTEMBER
OCTOBER
NOVEMBER
DECEMBER
JANUARY 1988
FEBRUARY 1988

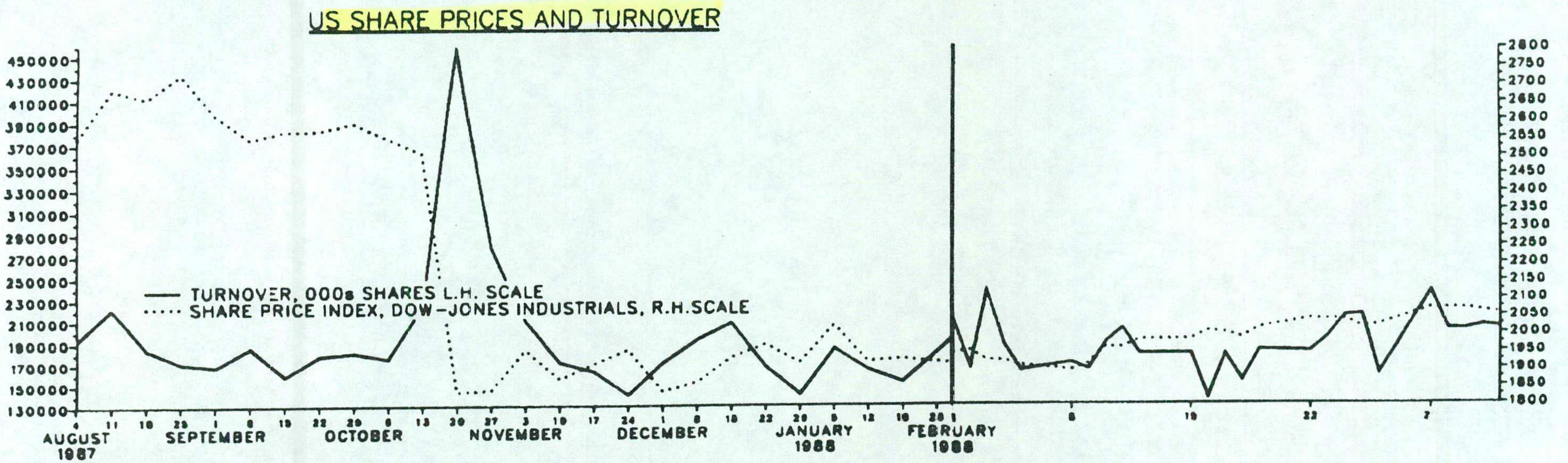
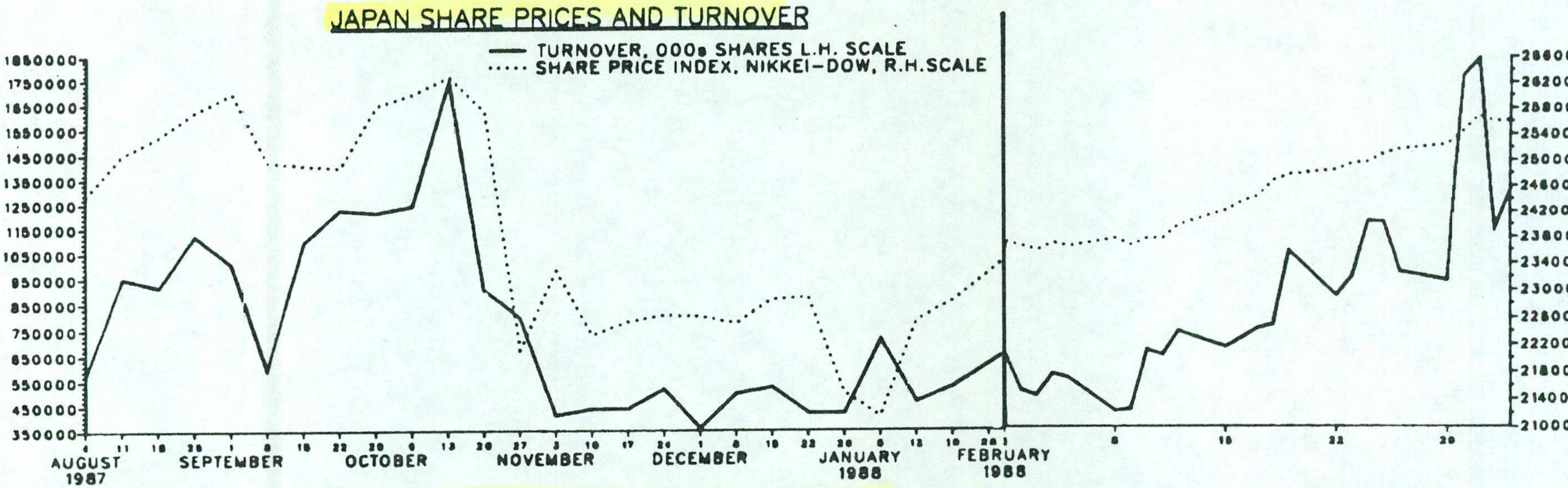

US SHARE PRICES AND TURNOVER
TURNOVER, 000s SHARES L.H. SCALE
SHARE PRICE INDEX, DOW-JONES INDUSTRIALS, R.H.SCALE
AUGUST 1987
SEPTEMBER
OCTOBER
NOVEMBER
DECEMBER
JANUARY 1988
FEBRUARY 1988

Chart 2


JAPAN SHARE PRICES AND TURNOVER
TURNOVER, 000s SHARES L.H. SCALE
SHARE PRICE INDEX, NIKKEI-DOW, R.H.SCALE
AUGUST 1987
SEPTEMBER
OCTOBER
NOVEMBER
DECEMBER
JANUARY 1988
FEBRUARY 1988

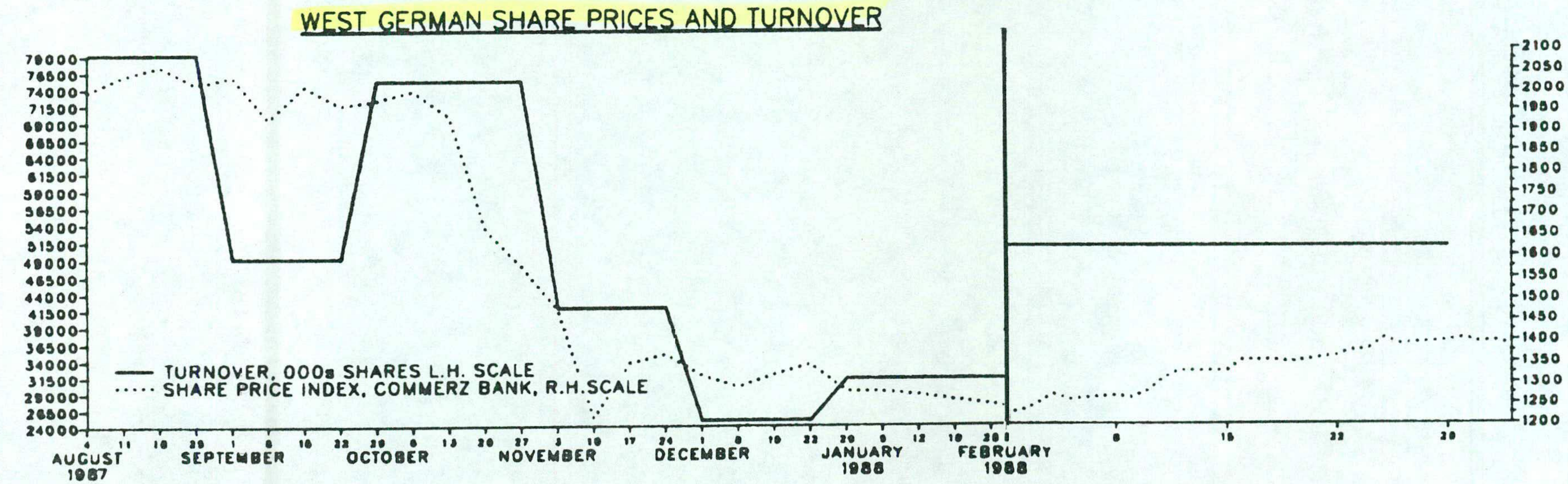

WEST GERMAN SHARE PRICES AND TURNOVER
TURNOVER, 000s SHARES L.H. SCALE
SHARE PRICE INDEX, COMMERZ BANK, R.H.SCALE
AUGUST 1987
SEPTEMBER
OCTOBER
NOVEMBER
DECEMBER
JANUARY 1988
FEBRUARY 1988

Chart 3

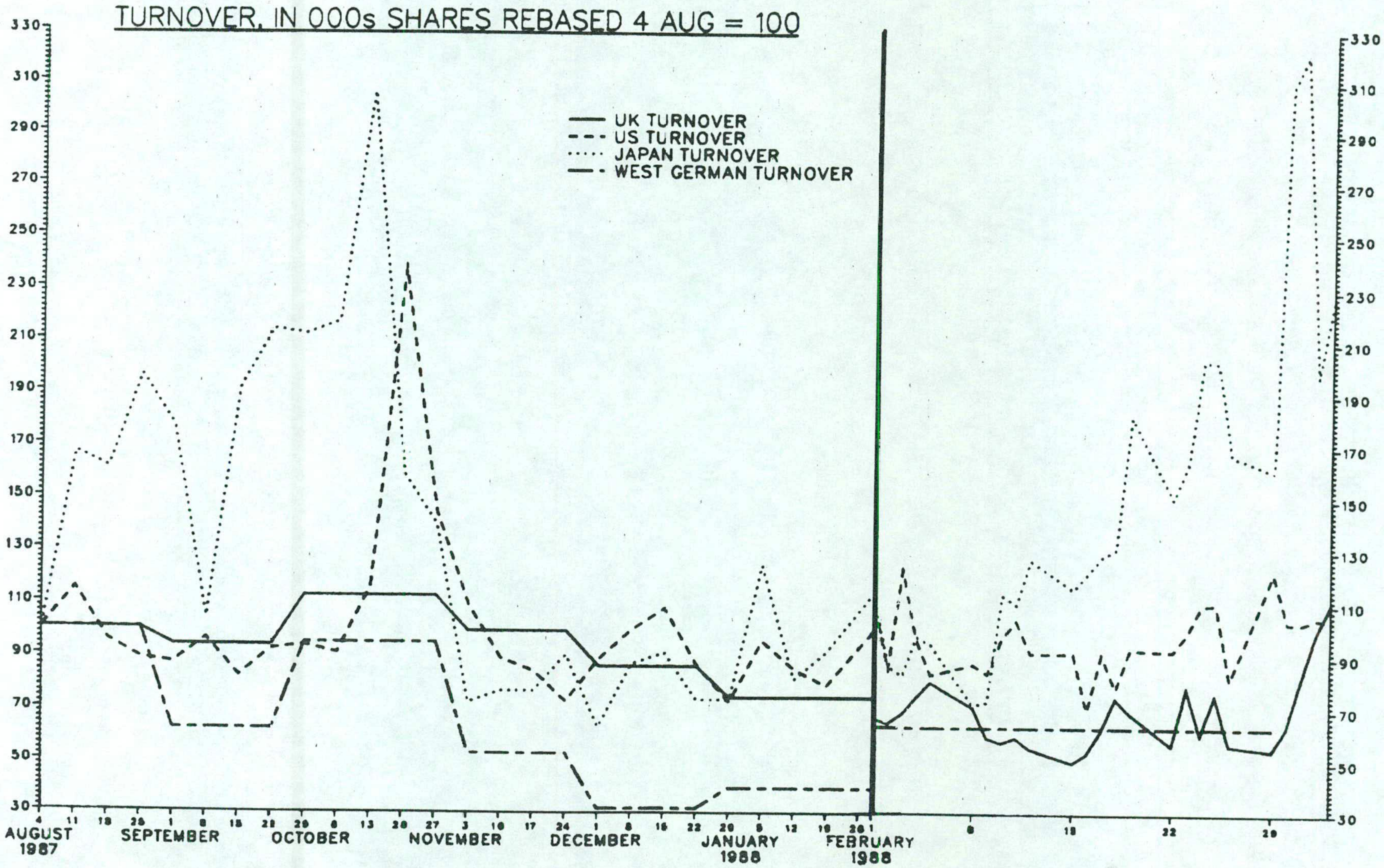

TURNOVER, IN 000s SHARES REBASED 4 AUG = 100
UK TURNOVER
US TURNOVER
JAPAN TURNOVER
WEST GERMAN TURNOVER
AUGUST 1987
SEPTEMBER
OCTOBER
NOVEMBER
DECEMBER
JANUARY 1988
FEBRUARY 1988

