

1. MR PERETZ *dup 14/8*
 2. FINANCIAL SECRETARY

cc Principal Private Secretary
 Sir Douglas Wass
 Mr Burns
 Sir Kenneth Couzens
 Mr Barratt
 Mr Middleton
 Mr Lavelle
 Mr Britton
 Mr Bridgeman
 Mrs Lomax
 Mr Riley
 Miss O'Mara
 Mr Spencer
 Mr Towers
 Mr Ridley
 Mr Cardona
 Mr Anson - UKTSD
 Mr Sangster }
 Mr Byatt } B/E
 Mr Smeeton }

INTERVENTION IN JULY 1980

This note discusses the Bank's intervention tactics in "dealing July", ie 27 June to 29 July 1980. It also comments on the intervention figures for banking July. Tables showing reserve transactions for July, and on a cumulative three and six-month basis are attached.

Prospects at the beginning of July

2. At the start of dealing July the Bank had advance knowledge of calls on the reserves totalling \$609 million, mainly representing Government expenditure, interest and debt repayment. These would be partially offset by \$277 million of maturities of forward purchases of foreign currencies which had been swapped out of previous months. In addition about \$300 million was likely to accrue to the reserves as a result of interest received and new borrowing.

July as a whole

3. The main features of July were:

- (a) The rate was above \$2.35 for almost all of dealing July. It slipped 2 cents on 3 July after the MLR cut was announced but soon moved up again. On 7 July the rate went through \$2.37 and almost touched \$2.40 on 24 July with a record effective of 75.3

the next day. At the end of dealing July the dollar rate was 3 cents higher than at the start with the effective up 1 point. The Bank bought \$95 million spot from the market spread throughout the month and sold \$6 million forward.

(b) Bank customer purchases of sterling amounted to \$338 million. This was slightly higher than in previous months and over \$100 million more than off-market sales of sterling for Government payments. Customer purchases would, however, have been even greater had not the Bank turned away some business mainly by quoting an unfavourable rate.

(c) Maturing forward swaps amounted to \$277 million and in the absence of forward market intervention the underlying rise in the spot reserves (ie ignoring debt debt repayment) would have been over \$550 million. \$393 million of this was swapped forward to give an underlying rise in the spot reserves of \$159 million.

(d) Forward intervention totalled \$107 million. The quarterly rollover of the EMCF swap, however, led to a valuation change of +\$58 million spot and -\$58 million forward. The forward book therefore rose by \$49 million.

Intervention in dealing July

4. At the end of dealing June the rate stood at \$2.3425 and 73.92 in effective terms. During July, intervention fell into three main phases. Up to 4 July the rate was generally just over \$2.35, apart from the 3 July fall when MLR was cut. On 7 July the rate rose 2 cents and remained around \$2.37 until 18 July after which it moved up to the highest levels for over 5 years. The Bank allowed the rate to rise during the month, making only small purchases from the market:

SECRET

(\$ million)

	<u>Period</u> 27 June - 4 July	5-18 July	19-29 July
Closing \$ rate	2.3540	2.3736	2.3743
Closing effective	74.06	74.60	75.06
Market intervention	+37	+33	+23
Customer transactions	+103	+187	+53
Forward intervention	-18	+182	-57

Banking July

5. Intervention in banking July (19 June - 16 July) was as follows:

(£ million)

Market intervention	+ 87
Central banks (customer transactions)	+149
Government interest receipts etc	- 94
Public sector borrowing (net)	- 64
Swaps outside the banking month -	
new swaps	+148
maturities	+ 72
Swaps inside the banking month -	
new swaps	+102
maturities	-102
 Total (change in reserves)*	 +305

*Components do not sum to total, largely because of different conversion rates.

The market figure comprises the sum of frequent but individually modest amounts of positive intervention over a period in which the rate rose 4 cents. The money market relief given over the July make-up day by means of forward foreign currency swaps is also apparent.

Ian Mitchell

S I MITCHELL
14 August 1980

SECRET

RESERVE TRANSACTIONS FOR JULY 1980

	£ million	
	SPOT	FORWARD
1. End-June levels	28,172	1956
<hr/>		
2. Transactions in July		
(i) Market	+95	-6
(ii) Swaps	-393	+393
(iii) Maturities	+277	-277
(iv) EEC Commission drawings	-	-
(v) Other bank customers	+338	-
(vi) Government		
(a) department's expenditure	-216	-3
(b) public sector debt interest	-65	-
(c) HMG debt interest	-41	-
(vii) Interest on the reserves	+164	-
TOTAL INTERVENTION	+159	+107
(viii) Public sector borrowing under ECS		
(a) borrowing	+134	
(b) repayment	-169	
Net	-35	
(ix) IMF oil facility repayment	-82	
(x) Revaluation arising from renewal of EMCF swap	+58	-58
<hr/>		
CHANGE IN THE RESERVES	+100	+49
<hr/>		

3. End-July levels 28,172 2005

During this period the rate fell from £2.3570 to £2.3440, but rose from 74.41 to 74.66 in effective terms.

SECRET

RESERVE TRANSACTIONS FOR MAY-JULY 1980

	£ million	
	SPOT	FORWARD
1. End-April levels	28,008	1789
<hr/>		
2. Transactions May-July		
(i) Market	+366	+169
(ii) Swaps	-1305	+1305
(iii) Maturities	+1194	-1194
(iv) EEC Commission drawings	-	-
(v) Other bank customers	+826	-
(vi) Government		
(a) department's expenditure	-646	-6
(b) public sector debt interest	-274	-
(c) HMG debt interest	-269	-
(vii) Interest on the reserves	+562	-
TOTAL INTERVENTION	+454	+274
(viii) Public sector borrowing under ECS		
(a) borrowing	+424	
(b) repayment	-578	
Net	-154	
(ix) IMF oil facility repayment	-82	
(x) Long term debt repayments	-12	
(xi) Revaluation arising from renewal of EMCF swap	+58	-58
<hr/>		
CHANGE IN THE RESERVES	+264	+216
<hr/>		
3. End-July levels	28,272	2005

During this period the rate rose from £2.2550 to £2.3440 and from 72.63 to 74.66 in effective terms.

SECRET

RESERVE TRANSACTIONS FOR FEBRUARY-JULY 1980

	£ million	
	SPOT	FORWARD
1. End-January levels	23,706	805
<hr/>		
2. Transactions February-July		
(i) Market	+741	+257
(ii) Swaps	-3689	+3689
(iii) Maturities	+3027	-3027
(iv) EEC Commission drawings	-17	-
(v) Other bank customers	+2676	+1
(vi) Government		
(a) department's expenditure	-1362	-16
(b) public sector debt interest	-524	-
(c) HMG debt interest	-442	-
(vii) Interest on the reserves	+903	-
TOTAL INTERVENTION	+1313	+904
(viii) Public sector borrowing under ECS		
(a) borrowing	+742	
(b) repayment	-1128	
Net	-386	
(ix) IMF oil facility repayment	-162	
(x) Long term debt repayments	-12	
(xi) Revaluation arising from renewal of EMCF swap	+989	-989
(xii) End-March revaluation	+2824	+1285
<hr/>		
CHANGE IN THE RESERVES	+4566	+1200
<hr/>		
3. End-July levels	28,272	2005

During this period the rate rose from £2.2672 to £2.3440 and from 71.8 to 74.66 in effective terms.