

1. MR PERRETZ *Dec 15/81*
 2. FINANCIAL SECRETARY

cc Principal Private Secretary
 Sir Douglas Wass
 Mr Burns
 Sir Kenneth Couzens
 Mr Barratt
 ✓ Mr Middleton
 Mr Britton
 Mr Lavelle
 Mr Monck
 Mr Unwin
 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 Gill)
 Mr Smeeton)

INTERVENTION IN AUGUST 1980 ✓

This note discusses the Bank's intervention tactics in "dealing August" ie 30 July to 27 August 1980. It also comments on the intervention figures for banking August. Tables showing reserve transactions for August and on a cumulative three and six-month basis are attached.

Prospects at the beginning of August

2. At the start of dealing August the Bank had advance knowledge of calls on the reserves totalling £609 million, mainly representing Government expenditure, interest and debt repayment (including £250 million early repayment of HMG III). These would be partially offset by £452 million of maturities of forward purchases of foreign currencies which had been swapped out of previous months. In addition about £200 million was likely to accrue to the reserves as a result of interest received and new borrowing.

August as a whole

3. The main features of August were :

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(a) the rate fell against the dollar at the start of dealing August from £2.37 to £2.33 but then climbed to around £2.37 again where it remained for most of the month. On 27 August it went over £2.39 with the effective 76.25. Thus at the end of dealing August the dollar rate was 2 $\frac{1}{4}$ cents higher than at the start with the effective rate up 1 $\frac{1}{4}$ points. The Bank bought £174 million spot from the market, chiefly in the second half of the month, and sold £2 million forward.

(b) Bank customer purchases of sterling amounted to £161 million, £28 million less than off-market sales of sterling for Government payments. This is the lowest monthly figure for customer purchases since last November.

(c) Maturing forward swaps amounted to £452 million and in the absence of forward market intervention the underlying rise in the spot reserves (ie ignoring net debt repayment) would have been £640 million. £427 million of this was swapped forward so that the underlying rise in the spot reserves (£213 million) would be close to that expected by the market.

(d) The forward book, however, fell by £31 million.

Intervention in dealing August

4. At the start of dealing August the rate stood at £2.3691 and 74.98 in effective terms. During the first week of the month, as the rate fell and then recovered, the Bank made some small net purchases from the market. Intervention in the next week was negligible. From 15 August, as sterling strengthened firstly against European currencies and then against the dollar, the Bank again made some modest purchases to smooth the upward course of the rate. The details are :

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(\$ million)

<u>Period</u>	30 July - 6 August	7 - 14 August	15 - 27 August
Closing \$ rate	2.3735	2.3757	2.3925
Closing effective	75.24	75.57	76.25
Market intervention	+45	0	+124
Customer transactions	-1	+59	+108
Forward intervention	-49	+10	+8*

* Includes forward intervention of -\$196 million on 28 and 29 August.

Banking August

5. Intervention in banking August (17 July - 20 August) was as follows :

(£ million)

Market intervention	+51
Central banks (customer transactions)	+74
Government, interest receipts etc	-78
Public sector borrowing (net)	+9
Swaps outside the banking month -	
new swaps	-145
maturities	<u>-205</u>
Total (change in reserves)*	-287

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

The market figure includes the intervention at the end of calendar July (described in last month's note) and the start of calendar August (described above). The negative maturities figure reflects the unwinding of the money market relief given over the July make-up day by means of forward foreign currency swaps, a tactic which is currently not being used.

Ian Mitchell

S I MITCHELL
15 September 1980

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RESERVE TRANSACTIONS FOR AUGUST 1980

	£ million	
	SPOT	FORWARD
1. End-July levels	28,272	2005
2. Transactions in August		
(i) Market	+174	-2
(ii) Swaps	-427	+427
(iii) Maturities	+452	-452
(iv) EEC Commission drawings	-	-
(v) Other Bank customers	+161	-
(vi) Government		
(a) departments expenditure	-189	-4
(b) public sector debt interest	-43	-
(c) HMG debt interest	-56	-
(vii) Interest on the reserves	+141	-
TOTAL INTERVENTION	+213	-31
(viii) Public sector borrowing under ECS		
(a) borrowing	+75	
(b) repayment	-19	
Net	+56	
(ix) HMG III capital repayments	-250	
CHANGE IN THE RESERVES	+19	-31
3. End-August levels	28,291	1974

During this period the rate rose from £2.3321 to £2.3940 and from 74.51 to 76.20 in effective terms.

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RESERVE TRANSACTIONS FOR JUNE - AUGUST 1980

	£ million	
	SPOT	FORWARD
1. End-May levels	28,284	1610
2. Transactions June - August		
(i) Market	+379	+167
(ii) Swaps	-1282	+1282
(iii) Maturities	+1017	-1017
(iv) EEC Commission drawings	-	-
(v) Other Bank customers	+751	-
(vi) Government		
(a) departments' expenditure	-620	-10
(b) public sector debt interest	-230	-
(c) HMG debt interest	-181	-
(vii) Interest on the reserves	+541	-
TOTAL INTERVENTION	+375	+422
(viii) Public sector borrowing under ECS		
(a) borrowing	+383	
(b) repayment	-465	
Net	-82	
(ix) IMF oil facility repayment	-82	
(x) Long term debt repayments	-12	
(xi) HMG III capital repayments	-250	
(xii) Revaluation arising from renewal of EMCF swap	+58	-58
CHANGE IN THE RESERVES	+7	+364
3. End-August levels	28,291	1974

During this period the rate rose from £2.5552 to £2.5940 and from 74.48 to 76.20 in effective terms.

RESERVE TRANSACTIONS FOR MARCH - AUGUST 1980

	£ million	
	SPOT	FORWARD
1. End-February levels	23,935	1237
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2. Transactions March - August		
(i) Market	+692	+260
(ii) Swaps	-2960	+2960
(iii) Maturities	+2762	-2762
(iv) EEC Commission drawings	-	-
(v) Other Bank customers	+2032	+1
(vi) Government		
(a) departments' expenditure	-1342	-18
(b) public sector debt interest	-518	-
(c) HMG debt interest	-451	-
(vii) Interest on the reserves	+945	-
TOTAL INTERVENTION	+1158	+441
(viii) Public sector borrowing under ECS		
(a) borrowing	+787	
(b) repayment	-978	
Net	-191	
(ix) IMF oil facility repayment	-162	
(x) Long term debt repayments	-12	
(xi) HMG III capital repayments	-250	
(xii) Revaluation arising from renewal of EMCF swap	+989	-989
(xiii) End-March revaluation	+2824	+1285
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CHANGE IN THE RESERVES	+4356	+737
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3. End-August levels	28,291	1974

During this period the rate rose from \$2.2677 to \$2.5940 and from 72.89 to 76.20 in effective terms.