Chart 4

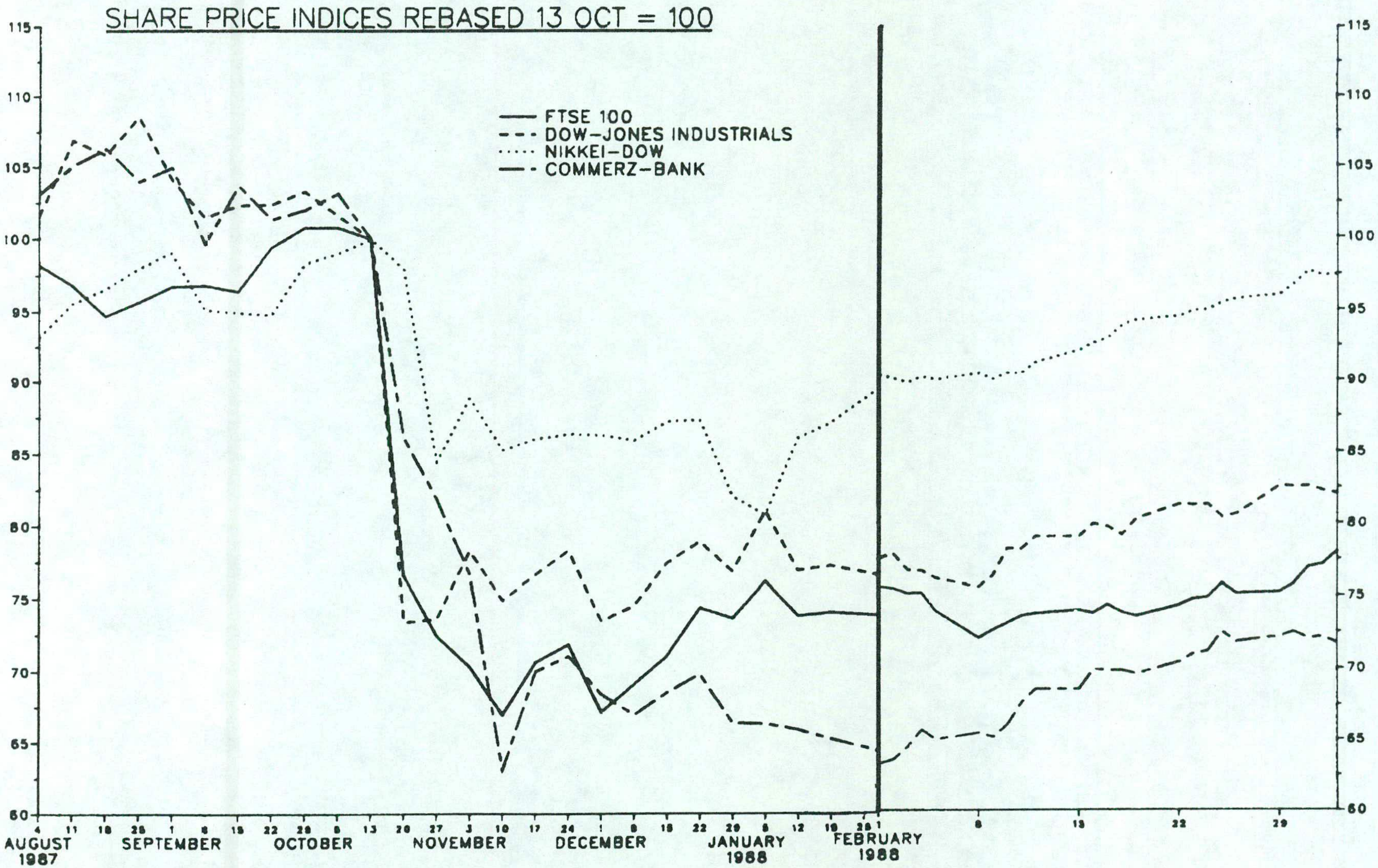
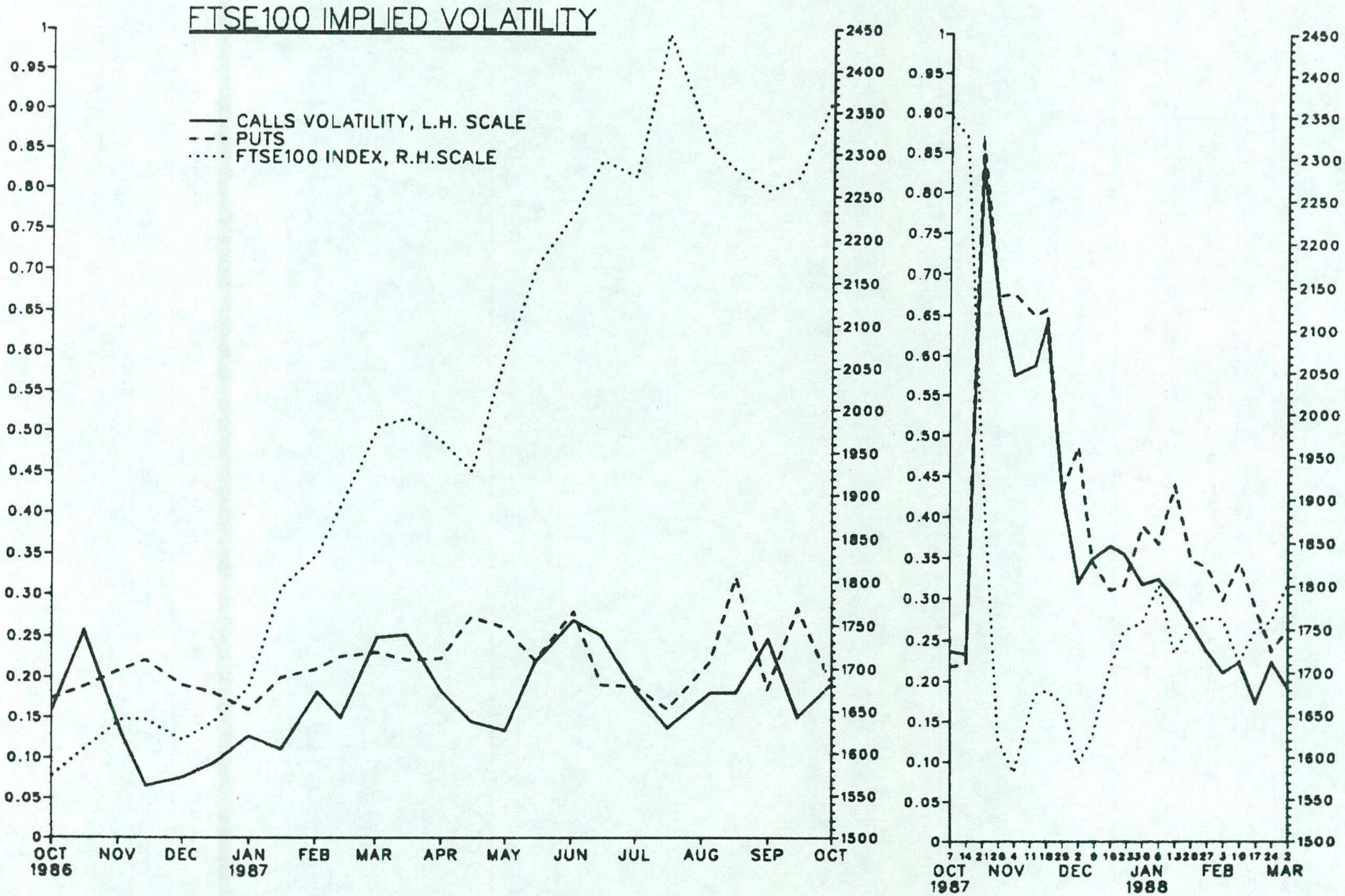

SHARE PRICE INDICES REBASED 13 OCT = 100
FTSE 100
DOW-JONES INDUSTRIALS
NIKKEI-DOW
COMMERZ-BANK
115
110
105
100
95
90
85
80
75
70
65
60
AUGUST 1987
SEPTEMBER
OCTOBER
NOVEMBER
DECEMBER
JANUARY 1988
FEBRUARY 1988

Chart 5


FTSE100 IMPLIED VOLATILITY
CALLS VOLATILITY, L.H. SCALE
PUTS
FTSE100 INDEX, R.H.SCALE
OCT 1986
NOV
DEC
JAN 1987
FEB
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
OCT 1987
NOV
DEC
JAN 1988
FEB
MAR

SECRET

MG NOON REPORT

mp

FINANCIAL MARKETS — Friday 11 March 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
77.2	77.1	77.1	£ERI	77.3		
1.8475	1.8445	1.8460	$/£	1.8535	Apr	$14.85
3.0807	3.0656	3.0690	DM/£	3.0740	May	$15.00
1.6675	1.6620	1.6625	DM/$	1.6585	Jun	$15.07
128.00	127.87	127.45	Yen/$	127.17		

UK interbank £			Eurodollars	
8 1/16	(-1/16)	7 day	6 9/16	(-)
8 11/16	(+1/32)	1 month	6 3/4	(-)
8 15/16	(-)	3 month	6 13/16	(-)
9 7/8	(+13/32)	12 month	7 1/4	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar eased slightly in New York and the Far East, but remains generally steady and quiet this morning. Sterling saw some light demand in the Far East and some Middle East demand this morning, but is generally quiet. The DM strengthened overnight against all major currencies as a result of rumours of a possible EMS realignment before the French elections. It has continued to strengthen today against the $ and Yen with rumours the Italians sold DM(unfounded). US and Japanese equity markets closed lower, with Hong Kong closing higher. Dow Jones 2026.0 -48.2, Nikkei 25544 -74 and the Hang Seng 2595.5 +4.1. The FTSE100 opened at 1833.0 -1.6 and at 12.10 it was 1826.7 -7.9. The gilt market is slightly easier.

R McRobbie

MARKET INTERVENTION ($m)

Overnight	-
Today so far	-
Total	-

OTHER COUNTRIES INTERVENTION ($m)

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	-1/32
Mediums	Steady	-6/32
Longs	Easier	-5/32
Futures (Long Contracts)		0 (Vol:9298)

Gilt Sales since market opening

£0 million

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

SECRET

S E C R E T

PMP. ✓

MG NOON REPORT

FINANCIAL MARKETS Monday 14 March 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
77.4	77.3	77.5	£ERI	77.4		
1.8535	1.8550	1.8605	$/£	1.8575	Apr	$14.60
3.0790	3.0793	3.0828	DM/£	3.0816	May	$14.80
1.6612	1.6600	1.6570	DM/$	1.6590	Jun	$14.85
127.32	127.07	126.65	Yen/$	126.77		

UK interbank £			Eurodollars	
8 1/4	(-1/8)	7 day	6 5/8	(+1/16)
8 11/16	(-1/16)	1 month	6 11/16	(-1/16)
8 7/8	(-1/16)	3 month	6 13/16	(-)
9 5/16	(-1/8)	12 month	7 5/16	(+1/16)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar eased in New York and the Far East and has continued to do so this morning. Sterling firmed in New York as a result of pre-budget euphoria, but eased slightly in the Far East on an Observer story that a range will be set after the budget of between DM2.93 and DM3.07. During the morning sterling firmed again on pre-budget tension. The US equity market closed higher with Japanese and Hong Kong markets closing lower. Dow Jones 2035.0 +8.9, Nikkei 25434 -110 and Hang Seng 2584.7 -10.7. the FTSE100 opened at 1817.4 +5.8, at 12.19pm it was 1819.2 +7.6. The gilts market has held onto a firmer opening.

R McRobbie

MARKET INTERVENTION ($m)

Overnight	-
Today so far	-
Total	-

OTHER COUNTRIES INTERVENTION ($m)

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	+6/32
Mediums	Steady	+11/32
Longs	Easier	+16/32
Futures (Long Contracts)		+39/32 (Vol:9751)

