

FINANCIAL SECRETARY

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INTERVENTION IN JUNE 1980

I am attaching our usual monthly note on the Bank's intervention tactics. Two particular points you might like to note:

(a) As you know, we are trying to keep an eye together with the Bank on the level of "customer transactions". The figure in June (\$252 million) was relatively modest in comparison to previous months, and largely offset by off-market outflows for Government payments and net debt interest.

(b) We have included a paragraph on the figures for banking June (22 May - 18 June). If you find this helpful we will make it a regular feature from now on.

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D L C PERETZ
 14 July 1980

SECRET

INTERVENTION IN JUNE 1980

This note discusses the Bank's intervention tactics in "dealing June", ie 29 May to 26 June 1980. It also comments on the intervention figures for banking June. Tables showing reserve transactions for June, and on a cumulative three and six-month basis are attached.

Prospects at the beginning of June

2. At the start of dealing June the Bank had advance knowledge of calls on the reserves totalling \$720 million, mainly representing Government expenditure, interest and debt repayment. These would be partially offset by \$288 million of maturities of forward purchases of foreign currencies which had been swapped out of previous months. In addition about \$400 million was likely to accrue to the reserves as a result of interest received and new borrowing.

June as a whole

3. The main features of June were:

(a) The rate fell sharply on 3 June from \$2.34 to \$2.29 on expectations of lower interest rates resulting from a misinterpretation of the Prime Minister's remarks following the EEC budget settlement, but then moved up again when it became clear that there was no immediate prospect of an interest rate cut. Subsequently the rate tended to fluctuate between \$2.33 and \$2.35. At the end of dealing June the rate was 1 cent lower than at the start with the effective just over 1/2 a point lower. Although the Bank had to intervene to steady the rate on 3 June, taking the month as a whole they bought \$110 million spot from the market.

(b) Bank customer purchases of sterling amounted to \$252 million - again a lower figure than a few months ago (the average figure over the last 6 months is over \$500 million), and only \$37 million more than off-market spot sales of sterling for Government payments.

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(c) Ignoring net debt repayment, the underlying rise in the spot reserves would, in the absence of new forward swaps have been \$465 million - more than half of this reflecting maturing forward swaps. In practice \$462 million of this increase was swapped forward, to give an underlying rise in the spot reserves (ie ignoring net debt repayments) of \$3 million.

(d) The forward book was also affected by a purchase of \$196 million on 16 June resulting from the EEA's obligation to provide forward foreign exchange cover for ECGD covered contracts which are too big or too long-dated to be handled by the market. As a result of these transactions and deducting maturities of \$288 million, the forward reserves rose by \$346 million.

Intervention in dealing June

4. Market conditions in dealing June fell into two main phases. In the first four days, sterling tended to drift downwards before falling sharply on 3 June when the rate closed at \$2.2990 compared with \$2.3563 on 28 May (effective 72.88 compared with 74.61). The Bank sold \$134 million to the market on 3 June, and total intervention to that date was:

\$ million							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Market Intervention	Customer trans- actions	Other spot inter- vention	Total spot inter- vention	Net borr- owing	Spot reserve change	Forward inter- vention	Spot and forward inter- vention
			(1+2+3)		(4+5)		(4+7)
-154	+37	+51	-74	-	-74	+17	-57

5. The rate moved within a narrow band during the rest of June, closing at £2.3425 and 73.92 in effective terms on 26 June. The Bank made regular small purchases to steady the market:

<u>£ million</u>							
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Market Intervention	Customer trans- actions	Other spot inter- vention	Total spot inter- vention (1+2+3)	Net borr- owing	Spot reserve change	Forward inter- vention	Spot and forward intervention
					(4+5)		(4+7)
+272	+215	-410	+77	-115	-38	+329	+406

Banking June

6. Intervention in banking June (22 May - 18 June) was as follows :

<u>£ million</u>	
Market intervention	+50
Central banks	+50
Government, interest receipts etc	-95
Public sector borrowing (net)	+19
Swaps outside the banking month -	
new swaps	-170
maturities	-582
Swaps inside the banking month -	
new swaps	+53
maturities	-53
TOTAL	-728