Gilt Sales since market opening

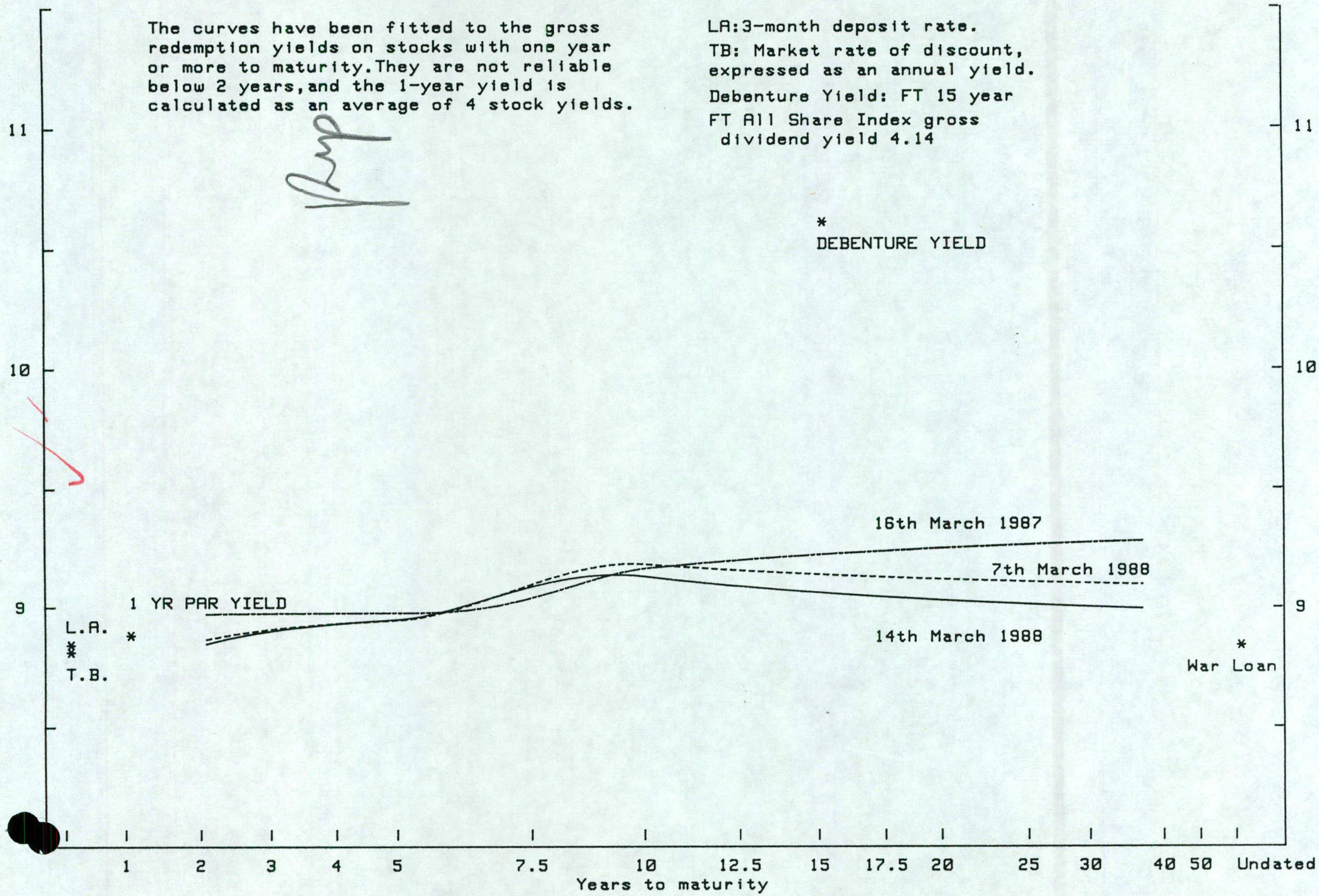
£0 million

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

S E C R E T

PPS 12/2

Per cent   Time / Yield Curves of British Government Stocks   14th March 1988



CALCULATED PAR GROSS REDEMPTION YIELDS
ON BRITISH GOVERNMENT STOCKS AT
CLOSE OF BUSINESS ON 14 3 1988

MATURITY (YEARS)	YIELD (PERCENT)
2	8.842
3	8.902
4	8.933
5	8.951
6	8.995
7	9.061
8	9.114
9	9.139
10	9.134
11	9.114
12	9.098
13	9.085
14	9.074
15	9.064
16	9.056
17	9.049
18	9.042
19	9.037
20	9.032
21	9.028
22	9.024
23	9.020
24	9.017
25	9.014

BANK OF ENGLAND

ACTUAL YIELDS ON CERTAIN STOCKS ,
AND CALCULATED PAR YIELDS FOR COMPARISON

FIVE YEAR PAR YIELD				=	8.951
YIELD ON	TREASURY	10 %	1992	=	9.065
YIELD ON	EXCHEQUER	12 1/4%	1992	=	9.157
YIELD ON	TREASURY	10 %	1993	=	9.138
EIGHT YEAR PAR YIELD				=	9.114
YIELD ON	EXCHEQUER	10 1/4%	1995	=	9.191
YIELD ON	TREASURY	12 3/4%	1995	=	9.273
YIELD ON	CONVERSION	10 %	1996	=	9.247
TWELVE YEAR PAR YIELD				=	9.098
YIELD ON	CONVERSION	10 1/4%	1999	=	9.255
YIELD ON	TREASURY	10 %	2001	=	9.182
TWENTY YEAR PAR YIELD				=	9.032
YIELD ON	CONVERSION	9 3/4%	2006	=	9.029
YIELD ON	TREASURY	8 %	2009	=	8.832

Pvp

SECRET

MG NOON REPORT

FINANCIAL MARKETS Tuesday 15 March 1988

Previous Close	Opening	10 AM		NOON	2-20 AM	Oil Price (11 AM)	
77.2	77.2	77.2	£ERI	77.3			
1.8485	1.8470	1.8485	$/£	1.8519	1.8515	Apr	$14.15
3.0781	3.0789	3.0800	DM/£	3.0829	3.0810	May	$14.37
1.6652	1.6670	1.6662	DM/$	1.6647	1.6645	June	$14.47
127.07	127.20	127.02	Yen/$	127.05			

UK interbank £			Eurodollars	
8 13/16	(+7/16)	7 day	6 5/8	(-)
8 23/32	(+1/32)	1 month	6 3/4	(-)
8 49/64	(+5/64)	3 month	6 3/4	(-)
9 7/16	(+5/32)	12 month	7 1/4	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar firmed in New York on light short covering ahead of US Trade figures on Thursday. It then eased in the Far East on comments by Miyazawa that he was not unduly worried about the renewed rise of the Yen. BOJ intervened at the key chart point of Y126.80. Sumita told Diet that BOJ would only intervene when exchange markets needed stabilisation. All this has helped it remain steady this morning. ! Sterling opened easier on pre-Budget profit taking, but is now steady as markets await the Budget at 3pm. The US and Japanese equity markets closed higher with Hong Kong closing lower. Dow Jones 2050.1 +15.1, Hang Seng 2578.9 -5.8 and Nikkei 25476 +42. The FTSE100 opened at 1828.9 -5.8 and at 12.10 was 1832.5 +13.
The gilt market is fairly steady after a firm opening

R McRobbie

MARKET INTERVENTION ($m)

Overnight -

Today so far -

Total -

OTHER COUNTRIES INTERVENTION ($m)

Japan +12$

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	+7/32
Mediums	Steady	+11/32
Longs	Easier	+9/32
Futures (Long Contracts)		+11/32 (Vol:7575)

Gilt Sales since market opening

+£5.6 million

Index Linked

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

S E C R E T

MG NOON REPORT

FINANCIAL MARKETS — Thursday 17 March 1988

Previous Close	Opening	10 AM		NOON	2.15		Oil Price (11 AM)	
77.4	77.8	77.6	£ERI	77.4	77.6	1.8445		
1.8490	1.8560	1.8510	$/£	1.8450	1.8520		Apr	$14.32
3.0854	3.1055	3.1004	DM/£	3.0926	3.0984	3.0965	May	$14.50
1.6687	1.6732	1.6750	DM/$	1.6762			June	$14.57
127.35	127.40	127.35	Yen/$	127.64				

UK interbank £			Eurodollars	
8 1/4	(-19/32)	7 day	6 5/8	(-)
8 9/16	(-9/32)	1 month	6 3/4	(-)
8 23/32	(-1/4)	3 month	6 3/4	(-)
9 3/8	(-)	12 month	7 5/8	(-)

Figures in brackets show change since previous market close

MARKET COMMENT In thin New York markets the dollar remained unchanged as they await US trade data. Sterling saw some short covering causing it to close in New York at DM3.0962. In the Far East sterling saw heavy demand pushing it through DM3.10. The Banks' overnight score was done to smooth the rise. Sterling continued to be in heavy demand on opening in London and reached DM3.1065 at 9AM. At 9.45AM the Bank cut its' money market lending rate to 8 1/2%. Sterling immediately eased to DM3.10 but later eased to a low of DM3.085. It has now steadied at around DM3.0925. The dollar has firmed slightly against the Mark in advance of the trade figures(markets expect $13/14BN deficit for Jan.). The Gilt market opened firm on the strength of sterling and the new tap was activated twice. The market turned easier following the reduction in interest rates as some holders took profits but stability has been restored with the recovery in sterling. The US, Japanese and Hong Kong equity markets all closed up. The Dow closed 2064.3 (+16.9), the Nikkei closed 25872 (+168), the Hang closed 2581.3 (+26.3). The FTSE 100 opened 1814.3 (-11.4) and at 12PM it was 1820.0 (-5.7).

Ian Polin

MARKET INTERVENTION ($m)

Overnight	+47$	New York
	+45$	Far East
Today so far	-	
Total	+92$	

OTHER COUNTRIES INTERVENTION ($m)

CANADA +95$(on 16.3)

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	+3/32
Mediums	Steady	-2/32
Longs	Easier	-7/32
Futures (Long Contracts)		-7/32 (VOL:18097)

Gilt Sales since market opening

+£181 million Conventionals

NAME: I.C.Polin, MG1 Division
TEL NOS: 270 5556/5560

S E C R E T

SECRET

√- [handwritten initials]

MG NOON REPORT

FINANCIAL MARKETS Friday 18 March 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)
77.4	77.4	77.2	£ERI	77.0	
1.8390	1.8380	1.8295	$/£	1.8241	Apr $14.80
3.0987	3.1035	3.0968	DM/£	3.0891	May $14.85
1.6850	1.6855	1.6927	DM/$	1.6935	Jun $14.90
128.42	128.30	128.40	Yen/$	128.40	

UK interbank £			Eurodollars	
8 1/2	(+1/8)	7 day	6 9/16	(-1/16)
8 9/16	(-1/16)	1 month	6 3/4	(-)
8 5/8	(-3/32)	3 month	6 3/4	(-)
9 1/8	(-1/16)	12 month	7 5/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT Markets have seen an active day so far. Sterling saw some eastern european demand on opening but this quickly gave way to a wave of profit taking causing it fall below DM3.09. The better than expected bank lending figures had no real impact. Sterling now steady at lower levels. The dollar has firmed on easier sterling.
The Gilt market opened better this morning but despite better than expected bank lending figures, the long end in particular lost its earlier gains. All overnight equity markets closed higher. The Dow closed 2086.0 (+21.7), the Nikkei closed 25966 (+94) and the Hang closed 2607.6 (+26.3). The FTSE 100 opened 1844.4(+16.3); at 12.20PM it was 1852.3(+24.2).

Ian Plenderleith

MARKET INTERVENTION ($m)

Overnight -

Today so far -

Total -

OTHER COUNTRIES INTERVENTION ($m)

Canada +86$ (on 17.3)

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	+4/32
Mediums	Steady	+7/32
Longs	Easier	+1/32
Futures (Long Contracts)		-1/32 (VOL:10405)

Gilt Sales since market opening

+£91.9 million 8 1/2%,1994 stock.

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

SECRET

SECRET

pmp

MG NOON REPORT

FINANCIAL MARKETS Monday 21 March 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
76.9	77.2	77.1	£ERI	77.0		
1.8222	1.8335	1.8302	$/£	1.8293	Apr	$15.17
3.0872	3.0949	3.0930	DM/£	3.0924	May	$15.17
1.6942	1.6880	1.6900	DM/$	1.6905	June	$15.17
128.38	127.45	127.35	Yen/$	127.35		

UK interbank £			Eurodollars	
8 9/16	(+1/16)	7 day	6 9/16	(-)
8 9/16	(-)	1 month	6 11/16	(-)
8 5/8	(-)	3 month	6 3/4	(-)
9 1/8	(-)	12 month	7 5/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar eased overnight in New York and the Far East on profit taking. It continued to ease this morning on more profit taking Sterling is firmer than Friday's London closes on an easier dollar. Early demand now eased. Markets are generally quiet. The US equity market closed higher with Hong Kong closing lower. Japan is on holiday. Dow Jones 2087.4 +1.3 and Hang Seng 2602.8 -4.8. The FTSE100 opened at 1848.8 -6.7 and at 12.10 was 1848.4 -7.1. The gilt market is very quiet.

R McRobbie

MARKET INTERVENTION ($m)

Overnight -

Today so far -

Total -

OTHER COUNTRIES INTERVENTION ($m)

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	0
Mediums	Steady	-2/32
Longs	Steady	-8/32
Futures (Long Contracts)		-13/32 (Vol:8626)

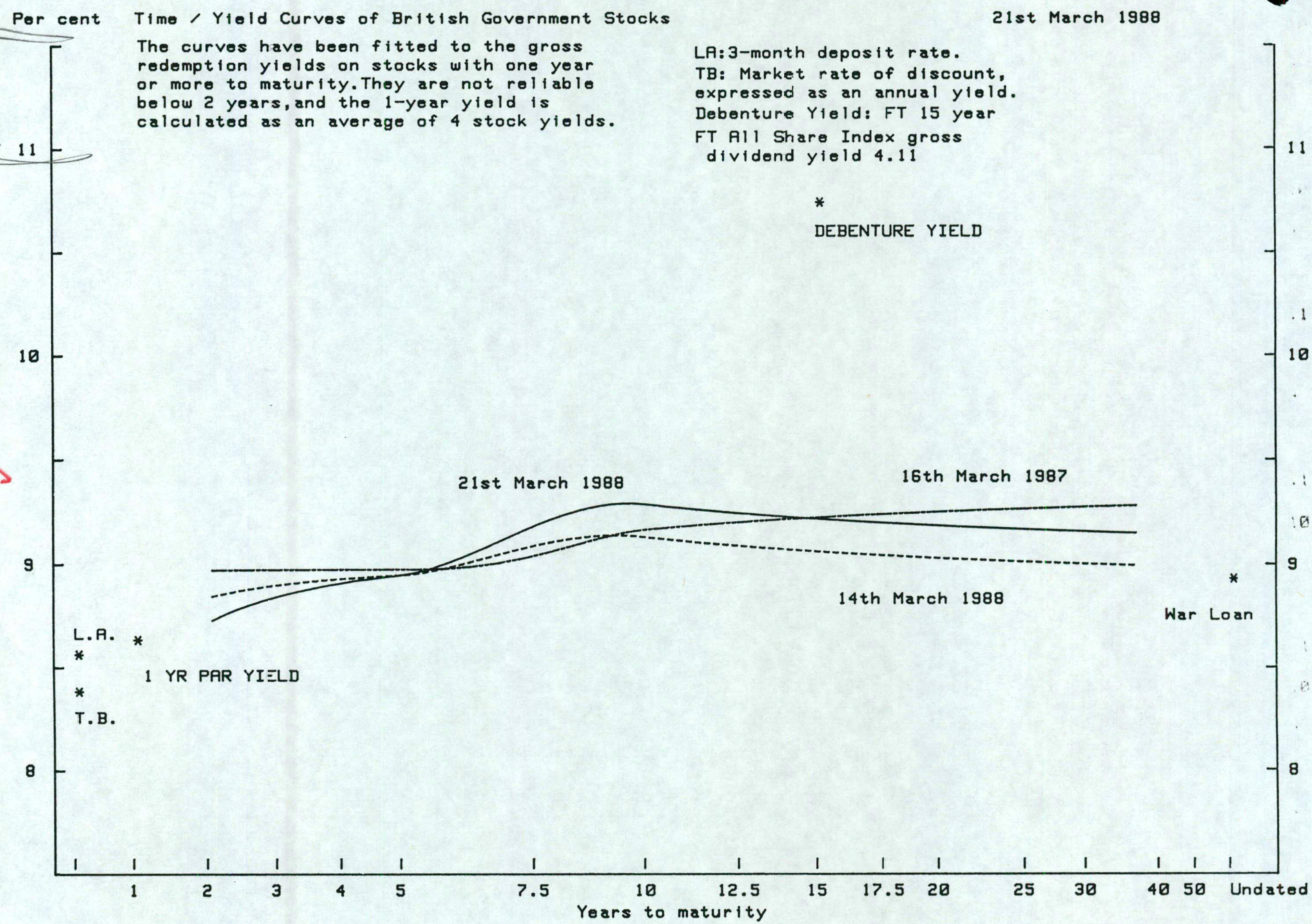
Gilt Sales since market opening

£0 million

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

SECRET

PPS 14/2


Per cent
Time / Yield Curves of British Government Stocks
21st March 1988
The curves have been fitted to the gross redemption yields on stocks with one year or more to maturity. They are not reliable below 2 years, and the 1-year yield is calculated as an average of 4 stock yields.
LA: 3-month deposit rate.
TB: Market rate of discount, expressed as an annual yield.
Debenture Yield: FT 15 year
FT All Share Index gross dividend yield 4.11
DEBENTURE YIELD
21st March 1988
16th March 1987
14th March 1988
War Loan
L.A.
T.B.
1 YR PAR YIELD
11
10
9
8
1
2
3
4
5
7.5
10
12.5
15
17.5
20
25
30
40
50
Undated
Years to maturity

CALCULATED PAR GROSS REDEMPTION YIELDS
ON BRITISH GOVERNMENT STOCKS AT
CLOSE OF BUSINESS ON 21 3 1988

MATURITY (YEARS)	YIELD (PERCENT)
2	8.718
3	8.847
4	8.912
5	8.951
6	9.025
7	9.132
8	9.227
9	9.284
10	9.291
11	9.271
12	9.255
13	9.242
14	9.230
15	9.220
16	9.212
17	9.205
18	9.199
19	9.193
20	9.188
21	9.184
22	9.180
23	9.176
24	9.173
25	9.170

BANK OF ENGLAND

ACTUAL YIELDS ON CERTAIN STOCKS ,
AND CALCULATED PAR YIELDS FOR COMPARISON

FIVE YEAR PAR YIELD			=	8.951
YIELD ON TREASURY	10 %	1992	=	9.013
YIELD ON EXCHEQUER	12 1/4%	1992	=	9.130
YIELD ON TREASURY	10 %	1993	=	9.134
EIGHT YEAR PAR YIELD			=	9.227
YIELD ON EXCHEQUER	10 1/4%	1995	=	9.275
YIELD ON TREASURY	12 3/4%	1995	=	9.371
YIELD ON CONVERSION	10 %	1996	=	9.387
TWELVE YEAR PAR YIELD			=	9.255
YIELD ON CONVERSION	10 1/4%	1999	=	9.407
YIELD ON TREASURY	10 %	2001	=	9.326
TWENTY YEAR PAR YIELD			=	9.188
YIELD ON CONVERSION	9 3/4%	2006	=	9.177
YIELD ON TREASURY	8 %	2009	=	9.001

END

SECRET

MG NOON REPORT

FINANCIAL MARKETS Tuesday 22 March 1988

Previous Close	Opening	10 AM		NOON
77.0	77.0	77.0	£ERI	77.0
1.8302	1.8315	1.8300	$/£	1.8290
3.0912	3.0907	3.0918	DM/£	3.0938
1.6890	1.6875	1.6895	DM/$	1.6915
126.90	126.90	127.15	Yen/$	127.22

Oil Price (11 AM)	
Apr	$15.05
May	$15.05
June	$15.05

UK interbank £			Eurodollars	
8 19/32	(+1/32)	7 day	6 9/16	(-)
8 5/8	(+1/16)	1 month	6 3/4	(-)
8 21/32	(+1/32)	3 month	6 13/16	(-)
9 3/8	(+1/4)	12 month	7 1/2	(+1/16)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar was steady in quiet New York market, but in the Far East it eased against Yen. The BOJ consequently supported it when it reached Y126.85. It has since recovered the lost ground during this morning. Sterling remains generally steady. Market is quiet today.
The US, Japanese and Hong Kong equity markets closed lower.
Dow Jones 2067.1 -20.2, Nikkei 25843 -124 and Hang Seng 2594.8 -8.0. The FTSE100 opened at 1836.4 -4.7 and at 12.05 was 1839.6 -1.5.
The gilt market is quietly firm.

R McRobbie

MARKET INTERVENTION ($m)	
Overnight	-
Today so far	-
Total	-

OTHER COUNTRIES INTERVENTION ($m)

Japan +15$

GILTS

	Latest market movements	Price change since previous close
Shorts	Better	+2/32
Mediums	Steady	+3/32
Longs	Better	+7/32
Futures (Long Contracts)		+5/32 (Vol:7737)

Gilt Sales since market opening

£0 million

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

SECRET

S E C R E T

MG NOON REPORT

FINANCIAL MARKETS Wednesday 23 March 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
77.1	77.2	77.3	£ERI	77.3		
1.8295	1.8340	1.8365	$/£	1.8335	Apr	$14.90
3.0983	3.1013	3.1074	DM/£	3.1069	May	$15.00
1.6935	1.6910	1.6920	DM/$	1.6945	June	415.07
127.26	126.95	126.85	Yen/$	126.95		

UK interbank £			Eurodollars	
8 9/16	(-)	7 day	6 9/16	(-)
8 5/8	(-)	1 month	6 3/4	(-)
8 5/8	(-1/32)	3 month	6 13/16	(-)
9 1/8	(-1/16)	12 month	7 7/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT:The dollar eased in New York but firmed against Yen in the Far East.It opened here easier and has continued to ease during most of the morning, though still trading in narrow ranges.Sterling firmed in New York and the Far East on technical trading and has continued to do so this morning.It was in great demand at 10.00am especially from Europe and reached a high of DM3.11.Incorrect rumours of bank intervention helped it to ease together with some slight profit taking.Markets now await US CPI figures at 1.30pm.The US and Hong Kong equity markets closed lower with Japan closing higher.Dow Jones 2066.1 -1.0, Hang Seng 2561.9 -32.9,Nikkei 25895 +52.The FTSE100 opened at 1833.9 -1.5 and at 12.04 it was 1828.7 -6.7.
The gilt market is steady at the slightly higher level. R McRobbie

MARKET INTERVENTION ($m) OTHER COUNTRIES INTERVENTION ($m)

Overnight -

Today so far -

Total -

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	+4/32
Mediums	Steady	+3/32
Longs	Steady	+9/32
Futures (Long Contracts)		+9/32 (Vol:6950)

Gilt Sales since market opening

£0 million

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

SECRET

MG NOON REPORT

FINANCIAL MARKETS — Thursday 24 March 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
77.3	77.3	77.3	£ERI	77.3		
1.8367	1.8420	1.8425	$/£	1.8420	Apr	$15.85
3.1088	3.1056	3.1059	DM/£	3.1056	May	$15.95
1.6926	1.6860	1.6857	DM/$	1.6863	June	$16.05
126.81	126.10	126.00	Yen/$	126.07		

UK interbank £			Eurodollars	
8 23/32	(+5/32)	7 day	6 13/16	(-)
8 21/32	(+1/32)	1 month	6 3/4	(-)
8 21/32	(+1/32)	3 month	6 13/16	(-)
9 5/16	(+3/16)	12 month	7 7/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar was little changed in a quiet New York market, but eased against Yen in the Far East reaching a low of Y125.95. BOJ score was seen as token resistance. On opening here it is slightly steadier in a nervous market. Sterling is steady with some light selling. Markets generally concentrating on the dollar.
The US equity market closed higher with Japanese and Hong Kong markets closing lower. Dow Jones 2067.6 +1.5, Nikkei 25781 -114 and Hang Seng 2546.4 -15.5. the FTSE100 opened at 1827.9 -4.3 and at 12.04 was 1803.2 -29.0. (now -27.8 at 12.45)
The gilt market has drifted lower during the morning in very low volume.

R J McRobbie

MARKET INTERVENTION ($m)

Overnight	-
Today so far	-
Total	-

OTHER COUNTRIES INTERVENTION ($m)

Japan +59$
Canada +263$ (23.03.88)

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	-2/32
Mediums	Steady	-4/32
Longs	Steady	-9/32
Futures (Long Contracts)		-14/32 (Vol:6137)

Gilt Sales since market opening

£0 million

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

DATE: 25/3/88

9.0am MARKET REPORT

	£ERI	$/£	DM/$	DM/£	Yen/$	Yen/£
NEW YORK CLOSE		1.8417	1.6767	3.0880	125.55	231.22
LONDON (8.30am)	77.1	1.8410	1.6795	3.0920	125.75	231.69
9.00am	77.1	1.8410	1.6790	3.0910		

	opening	change from previous close
3 month interbank rates	8 11/16	+1/16
3 month eurodollar rates	6 7/8	—
1 month interbank	8 11/16	+1/32

Intervention:

Japan +102 Canada +94

Oil: 15.60 (+12) 15.67 (+15) 15.72 (+17)

Comment:

SECRET

MG NOON REPORT

FINANCIAL MARKETS — Friday 25 March 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
77.1	77.1	77.1	£ERI	76.6		
1.8395	1.8410	1.8420	$/£	1.8295	Apr	$15.50
3.0940	3.0920	3.0922	DM/£	3.0736	May	$15.57
1.6820	1.6795	1.6787	DM/$	1.6800	June	$15.60
125.96	125.75	125.77	Yen/$	125.85		

UK interbank £			Eurodollars	
8 1/2	(-1/4)	7 day	6 7/8	(+1/16)
8 5/8	(-1/32)	1 month	6 3/4	(-)
8 11/16	(+1/32)	3 month	6 7/8	(+1/16)
9 1/4	(+1/16)	12 month	7 1/2	(+1/16)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar continued its downward drift in New York. In the Far East it fell against Yen reaching a low of Y125.20, despite BOJ intervention. Rumours that the FED had been ringing round for quotes stopped the slide. It has remained steady this morning as markets awaited the UK trade figures at 11.30. These were worse than expected and caused the dollar to firm. Sterling eased overnight on profit taking but remained steady until the trade figures when it fell back.
The US, Japanese and Hong Kong equity markets closed lower. Dow Jones 2023.9 -43.8, Nikkei 25627 -155 and Hang Seng 2501.9 -44.5. The FTSE100 opened at 1779.5 -3.2 and at 12.04 was 1769.6 -13.1 after a low of 1763 just after the trade figures.
The gilt market is easier following the UK trade figures. RMcRobbie

MARKET INTERVENTION ($m)

Overnight -

Today so far -

Total -

OTHER COUNTRIES INTERVENTION ($m)

Japan +102$
Canada +94$ (24.03.88)

GILTS

	Latest market movements	Price change since previous close
Shorts	Easier	-5/32
Mediums	Easier	-10/32
Longs	Easier	-13/32
Futures (Long Contracts)		-3/32 (Vol:10338)

Gilt Sales since market opening

£0 million

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

SECRET

THE INTERNATIONAL STOCK EXCHANGE OF THE UNITED KINGDOM AND THE REPUBLIC OF IRELAND LIMITED

THE STOCK EXCHANGE

SIR NICHOLAS GOODISON
CHAIRMAN

LONDON EC2N 1HP
TELEPHONE: 01-588 2355
TELEX: 886557

28th March, 1988

Dear Nigel,

Europe 1992

This is just to let you know I have set up a sub Committee to advise me on this subject under the Chairmanship of Stephen Raven. I attach the terms of reference and would be grateful if you would pass this note on to the appropriate senior executive in the Treasury.