The market figure includes the substantial positive intervention at the end of calendar May (described in the May intervention note) as well as the negative intervention at the start of calendar June (described in paragraph 4 above). The main feature for June, however, is the unwinding of the relief given over the May make-up day by means of forward foreign currency swaps. This unwinding was much as forecast in the June monthly report and forecast of the monetary aggregates, except that there were some additional new negative swaps in June. These official transactions are likely to have been one factor in the substantial negative contribution of the externals to the June £M3 figure.

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14 July 1980

ERVE TRANSACTIONS FOR JANUARY-JUNE 1980

	£ million	
	SPOT	FORWARD
1. End-December levels	22,719	756
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2. Transactions January-June		
(i) Market	+809	+413
(ii) Swaps	-4035	+4035
(iii) Maturities	+3249	-3249
(iv) EEC Commission drawings	-69	-
(v) Other bank customers	+3204	+1
(vi) Government		
(a) department's expenditure	-1365	-13
(b) public sector debt interest	-530	-
(c) HMG debt interest	-454	-
(vii) Interest on the reserves	+854	-
TOTAL INTERVENTION	+1663	+1187
(viii) Public sector borrowing under ECS		
(a) borrowing	+648	
(b) repayment	-1251	
Net	-603	
(ix) IMF oil facility repayment	-163	
(x) Long term debt repayments	-12	
(xi) IMF gold restitution	+80	
(xii) IMF SDR allocation	+392	
(xiii) Revaluation arising from renewal of EMCF swap	+1272	-1272
(xiv) End-March revaluation	+2824	+1285
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CHANGE IN THE RESERVES	+5453	+1200
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3. End-June levels	28,172	1956

During this period the rate rose from 2.2250 to 2.3570 and from 70.2 to 74.41 in effective terms.

RESERVE TRANSACTIONS FOR APRIL-JUNE 1980

	£ million	
	SPOT	FORWARD
1. End-March levels	26,963	2,617
2. Transactions April-June		
(i) Market	+543	+262
(ii) Swaps	-1523	+1523
(iii) Maturities	+1511	-1511
(iv) EEC Commission drawings	-	-
(v) Other bank customers	+883	+1
(vi) Government		
(a) department's expenditure	-763	-5
(b) public sector debt interest	-335	
(c) HMG debt interest	-324	
(vii) Interest on the reserves	+545	
TOTAL INTERVENTION	+537	+270
(viii) Public sector borrowing under ECS		
(a) Borrowing	+415	
(b) repayment	-582	
Net	-167	
(ix) IMF oil facility repayment	-80	
(x) Long term debt repayments	-12	
(xi) Revaluation arising from renewal of EMCF swap	+931	-931
CHANGE IN THE RESERVES	+1209	-661
3. End-June levels	28,172	1956

During this period the rate rose from 2.1640 to 2.3570 and from 72.6 to 74.41 in effective terms.

RESERVE TRANSACTIONS FOR JUNE 1980

	£ million	
	SPOT	FORWARD
1. End-May levels	28,284	1610
2. Transactions in June		
(i) Market	+110	+175
(ii) Swaps	-462	+462
(iii) Maturities	+288	-288
(iv) EEC Commission drawings	-	-
(v) Other bank customers	+252	-
(vi) Government		
(a) department's expenditure	-215	-3
(b) public sector debt interest	-122	
(c) HMG debt interest	-84	
(vii) Interest on the reserves	+236	-
TOTAL INTERVENTION	+3	+346
(viii) Public sector borrowing under ECS		
(a) borrowing	+174	
(b) repayment	-277	
Net	-103	
(ix) Long term debt repayments	-12	
CHANGE IN THE RESERVES	-112	+346
3. End-June levels	28,172	+1956

During this period the rate rose from £2.3450 to £2.3570 and from 74.29 to 74.41 in effective terms.