Yours sincerely,

Jane Adamek

p.p. Nicholas Goodison

(dictated by the Chairman and signed in his absence)

HM TREASURY – MCU

RECD. 30 MAR 1988

ACTION Mr Flett FIM2.

FOR INFO ONLY

cc APS/CHX PS/EST Sir P Middleton.

19008/88

The Rt. Hon. Nigel Lawson, M.P.,
Chancellor of the Exchequer,
H.M. Treasury,
Parliament Street,
London,
SW1P 5AG.

Europe 1992 Working Committee

The Committee is asked:-

(i) to draw up an inventory of the existing published proposals for E.C. directives or other legislative or administrative action which might have a bearing on the International Stock Exchange or on the business of its member firms; to consider any such proposals; to confer with any member firms or other persons whose views might be thought valuable;

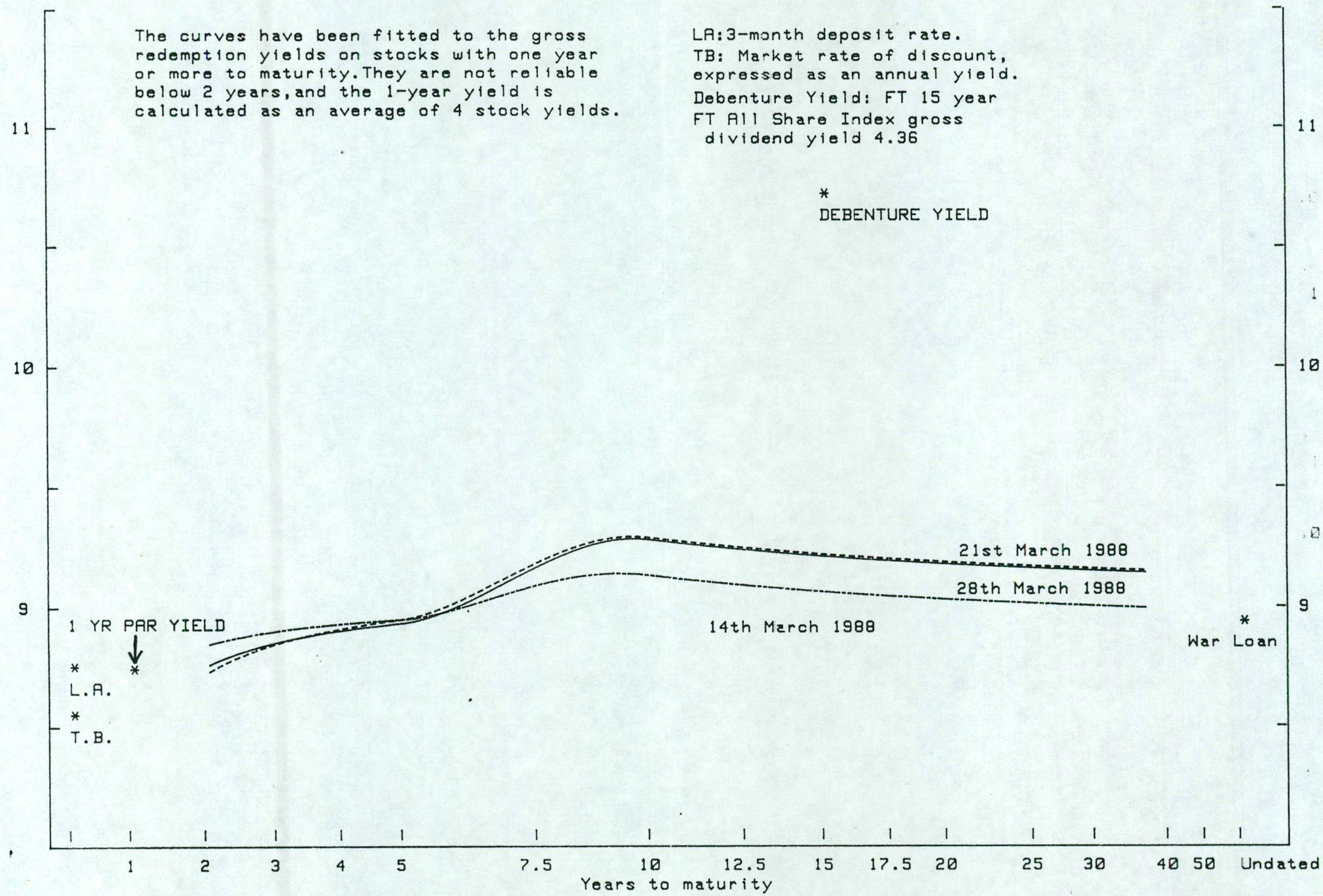
(ii) to recommend to Chairman's Room any action necessary to obtain modification of any legislative proposals;

(iii) to keep the Council and relevant Committees informed of any aspect, including British Government action, which might affect or help the potential development of Stock Exchange or member firms' services;

(iv) to consider the implications for the development of the Stock Exchange's markets of the evolution towards the single internal market, and to advise the Council and relevant Committees of any tasks which they should be undertaking.

NPG
4th March, 1988.

Per cent Time / Yield Curves of British Government Stocks 28th March 1988



CALCULATED PAR GROSS REDEMPTION YIELDS
ON BRITISH GOVERNMENT STOCKS AT
CLOSE OF BUSINESS ON 28 3 1988

MATURITY (YEARS)	YIELD (PERCENT)
2	8.751
3	8.854
4	8.905
5	8.935
6	9.005
7	9.113
8	9.212
9	9.273
10	9.282
11	9.263
12	9.246
13	9.233
14	9.222
15	9.212
16	9.204
17	9.196
18	9.190
19	9.184
20	9.179
21	9.175
22	9.171
23	9.168
24	9.165
25	9.162

BANK OF ENGLAND

ACTUAL YIELDS ON CERTAIN STOCKS ,
AND CALCULATED PAR YIELDS FOR COMPARISON

FIVE YEAR PAR YIELD				=	8.935
YIELD ON	TREASURY	10 %	1992	=	9.016
YIELD ON	EXCHEQUER	12 1/4%	1992	=	9.117
YIELD ON	TREASURY	10 %	1993	=	9.108
EIGHT YEAR PAR YIELD				=	9.212
YIELD ON	EXCHEQUER	10 1/4%	1995	=	9.274
YIELD ON	TREASURY	12 3/4%	1995	=	9.355
YIELD ON	CONVERSION	10 %	1996	=	9.386
TWELVE YEAR PAR YIELD				=	9.246
YIELD ON	CONVERSION	10 1/4%	1999	=	9.397
YIELD ON	TREASURY	10 %	2001	=	9.329
TWENTY YEAR PAR YIELD				=	9.179
YIELD ON	CONVERSION	9 3/4%	2006	=	9.162
YIELD ON	TREASURY	8 %	2009	=	8.972

2813

9.0am MARKET REPORT

	£ERI	$/£	DM/$	DM/£	Yen/$	Yen/£
NEW YORK CLOSE		1.8435	1.6720	3.0823	125.05	230.53
LONDON (8.30am)	76.8	1.8435	1.6690	3.0768	124.42	229.12
9.00am	76.9	1.8470	1.6670	3.0802		

	opening	change from previous close
3 month interbank rates	8 11/16	—
3 month eurodollar rates	6 13/16	—
1 month	8 5/8	—

Intervention:

Japan +40 Fed +48 (vs YEN)

Oil: 15.57 (+22) 15.77 (+22) 15.82 (+17)

Comment:

SECRET

MG NOON REPORT

FINANCIAL MARKETS

Monday 28 March 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
76.7	76.8	77.0	£ERI	77.1		
1.8345	1.8435	1.8480	$/£	1.8525	Apr	$15.65
3.0783	3.0768	3.0825	DM/£	3.0848	May	$15.85
1.6780	1.6690	1.6680	DM/$	1.6652	June	$15.90
125.57	124.42	124.60	Yen/$	124.35		

UK interbank £			Eurodollars	
8 9/16	(+1/16)	7 day	6 3/4	(-)
8 5/8	(-)	1 month	6 3/4	(-)
8 25/32	(+3/32)	3 month	6 13/16	(-)
9 1/4	(-)	12 month	7 7/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar continued to ease in New York and Far East despite FED and BOJ intervention. It opened here easier and it has eased further in the last hour. Sterling remains firm but is generally on the sidelines. The US, Japanese and Hong Kong equity markets closed lower. Dow Jones 1978.9 -44.9, Nikkei 25623 -5(change since Friday. A recovery of 300 points was seen since Saturday.) and Hang Seng 2466.8 -35.1. The FTSE100 opened at 1750.6 -17.3 and at 12.04 was 1753.6 -14.3. The gilt market is very quiet.

R McRobbie

MARKET INTERVENTION ($m)

Overnight -

Today so far -

Total -

OTHER COUNTRIES INTERVENTION ($m)

Japan +40$

United States +148$ agst Yen(25.03)

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	0
Mediums	Steady	0
Longs	Steady	+1/32
Futures (Long Contracts)		-2/32 (Vol:7025)

Gilt Sales since market opening

£0 million

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

SECRET

29/3

9.0am MARKET REPORT

	£ERI	$/£	DM/$	DM/£	Yen/$	Yen/£
NEW YORK CLOSE		1.8710	1.6555	3.0974	123.80	231.63
LONDON (8.30am)	77.6	1.8675	1.6615	3.1029	124.37	232.57
9.00am	77.5	1.8630	1.6635	3.0991		

	opening	change from previous close
3 month interbank rates	8 3/4	–
3 month eurodollar rates	6 7/8	+ 1/16
1 month interbank	8 19/32	–

Intervention:

Japan +17 : possible Fed, scale unknown

Oil: 15.60 (+3) 15.77 (+2) 15.80 (-2)

Comment:

S E C R E T

MG NOON REPORT

FINANCIAL MARKETS — Tuesday 29 March 1988

Previous Close	Opening	10 AM		NOON
77.1	77.6	77.6	£ERI	77.6
1.8540	1.8675	1.8655	$/£	1.8630
3.0860	3.1029	3.1036	DM/£	3.1038
1.6645	1.6615	1.6637	DM/$	1.6660
124.36	124.37	124.65	Yen/$	125.00

Oil Price (11 AM)

Apr	$15.62
May	$15.75
June	$15.82

UK interbank £			Eurodollars	
8 1/2	(-)	7 day	6 3/4	(-)
8 11/16	(+3/32)	1 month	6 3/4	(-)
8 3/4	(-)	3 month	6 13/16	(-)
9 1/4	(-)	12 month	7 7/16	(-1/8)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar continued to fall in New York on fears that Japanese Life Assurance companies would sell dollars and a weak US stock exchange. It firmed in the Far East on profit taking and has firmed here during the morning. Sterling firmed in New York and the Far East as a result of the Governor's TCSC evidence. During this morning it has continued to firm on rumours of the Chancellor's possible resignation, which has since been denied. Markets are very active underpinned by US intervention. Japanese officials also reported to have said G7 remains committed to exchange rate stability.

!

The US, Japanese and Hong Kong equity markets closed higher. Dow Jones 1979.8 +0.8, Nikkei 25953 +330 and Hang Seng 2521.61 +54.83. The FTSE100 opened at 1757.1 +0.6 and at 12.04 was 1756.5 +10.
The gilt market continues quietly.

RJMcRobbie

MARKET INTERVENTION ($m)

Overnight	-
Today so far	-
Total	-

OTHER COUNTRIES INTERVENTION ($m)

Japan +17$
United States +120$ agst Yen (28.03)
Canada +430$ (28.03)
" +25$ agst yen (28.03)

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	+3/32
Mediums	Steady	+3/32
Longs	Better	+3/32
Futures (Long Contracts)		+6/32 (Vol:5670)

Gilt Sales since market opening

£0 million

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

S E C R E T

CHANCELLOR OF THE EXCHEQUER
HONI SOIT QUI MAL Y PENSE

Rey

Thanks.

Ch

Sir D Nickson rung

(1) He is speaking @ ABI tonight & will send us copy of press release

(2) He has spoken to James Clemenson, who will approach Lord Young when he gets back from Tokyo

(3) Both Denys Henderson & John Egan are abroad @ the moment: he will speak to Denys Henderson on Sunday night or Monday morning. I asked for blind copy of letter.

AA

mjd 1/129A

SECRET

FROM: A C S ALLAN
DATE: 30 March 1988

MR SCHOLAR

cc Sir P Middleton
Sir T Burns
Sir G Littler
Mr Peretz

MARKETS

This is to record two conversations the Chancellor had today on intervention etc.

2. The first was a brief word with you this morning. He expressed concern about the rise in sterling overnight; he would much rather avoid getting pushed to the level where we would need an interest rate cut, and felt we were already into the territory were we might need to intervene. You noted that the conclusion of Sir P Middleton's monthly monetary meeting yesterday had been that we should intervene fairly heavily if the rate approached DM3.15. The Chancellor thought we should start doing some intervention - perhaps up to $100 million - if the rate moved firmly through 3.11DM again; this should be done noisily, so that it had maximum impact in dampening the upward movement; it was important to choose the best time to get maximum tactical advantage.

3. After his TCSC appearance, the Chancellor spoke to you on the phone, and subsequently to Mr George as well, with you listening in. You said that Reuters had reported that the Chancellor had said that the recent sterling appreciation was part of our fight against inflation. This had pushed the rate rapidly over DM3.12, after London had closed. Mr George said he was standing by to intervene as soon as London opened the following morning, since he believed that would be the most effective. The Chancellor expressed some concern about the rate being allowed to move too high in New York, and it was agreed that Mr George would keep in

close touch about movements in the rate in New York and would if necessary be ready to intervene if it started to move up strongly again. But he would plan to do a more substantial operation - at least $100 million and perhaps up to $200 million - as London opened tomorrow.

ACSA

A C S ALLAN

mjd 1/129A

SECRET

FROM: A C S ALLAN

DATE: 30 March 1988

Mr Peretz

cc as before (this page only)

MR SCHOLAR

And I have subsequently agreed with Mr Allan that the Bank may have discretion to spend what remains of this maximum $200m (i.e $150m) over the weekend if the rate starts moving up again in circumstances in which further intervention seems likely to be productive. I have told Mr George.

MCS 31/3

cc Sir P Middleton
Sir T Burns
Sir G Littler
Mr Peretz

MARKETS

This is to record two conversations the Chancellor had today on intervention etc.

2. The first was a brief word with you this morning. He expressed concern about the rise in sterling overnight; he would much rather avoid getting pushed to the level where we would need an interest rate cut, and felt we were already into the territory were we might need to intervene. You noted that the conclusion of Sir P Middleton's monthly monetary meeting yesterday had been that we should intervene fairly heavily if the rate approached DM3.15. The Chancellor thought we should start doing some intervention - perhaps up to $100 million - if the rate moved firmly through 3.11DM again; this should be done noisily, so that it had maximum impact in dampening the upward movement; it was important to choose the best time to get maximum tactical advantage.

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4/38

30/3/88.

9.0am MARKET REPORT

	£ERI	$/£	DM/$	DM/£	Yen/$	Yen/£
NEW YORK CLOSE		1.8660	1.6690	3.1144	125.20	233.62
LONDON (8.30am)	77.6	1.8625	1.6685	3.1076	125.45	233.40
9.00am	77.6	1.8612	1.6700	3.1082		

	opening	change from previous close
3 month interbank rates	8 3/4	—
3 month eurodollar rates	6 7/8	—
1 Month interbank	8 19/32	+1/32

Intervention:

Fed last night was 50 not 40 } cf last night's report
Japan 50 instead of 17
Japan + 20 in F East

Comment:

Oil 15.65 (+13)
15.77 (+12)
15.87 (+20)

SECRET

MG NOON REPORT

FINANCIAL MARKETS — Wednesday 30 March 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
77.7	77.6	77.6	£ERI	77.6		
1.8697	1.8625	1.8612	$/£	1.8623	Apr	$15.75
3.1084	3.1076	3.1076	DM/£	3.1082	May	$15.80
1.6625	1.6685	1.6697	DM/$	1.6690	June	$15.85
124.47	125.45	125.35	Yen/$	125.25		

UK interbank £			Eurodollars	
8 5/16	(-3/16)	7 day	6 11/16	(-1/8)
8 17/32	(-1/32)	1 month	6 3/4	(-)
8 13/16	(+3/64)	3 month	6 7/8	(-)
9 3/16	(-1/16)	12 month	7 1/2	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: Dollar rose in New York after concerted intervention by FED and BOJ. It continued to firm in Far East and reached DM1.6725 and Y125.85 before easing on profit taking towards the close. Today it remains steady against DM but has eased against Yen. Sterling firmed overnight with the dollar and is also steady as markets await the Chancellor's TCSC evidence this afternoon. The US, Japanese and Hong Kong equity markets closed higher. Dow Jones 1998.3 +18.6, Nikkei 26320 +367 and the Hang Seng 2528.9 +7.3. The FTSE100 opened at 1772.8 +7.7 and at 12.04 was 1766.8 +1.7. The Gilt market is quietly firm. R McRobbie

MARKET INTERVENTION ($m)

Overnight	-
Today so far	-
Total	-

OTHER COUNTRIES INTERVENTION ($m)

Japan +50$ (New York 29.03)
" +20$ (Far East)
US +50$ agst Yen (29.03)
Canada +43$ (29.03)

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	+3/32
Mediums	Easier	+5/32
Longs	Steady	+10/32
Futures (Long Contracts)		+10/32 (Vol:6884)

Gilt Sales since market opening

£0 million

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

SECRET

DATE:

9.0am MARKET REPORT

	£ERI	$/£	DM/$	DM/£	Yen/$	Yen/£
NEW YORK CLOSE		1.8895	1.6525	3.1224	124.12	234.52
LONDON (8.30am)	78.2	1.8840	1.6575	3.1227	124.37	234.44
9.00am	78.2	1.8840	1.6595	3.1265		

	opening	change from previous close
3 month interbank rates	$8\frac{9}{16}$	–
3 month eurodollar rates	$7\frac{1}{16}$	+ ¼
1 month interbank	$8\frac{1}{2}$	–

Intervention:

Oil: 15.72 (–) 15.70 (+3) 15.67 (–)

Friday: Japan +153 Canada +186

Comment: Monday: Japan +118

MG NOON REPORT

FINANCIAL MARKETS — Tuesday 5 April 1988

Previous Close	Opening	10 AM		NOON
78.1	78.2	78.3	£ERI	78.3
1.8845	1.8840	1.8865	$/£	1.8868
3.1249	3.1227	3.1297	DM/£	3.1296
1.6582	1.6575	1.6590	DM/$	1.6587
124.12	124.37	124.55	Yen/$	124.50

Oil Price (11 AM)	
Apr	$15.70
May	$15.65
June	$15.65

UK interbank £			Eurodollars	
8 1/2	(+1/4)	7 day	6 5/8	(-1/8)
8 9/16	(+1/16)	1 month	6 11/16	(-1/16)
8 9/16	(+9/32)	3 month	6 13/16	(-)
9 1/16	(-1/16)	12 month	7 1/2	(-)

Figures in brackets show change since Thursdays noon report

MARKET COMMENT: Market quiet on Friday. The dollar opened weak on Monday as a result of weak unemployment data published on Friday. This caused market to fear an US overheated economy. It later firmed slightly in the Far East on a rumour of Central Bank Intervention. It has firmed again here but failed to breach DM1.66. Sterling is strong with good demand from Eastern Europe. The US and Japanese equity markets closed lower. Hong Kong on Holiday. Dow Jones 1980.6 -7.5 and Nikkei 26315 -21.0. The FTSE100 opened at 1734.4 -8.1 and at 12.10 was 1725.5 -17.0. The conventional gilt market is slightly weaker, but Index linked has improved on some demand.

RJMcRobbie

MARKET INTERVENTION ($m)

Overnight	-
Today so far	-
Total	-

OTHER COUNTRIES INTERVENTION ($m)

Japan +153$ (01.04)
Japan +118$ (04.04)
Canada +186$ (31.03)

GILTS

	Latest market movements	Price change since previous close
Shorts	Better	-3/32
Mediums	Better	-2/32
Longs	Steady	-6/32
Futures (Long Contracts)		-6/32 (Vol:3928)

Gilt Sales since market opening

£0 million

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

MG NOON REPORT

FINANCIAL MARKETS — Wednesday 6 April 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
78.3	78.4	78.3	£ERI	78.3		
1.8802	1.8800	1.8797	$/£	1.8802	Apr	$15.52
3.1362	3.1381	3.1357	DM/£	3.1356	May	$15.52
1.6680	1.6692	1.6682	DM/$	1.6677	June	$15.55
125.12	125.05	125.00	Yen/$	125.02		

UK interbank £			Eurodollars	
8 7/16	(-1/16)	7 day	6 13/16	(-)
8 17/32	(-1/32)	1 month	6 7/8	(-)
8 9/16	(-)	3 month	7	(-)
9 1/16	(-)	12 month	7 5/8	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: Sterling continued to firm in New York and reached a high of DM3.14. The FED intervened on behalf of the Bank and sterling eased slightly towards the close and remained little changed in the Far East. It opened here firm but eased slightly after further Bank intervention. It remains steady on rumours of a possible base rate cut. The Reserves published at 11.30 had little lasting effect. The dollar eased in the Far East on profit taking and has continued to do so during this morning. The US, Japanese and Hong kong equity markets closed higher. Dow Jones 1997.5 +16.9, Nikkei 26511 +196 and Hong Seng 2556.6 +12.6. The FTSE100 opened at 1748.7 +11.1 and at 12.10 was 1754.3 +16.7. The gilt market continues to be steady and quiet.

R McRobbie

MARKET INTERVENTION ($m) — OTHER COUNTRIES INTERVENTION ($m)

Overnight	+105$	New York
Today so far	+50$	
Total	+155$	

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	+2/32
Mediums	Steady	+3/32
Longs	Steady	+2/32
Futures (Long Contracts)		0 (Vol:4916)

Gilt Sales since market opening: +£6.8 million

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

psl/7A

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

7 April 1988

Sir Nicholas Goodison
Chairman
Stock Exchange
LONDON EC2N 1HP

Dear Sir Nicholas

EUROPE 1992

The Chancellor was most grateful to you for your letter of 28 March, about the Sub-Committee on Europe 1992 you have set up. I have passed copies of the Terms of Reference on to the relevant officials in the Treasury.

Yours sincerely

Alex Allan

A C S ALLAN
Principal Private Secretary

SECRET

MG NOON REPORT

FINANCIAL MARKETS Thursday 7 April 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
78.2	78.2	78.2	£ERI	78.1		
1.8785	1.8700	1.8690	$/£	1.8643	Apr	$15.50
3.1318	3.1369	3.1358	DM/£	3.1339	May	$15.55
1.6672	1.6775	1.6778	DM/$	1.6810	June	$15.60
124.87	125.65	125.80	Yen/$	125.95		

UK interbank £			Eurodollars	
8 3/16	(-3/16)	7 day	6 7/8	(-)
8 13/32	(-1/8)	1 month	6 15/16	(-)
8 35/64	(-1/64)	3 month	7 1/16	(+1/16)
9 1/16	(-)	12 month	7 5/8	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar firmed in New York on a Japanese news report that the G7 meeting next week would base the dollar floor at Y125. It reached highs of Y126.25 and DM1.681 as a result. Later a German denial of G7 story caused it to ease. It continued to ease in the Far east on profit taking, but has firmed this morning. Sterling eased overnight on the firmer dollar. This morning it has continued to ease mainly on East European selling. The US, Japanese and Hong Kong equity markets closed higher. Dow Jones 2061.7 +64.2, Nikkei 26769 +258 and Hang Seng 2623.1 +66.5. The FTSE100 opened at 1764.2 +19.2 and at 12.10 was 1767.0 +22.0. The gilt market is very quiet.

RJ McRobbie

MARKET INTERVENTION ($m) OTHER COUNTRIES INTERVENTION ($m)

Overnight -

Today so far -

Total -

GILTS

	Latest market movements	Price change since previous close	Gilt Sales since market opening
			-£3.4 million
Shorts	Steady	0	Inded Linked
Mediums	Steady	-3/32	purchases
Longs	Better	-5/32	
Futures (Long Contracts)		0 (Vol:8525)	

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

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MG NOON REPORT

FINANCIAL MARKETS — Friday 8 April 1988

Previous Close	Opening	10 AM		NOON	12.40	Oil Price (11 AM)	
78.1	78.3	78.4	£ERI	78.4			
1.8675	1.8775	1.8782	$/£	1.8758	1.8695	Apr	$15.65
3.1331	3.1386	3.1407	DM/£	3.1407	3.1314	May	$15.70
1.6777	1.6717	1.6722	DM/$	1.6743	1.6753	June	$15.75
125.77	125.20	125.31	Yen/$	125.60	125.57		

12.50	UK interbank £			Eurodollars	
–	8 3/8	(-)	7 day	6 7/8	(-)
8 1/8	8 15/32	(-1/32)	1 month	6 15/16	(-)
8 9/32	8 17/32	(-1/32)	3 month	7 1/16	(-)
8 29/32	9 1/16	(+1/32)	12 month	7 5/8	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: Sterling firmed in New York and the Far East on corporate demand, reaching a high of DM3.145. It has continued firm this morning on yet more corporate demand. At 12.05 the Bank announced its intention of cutting its lending rate by 1/2%, sterling has fallen 1/2 pfennig so far.
The dollar eased in the Far East on a quote by a US official in the NY Times that the G7 range for the dollar would be Y120 - Y130. BOJ intervention steadied the fall. It remained steady here.
The US equity market closed higher with Japanese and Hong Kong markets closing lower. Dow Jones 2062.2 +0.5, Nikkei 26749 -20 and Hang Seng 2619.9 -3.2. The FTSE100 opened at 1758.1 -2.9 and at 12.10 was 1771.6 +10.6. (12.50 +11.7)
The gilt market was slightly firmer this morning continuing last nights late trend. It has fallen back since the Bank cut lending rates. RMcRobbie

MARKET INTERVENTION ($m)

Overnight –

Today so far –

Total –

OTHER COUNTRIES INTERVENTION ($m)

Japan +20$

GILTS

	Latest market movements	Price change since previous close	12.50
Shorts	Steady	+3/32	+ 4/32
Mediums	Steady	+4/32	+ 8/32
Longs	Steady	+1/32	-12/32
Futures (Long Contracts)		+3/32	(Vol:6818)

Gilt Sales since market opening: +£3.3 million

NAME: Miss R J McRobbie, MG1 Division

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MG NOON REPORT

FINANCIAL MARKETS — Monday 11 April 1988

Previous Close	Opening	10 AM		NOON
78.3	77.3	78.1	£ERI	78.0
1.8730	1.8705	1.8642	$/£	1.8587
3.1363	3.1396	3.1341	DM/£	3.1295
1.6745	1.6785	1.6812	DM/$	1.6837
125.72	125.70	126.35	Yen/$	126.70

Oil Price (11 AM)

May	$16.50
June	$16.55
July	$16.55

UK interbank £			Eurodollars	
7 15/16	(-1/16)	7 day	6 7/8	(-)
8	(-3/32)	1 month	6 15/16	(-)
8 1/8	(-3/32)	3 month	7 1/16	(-)
8 13/16	(-1/8)	12 month	7 11/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT:Markets were generally quiet in New York and the Far East The dollar opened firm on Far East demand and has continued to firm throughout the morning.Sterling opened easier this morning and has continued to ease on profit taking and as a result of the weaker oil price.The Indonesian Oil Minister (Subroto)is reported to have said that OPEC would not cut production.The oil price weakened as a result. US,Japanese and Hong Kong equity markets closed higher.Dow Jones 2090.2 +28.0,Nikkei 26925 +176 and Hang Seng 2651.0 +31.1.The FTSE100 opened at 1797.7 +18.0 and at 12.07 was 1805.0 +25.3.
The gilt market has failed to hold its best opening levels. RM McRobbie

MARKET INTERVENTION ($m)

Overnight -

Today so far -

Total -

OTHER COUNTRIES INTERVENTION ($m)
CANADA -20$(8.4)

GILTS

	Latest market movements	Price change since previous close
Shorts	Easier	+1/32
Mediums	Easier	+1/32
Longs	Easier	+4/32
Futures (Long Contracts)		+4/32 (Vol:9023)

Gilt Sales since market opening
-£20.9 million
Purchases of Penny Stocks

NAME: Miss R J McRobbie, MG1 Division
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MG NOON REPORT

FINANCIAL MARKETS

Wednesday 13 April 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
77.7	77.6	77.6	£ERI	77.6		
1.8522	1.8475	1.8443	$/£	1.8442	May	$16.52
3.1228	3.1217	3.1202	DM/£	3.1217	June	$16.57
1.6860	1.6897	1.6918	DM/$	1.6927	July	$16.57
126.40	126.40	126.85	Yen/$	126.83		

UK interbank £			Eurodollars	
8	(+1/16)	7 day	6 13/16	(-)
8 1/32	(+1/32)	1 month	6 7/8	(-)
8 1/4	(-)	3 month	7	(-)
8 7/8	(-1/32)	12 month	7 9/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar firmed in New York on pre G7 book squaring. Balladur said that improvement and perfection of the Louvre agreement will be urged at Washington G7. It remained firm in Far East reaching a high of Y127. The dollar continued to firm this morning on pre G7 short covering. Sterling is easier on the dollar and steady on the Mark. The US, Japanese and Hong Kong equity markets closed higher. Dow Jones 2110.1 +14.1, Nikkei 26986 +55 and Hang Seng 2671.2 +35.3. The FTSE100 opened at 1816.1 +10.8 and at 12.10 was 1814.5 +9.2. The Gilt market is very quiet and a shade firmer.

RJ McRobbie

MARKET INTERVENTION ($m)

Overnight -

Today so far -

Total -

OTHER COUNTRIES INTERVENTION ($m)

Canada +155$ (13.4.88)

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	-1/32
Mediums	Steady	+3/32
Longs	Better	+4/32
Futures (Long Contracts)		+5/32 (VOL:5281)

Gilt Sales since market opening

£0 million

NAME: Miss R J McRobbie, MG1 Division
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MG NOON REPORT

FINANCIAL MARKETS — Thursday 14 April 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
77.5	77.4	77.4	£ERI	77.4		
1.8452	1.8430	1.8407	$/£	1.8427	May	$16.70
3.1165	3.1156	3.1145	DM/£	3.1173	June	$16.75
1.6890	1.6905	1.6920	DM/$	1.6917	July	$16.72
126.17	126.20	126.30	Yen/$	126.17		

UK interbank £			Eurodollars	
8	(-)	7 day	6 3/4	(-1/16)
8	(-)	1 month	6 7/8	(-)
8 1/4	(-)	3 month	7	(-)
8 15/16	(+1/16)	12 month	7 9/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar firmed in a quiet New York on short covering prior to the trade figures today. It eased slightly in the Far East, but remains fairly steady here this morning. G7 communique had little impact on the markets. Sterling is on the sidelines.
The US equity market closed lower with Japanese and Hong Kong markets closing higher. Dow Jones 2107.1 -3.0, Nikkei 27111 +125 and Hang Seng 2684.1 +12.9. The FTSE100 opened at 1821.1 +10.7 and at 12.10 was 1824.9 +14.5
The gilt market opened easier this morning and has been quiet before the US trade figures. There was good 2-way business in index linked and sales of 2011 tranchette issued yesterday were made.

R McRobbie

MARKET INTERVENTION ($m)

Overnight	-
Today so far	-
Total	-

OTHER COUNTRIES INTERVENTION ($m)

Canada +54$ (12.04)
" +12DM "

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	-4/32
Mediums	Steady	-7/32
Longs	Better	-4/32
Futures (Long Contracts)		-5/32 (Vol:5709)

Gilt Sales since market opening

£0 million

NAME: Miss R J McRobbie, MG1 Division
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MG NOON REPORT

FINANCIAL MARKETS — Monday 18 April 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
78.3	78.5	78.6	£ERI	78.6		
1.8880	1.8935	1.8962	$/£	1.8944	May	$17.30
3.1350	3.1398	3.1430	DM/£	3.1485	June	$17.35
1.6605	1.6582	1.6575	DM/$	1.6620	July	$17.30
123.75	123.75	123.96	Yen/$	124.27		

UK interbank £			Eurodollars	
8 1/8	(-)	7 day	6 7/8	(+1/16)
8	(-1/32)	1 month	7	(+1/16)
7 31/32	(-5/32)	3 month	7 1/8	(-)
8 11/16	(-1/8)	12 month	7 3/4	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar firmed slightly in New York on pre-weekend short covering, but eased again in the Far East despite some proffesional buying. It was steady here during the early morning, but firmed on stories of and Iranian attack on an Oil Rig in Gulf. Sterling remains firm and in demand. Markets looking for possible interest rate cut.
The US equity market closed higher with Japanese and Hong Kong markets closing lower. Dow Jones 2013.9 +8.3, Nikkei 26671 -222 and Hang Seng 2552.0 -47.0. The FTSE100 opened at 1794.6 +16.0 and at 12.10 was 1801.4 +22.8
The gilt market is quiet.

R McRobbie

MARKET INTERVENTION ($m)

Overnight	-
Today so far	-
Total	-

OTHER COUNTRIES INTERVENTION ($m)

Japan +40$

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	+4/32
Mediums	Steady	+6/32
Longs	Better	+9/32
Futures (Long Contracts)		+6/32 (Vol:6738)

Gilt Sales since market opening

+£12.0 million

NAME: Miss R J McRobbie, MG1 Division
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MG NOON REPORT

FINANCIAL MARKETS — Tuesday 19 April 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
78.7	78.7	78.7	£ERI	78.6		
1.8967	1.8920	1.8935	$/£	1.8925	May	$17.27
3.1495	3.1478	3.1474	DM/£	3.1472	June	$17.27
1.6605	1.6620	1.6622	DM/$	1.6630	July	$17.22
124.17	124.40	124.45	Yen/$	124.40		

UK interbank £			Eurodollars	
8 1/4	(+1/16)	7 day	7	(+1/8)
8	(-)	1 month	7 1/16	(-)
7 15/16	(-1/32)	3 month	7 1/4	(+1/16)
8 21/32	(-)	12 month	7 13/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: Sterling continued to firm in New York, but eased back slightly in the Far East on short covering. It remains steady here this this morning. The dollar firmed in the Far East on short covering as a result of Middle east tension. It also remains firm this morning.
The US and Japanese equity markets closed lower with the Hong Kong markets closing higher. Dow Jones 2008.12 -5.81, Nikkei 26657 -14.45, and Hang Seng 2598.93 +41.97. The FTSE100 opened at 1792.0 +4.2 and at 12.04 it was 1791 +3.2.
The gilt market was quietly steady around opening levels. Index Linked 1992 tranchette has been exhausted and further sales of the Index Linked 11 tranchette has been made.

R McRobbie

MARKET INTERVENTION ($m) — OTHER COUNTRIES INTERVENTION ($m)

Overnight	+86$	New York
Today so far	+70$	
Total	+156$	

GILTS

	Latest market movements	Price change since previous close	Gilt Sales since market opening
			+£56.2 million
Shorts	Easier	0	
Mediums	Easier	-2/32	Index Linked
Longs	Better	-7/32	
Futures (Long Contracts)		-4/32 (Vol:5099)	

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

MG NOON REPORT

FINANCIAL MARKETS — Wednesday 20 April 1988

Previous Close	Opening	10 AM		NOON
78.6	78.7	78.6	£ERI	78.6
1.8927	1.8955	1.8942	$/£	1.8949
3.1470	3.1484	3.1466	DM/£	3.1507
1.6627	1.6610	1.6612	DM/$	1.6627
124.15	123.90	123.85	Yen/$	123.92

Oil Price (11 AM)

May	$16.87
June	$16.92
July	$16.87

UK interbank £			Eurodollars	
8 7/16	(+3/16)	7 day	7	(+1/16)
8 3/32	(+3/32)	1 month	7 1/8	(+1/16)
8 1/16	(+1/32)	3 month	7 1/4	(-)
8 3/4	(+1/8)	12 month	7 13/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar firmed slightly in New York on Middle East tensions, but eased back in the Far East in quiet markets. Since opening it has firmed as markets await the US Consumer Price Index out at 1.30pm (markets expect +0.4%). Sterling firmed in New York but, eased in the Far East, but has firmed against the DM since opening.
The US and Hong Kong equity markets closed lower the Japanese closing higher. Dow Jones 1999.5 -8.6, Hang Seng 2578.4 -15.5 and Nikkei 26864 +207. The FTSE100 opened at 1798.0 -0.9 at 12.10 it was 1794.2 -4.7.
The gilt market opened easier this morning and has remained steady all morning.

R McRobbie

MARKET INTERVENTION ($m)

Overnight -

Today so far -

Total -

OTHER COUNTRIES INTERVENTION ($m)

Japan +82$
Canada +116$ (19.04)

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	-3/32
Mediums	Steady	-4/32
Longs	Steady	-6/32
Futures (Long Contracts)		-8/32 (Vol:6950)

Gilt Sales since market opening

£0 million

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

1/-

MG NOON REPORT

FINANCIAL MARKETS — Thursday 21 April 1988

Previous Close	Opening	10 AM		NOON
78.6	78.5	78.5	£ERI	78.7
1.8932	1.8860	1.8870	$/£	1.8920
3.1488	3.1477	3.1475	DM/£	3.1540
1.6632	1.6690	1.6680	DM/$	1.6670
124.00	124.35	124.25	Yen/$	124.25

Oil Price (11 AM)	
May	$17.00
June	$17.05
July	$17.05

UK interbank £			Eurodollars	
8 7/16	(-)	7 day	7	(-)
8 5/32	(+1/16)	1 month	7 1/8	(-)
8 3/16	(+3/32)	3 month	7 1/4	(-)
8 7/8	(+1/8)	12 month	7 13/16	(-1/16)

Figures in brackets show change since previous market close

MARKET COMMENT:The dollar firmed in late New York trading as a result of short covering.It was little changed in the Far East and opened here steady,remaining so during the morning.Sterling eased in the Far East on profit taking and was little changed during early morning. Worse than expected money figures at 11.30 have caused sterling to rise sharply. The US, Japanese and Hong Kong equity markets closed lower. Dow Jones 1985.4 -14.1,Nikkei 28828 -35.9 and Hang Seng 2552.7 -25.7.The FTSE100 opened at 1780.0 -6.8 and at 12.05 was 1783.3 -3.5.
The gilt market opened a little easier and traded quietly until the release of the money numbers following which longs have lost a further 1/4.

R McRobbie

MARKET INTERVENTION ($m)	
Overnight	-
Today so far	+60$ (all since 11.30)
Total	+60$

OTHER COUNTRIES INTERVENTION ($m)

Canada +191$ (20.04)

GILTS

	Latest market movements	Price change since previous close
Shorts	Easier	-6/32
Mediums	Easier	-11/32
Longs	Easier	-10/32
Futures (Long Contracts)		-10/32 (Vol:13075)

Gilt Sales since market opening

£0 million

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

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MG NOON REPORT

FINANCIAL MARKETS — Friday 22 april 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
78.8	78.8	78.7	£ERI	78.6		
1.8962	1.8940	1.8915	$/£	1.8878	May	$17.22
3.1572	3.1611	3.1598	DM/£	3.1558	June	$17.30
1.6650	1.6690	1.6705	DM/$	1.6717	July	$17.25
124.13	124.65	124.75	Yen/$	124.67		

UK interbank £			Eurodollars	
8 3/8	(-1/16)	7 day	6 15/16	(-1/16)
8 7/32	(+1/16)	1 month	7 1/16	(-1/16)
8 5/16	(+3/16)	3 month	7 1/4	(-)
8 7/8	(+1/8)	12 month	7 13/16	(-1/16)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar firmed in late New York trading as a result of short covering. It continued to firm in the Far East on news reports that the US would be sending more war ships to the Gulf and that a clash had taken place between North and South Korea. It is generally steady this morning. Sterling eased in the Far East and London on profit taking. The US, Japanese and Hong Kong equity markets closed higher. Dow Jones 1987.4 +2.0, Nikkei 26837 +9.0 and Hang Seng 2591.3 +38.6. The FTSE100 opened at 1789.3 -2.6 and at 12.05 was 1773.7 -18.2. The gilt market opened slightly easier this morning and fell further as first reactions to yesterdays figures were revised and also as sterling eased.

RMcRobbie

MARKET INTERVENTION ($m)

Overnight	-
Today so far	-
Total	-

OTHER COUNTRIES INTERVENTION ($m)

GILTS

	Latest market movements	Price change since previous close
Shorts	Better	-11/32
Mediums	Easier	-25/32
Longs	Steady	-25/32
Futures (Long Contracts)		-21/32 (Vol:16005)

Gilt Sales since market opening

-£4.5 million

Index Linked

NAME: Miss R J McRobbie, MG1 Division
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S E C R E T

MG NOON REPORT

FINANCIAL MARKETS Monday 25 April 1988

Previous Close	Opening	10 AM		NOON
78.7	78.4	78.5	£ERI	78.4
1.8887	1.8795	1.8825	$/£	1.8817
3.1589	3.1485	3.1513	DM/£	3.1500
1.6725	1.6752	1.6740	DM/$	1.8817
124.75	125.00	124.45	Yen/$	124.70

Oil Price (11 AM)	
May	$17.12
June	$17.20
July	$17.20

UK interbank £			Eurodollars	
8 1/8	(-)	7 day	6 7/8	(-)
8 5/32	(-1/32)	1 month	7 1/16	(-1/16)
8 7/16	(+3/32)	3 month	7 3/16	(-1/16)
9	(+1/16)	12 month	7 13/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: The dollar firmed in New York on pre-weekend short covering. It continued to firm in the Far East as the result of a comment by Poehl that a further decline in the dollar would be counter productive, and on news of renewed middle east conflict. It is slightly easier this morning. Sterling eased in the Far East as a result of the Chancellor's TV interview(This week next week)in which he said that higher sterling rate would be damaging to industry and gains in sterling are unsustainable. It is steady here this morning.
The US, Japanese and Hong Kong equity markets closed higher. Dow Jones 2015.1 +27.7, Nikkei 27213.5 +155.1 and Hang Seng 2623.7 +32.4. FTSE100 opened at 17777.9 +6.3 and at 12.05 was 1773.6 +2.0.
The gilt market is now trading easier.

R McRobbie

MARKET INTERVENTION ($m)

Overnight -

Today so far -

Total -

OTHER COUNTRIES INTERVENTION ($m)

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	-5/32
Mediums	Steady	-11/32
Longs	Easier	-12/32
Futures (Long Contracts)		-7/32 (Vol:13125)

Gilt Sales since market opening

-£15.8 million Index Linked & Conventionals

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

S E C R E T

SECRET

MG NOON REPORT

FINANCIAL MARKETS Tuesday 26 April 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)	
78.2	78.1	78.2	£ERI	78.3		
1.8740	1.8750	1.8767	$/£	1.8789	May	$17.12
3.1431	3.1373	3.1382	DM/£	3.1425	June	$17.22
1.6772	1.6732	1.6722	DM/$	1.6725	July	$17.25
124.72	124.55	124.35	Yen/$	124.46		

UK interbank £			Eurodollars	
7 3/4	(-1/4)	7 day	6 7/8	(-)
8 1/32	(-1/8)	1 month	7 1/16	(+1/16)
8 5/16	(-1/8)	3 month	7 1/4	(+1/16)
9 1/16	(+1/8)	12 month	7 13/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT: Sterling eased in New York on continued reaction to the Chancellors interview at the weekend. It firmed slightly in the Far East on profit taking, and has continued to firm this morning on some middle east demand. The dollar is slightly easier ahead of US Q1 GNP figures at 1.30pm (markets expecting +2.3 GNP and +3.0 for GNP deflator).
The US and Japanese equity markets closed higher with Hong Kong market closing lower. Dow Jones 2237.3 +22.2, Nikkei 27247 +33 and Hang Seng 2586.0 -37.8. The FTSE100 opened at 1786.0 +8.4 and at 12.05 it was 1790.5 +12.9.
In the gilt market conventionals opened slightly firmer and has maintained these levels in quiet trading. Index linked have seen some interest and improved by around a point.

R McRobbie

MARKET INTERVENTION ($m) OTHER COUNTRIES INTERVENTION ($m)

Overnight	-
Today so far	+20$
Total	+20$

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	+1/32
Mediums	Steady	+2/32
Longs	Steady	+3/32
Futures (Long Contracts)		+10/32 (Vol:9796)

Gilt Sales since market opening

+£7.8 million

mixed

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

SECRET

MG NOON REPORT

FINANCIAL MARKETS

Wednesday 27 April 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)
78.2	78.2	78.2	£ERI	78.2	
1.8755	1.8740	1.8737	$/£	1.8718	May $17.27
3.1415	3.1421	3.1437	DM/£	3.1428	Jun $17.40
1.6750	1.6767	1.6778	DM/$	1.6790	Jul $17.40
124.72	124.97	125.15	Yen/$	125.15	

UK interbank £			Eurodollars	
7 1/2	(-1/4)	7 day	6 7/8	(+1/16)
7 31/32	(-)	1 month	7 1/16	(+1/16)
8 5/16	(-1/16)	3 month	7 3/16	(-)
9 3/32	(-1/32)	12 month	7 3/4	(-)

Figures in brackets show change since previous market close

MARKET COMMENT The dollar firmed in New York on some technical demand and began here steadily but has tended to firm this morning on chart trading in very quiet markets. Sterling was carried firmer in New York on the back of the firmer dollar but lost its gains in the Far East on profit taking. Today it has traded steadily in a narrow range. The US and Hong Kong equity markets closed higher with the Japanese market closing lower. The Dow Jones closed at 2044.8 (+7.5), the Hang closed 2592.0 (+6.1) and the Nikkei closed 27192 (-55). The FTSE 100 opened at 1808.1 (+7.3) and at 12.10PM it was 1812.0(+11.2). The conventional gilt market remains quiet with continuing interest in index linked stock.

Ian Polin

MARKET INTERVENTION ($m)

Overnight -

Today so far -

Total -

OTHER COUNTRIES INTERVENTION ($m)

CANADA +70$ (on 26.4)

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	+3/32
Mediums	Steady	+2/32
Longs	Steady	0
Futures (Long Contracts)		+2/32 (VOL:6303)

Gilt Sales since market opening

£0 million

NAME: I.C.Polin, MG1 Division
TEL NOS: 270 5556/5560

mjd6/8

MORNING REPORT DATE: 27/4

	£ERI	$/£	DM/$	DM/£	Y/$
NY close	—	1.8760	1.6765	3.1451	125.02
London open	78.2	1.8740	1.6767	3.1421	124.97
9.00 am	78.3	1.8750	1.6765	3.1434	124.97

	level	change
3 month Eurodollar	7 3/16	-1/16
3 month interbank	8 5/16	-1/16
1 month interbank	8	+1/32

Oil:		
	17.27	+12
	17.87	+15
	17.37	+12

Intervention:

UK: —

Others: Canada +70

SECRET

MG NOON REPORT

FINANCIAL MARKETS — Thursday 28 April 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)
78.2	78.3	78.3	£ERI	78.1	
1.8715	1.8770	1.8772	$/£	1.8753	May $17.22
3.1417	3.1406	3.1409	DM/£	3.1368	Jun $17.30
1.6787	1.6732	1.6732	DM/$	1.6727	Jul $17.30
125.27	124.82	124.80	Yen/$	124.80	

UK interbank £			Eurodollars	
7 1/4	(-1/4)	7 day	6 7/8	(+1/16)
7 15/16	(-1/16)	1 month	7	(-)
8 3/8	(+1/16)	3 month	7 3/16	(+1/16)
9 3/16	(+1/16)	12 month	7 13/16	(+1/16)

Figures in brackets show change since previous market close

MARKET COMMENT The foreign exchange markets are very quiet. The dollar eased in New York on technical selling but recovered most of its losses in the Far East. Far East markets now begin series of holidays called "Golden Week". The dollar has hardly moved today in featureless markets. Sterling has been steady today until last hour when it has slipped back against the Mark. The US and Japanese equity markets closed higher with Hong Kong closing lower. The Dow Jones closed 2047.9 (+3.2), the Nikkei closed 27434 (+242) and the Hang closed 2588.1 (-3.9). The FTSE 100 opened 1796.0 (-10.7) and at 12.10PM was 1807.5 (+0.8). Gilts have been a nervous market on rumours of poor UK trade figures tomorrow. The market is presently barely steady at levels for the long end which are 1/2 point below yesterdays close.

Ian Polin

MARKET INTERVENTION ($m)		OTHER COUNTRIES INTERVENTION ($m)
Overnight	-	CANADA +128$ (on 27.4)
Today so far	-	
Total	-	

GILTS

	Latest market movements	Price change since previous close	Gilt Sales since market opening
			-£3.5 million All conventionals.
Shorts	Steady	-5/32	
Mediums	Steady	-11/32	
Longs	Easier	-15/32	
Futures (Long Contracts)		-14/32 (VOL:15016)	

NAME: I.C.Polin. MG1 Division

mjd6/8

MORNING REPORT DATE: 28 April

	£ERI	$/£	DM/$	DM/£	Y/$
NY close		1.8737	1.6747	3.1379	124.87
London open	78.3	1.8775	1.6725	3.1401	124.82
9.00 am	78.3	1.8770	1.6730	3.1414	

	level	change
3 month Eurodollar	7 3/16	+1/16
3 month interbank	8 5/16	—
1 month interbank	7 15/16	-1/16

Oil:		
	17.15	-30
	17.22	-29
	17.22	-29

Intervention:

UK:

Others: Canada 128

S E C R E T

MG NOON REPORT

FINANCIAL MARKETS Friday 29 April 1988

Previous Close	Opening	10 AM		NOON	Oil Price (11 AM)
78.0	78.0	77.9	£ERI	78.4	
1.8735	1.8740	1.8730	$/£	1.8845	May $16.80
3.1282	3.1262	3.1240	DM/£	3.1433	Jun $16.90
1.6697	1.6682	1.6680	DM/$	1.6680	Jul $16.90
124.57	124.45	124.68	Yen/$	124.62	

UK interbank £			Eurodollars	
7 5/8	(+1/2)	7 day	7	(+1/8)
8 3/32	(+3/32)	1 month	7 1/16	(+1/16)
8 3/8	(-1/16)	3 month	7 1/4	(+1/16)
9 1/8	(-1/8)	12 month	7 7/8	(-)

Figures in brackets show change since previous market close

MARKET COMMENT New York remained quiet last night with some cautionary selling of sterling ahead of the UK trade data.The Far East was very quiet with Japan on holiday.Today sterling opened slightly easier and remained steady around DM3.1240 prior to the better than expected trade figures being published.Sterling rose to highs of $1.895 and DM3.1475 immediately following the trade data.It then began to ease and the Bank's score was done to put further pressure on its downward path.The dollar has been very steady today.The US equity market closed lower with the Hong Kong market closing higher.The Dow Jones closed 2041.3 (-6.6), the Hang closed 2602.9 (+14.7).The FTSE 100 opened 1808.6 (+4.2) and at 12.35PM was 1807.4 (+3).The Gilt market opened easier this morning ahead of the trade figures but it improved on the better than expected current account deficit.

MARKET INTERVENTION ($m) OTHER COUNTRIES INTERVENTION ($m)

Overnight -

Today so far +50$

Total +50$

GILTS

	Latest market movements	Price change since previous close
Shorts	Steady	+2/32
Mediums	Steady	+3/32
Longs	Easier	+3/32
Futures (Long Contracts)		+7/32 (VOL:15328)

Gilt Sales since market opening

£0 million

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S E C R E T