

1. MR PERETZ *dup 19/12*
 2. FINANCIAL SECRETARY

Principal Private Secretary
 Sir D Wass
 Mr Burns
 Sir K 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 Mitchell
 Mr Ridley
 Mr Cardona
 Mr Anson - UKTSD
 Mr Sangster }
 Mr Byatt } B/E
 Mr Gill }
 Mr Smeeton }

INTERVENTION IN NOVEMBER 1980

This note discusses the Bank's intervention tactics in "dealing November" i.e. 30 October to 26 November 1980. It also comments on the intervention figures for banking November. Tables showing reserve transactions for November and on a cumulative three and six month basis are attached.

Prospects at the beginning of November

2. At the start of dealing November the Bank had advance knowledge of calls on the reserves totalling £520 million, mainly representing Government expenditure, interest and debt repayment. These would be more than offset by £931 million of maturities of forward purchases of foreign currencies from previous months' operations. In addition nearly £250 million was likely to accrue to the reserves as a result of interest received and new borrowing.

November as a whole

3. The main features of November were :

11/4/12
 321/81

- (a) In the first week of dealing November, the rate came under strong upward pressure, particularly against the continental currencies. The rate against the Deutschemark reached £1 = DM 4.76 with the effective index over 80. Subsequently the rate fell steadily, closing dealing November 2.8% lower against the dollar than at the start and 1.4% lower in effective terms.
- (b) The Bank bought \$73 million spot from the market, almost all in the first week of the month.
- (c) Bank customer purchases of sterling amounted to \$128 million. This is the lowest monthly figure for customer purchases this year. By comparison, off-market purchases of foreign currency by Government departments amounted to \$227 million.
- (d) Maturing forward swaps amounted to \$931 million and in the absence of forward market operations the underlying rise in the spot reserves would have been \$823 million. \$702 million of this was swapped forward to bring the underlying rise in the spot reserves down to \$121 million.
- (e) The net effect of forward operations was to reduce the forward book by \$218 million. Taking total spot and forward intervention together, the effect of these transactions was to support sterling to the tune of \$97 million dollars in a month over which the exchange rate fell.

Intervention in dealing November

4. At the start of dealing November sterling stood at \$2.4390 and 78.9 effective. The Bank intervened at the start of the month to moderate upward pressure on the rate, buying \$60 million

on 3 and 4 November. About half of this was unwound in the next week as sterling came under selling pressure. Subsequently there was only modest intervention in each direction. The details are :

(£ million)	Period	30 Oct - 6 Nov	7 - 11 Nov	12 - 26 Nov
Closing \$ rate		2.4426	2.3937	2.3700
Closing effective		80.22	77.52	77.78
Market intervention		+69	-31	+33
Customer transactions		+48	+47	+35
Net forward transactions		+39	-115	-126

Banking November

5. Intervention in banking November (16 October - 19 November) was as follows :

(£ million)	
Market intervention	+102
Central banks (customer transactions)	+72
Government, interest, receipts etc	-138
Public sector borrowing (net)	+40
Swaps outside the banking month -	
new swaps	-40
maturities	+18
Total (change in reserves)*	+64
Official borrowing (inc -)	+25
Official transactions' contribution to external and foreign currency finance adjustment to £M3	+89

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

The market figure comprises intervention towards the end of calendar October and at the start of calendar November when the rate was under strong upward pressure. The swaps and maturities are those that happened to fall outside the banking month: no new swaps were undertaken over the November make-up for the purpose

of assisting domestic money market operations. £50 million of the £150 million assistance given in banking October was unwound.

6. Official transactions thus contributed £89 million to the external and foreign currency finance adjustment which totalled -£275 million in banking November.

Ian Mitchell

S I MITCHELL

19 December 1980

RESERVE TRANSACTIONS FOR NOVEMBER 1980

	£ million	
	Spot	Forward
1. End-October levels	28,026	1845
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2. Transactions in November		
(i) Market	+73	+10
(ii) Swaps	-702	+702
(iii) Maturities	+931	-931
(iv) EC Commission drawings	-	-
(v) Other bank customers	+128	+3
(vi) Government		
(a) departments' expenditure	-227	-1
(b) public sector debt interest	-103	-
(c) HMG debt interest	-64	-
(vii) Interest on the reserves	+85	-1
TOTAL INTERVENTION	+121	-218
(viii) Public sector borrowing under ECS		
(a) borrowing	+159	
(b) repayment	-17	
Net	+142	
(ix) HMG III capital repayments	-100	
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CHANGE IN THE RESERVES	+163	-218
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3. End-November levels	28,189	1627

During this period the rate fell from $\$2.4375$ to $\$2.3585$ and from 79.18 to 77.54 in effective terms.

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RESERVE TRANSACTIONS FOR SEPTEMBER - NOVEMBER 1980

	£ million	
	Spot	Forward
1. End-August levels	28,291	1974
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2. Transactions September - November		
(i) Market	+465	-1
(ii) Swaps	-1942	+1942
(iii) Maturities	+2205	-2205
(iv) EC Commission drawings	-	-
(v) Other bank customers	+627	+3
(vi) Government		
(a) departments' expenditure	-670	-3
(b) public sector debt interest	-192	-
(c) HMG debt interest	-177	-
(vii) Interest on the reserves	+329	-1
TOTAL INTERVENTION	+645	-265
(viii) Public sector borrowing under ECS		
(a) borrowing	+411	
(b) repayment	-160	
Net	+251	
(ix) HMG III capital repayments	-1000	
(x) IMF oil facility repayment	-80	
(xi) Revaluation arising from renewal of EMCF swap	+82	-82
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CHANGE IN THE RESERVES	-102	-347
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3. End-November levels	28,189	1627

During this period the rate fell from £2.3940 to £2.3585 but rose from 76.20 to 77.54 in effective terms.

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RESERVE TRANSACTIONS FOR JUNE - NOVEMBER 1980

	£ million	
	Spot	Forward
1. End-May levels	28,284	1610
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2. Transactions June - November		
(i) Market	+844	+166
(ii) Swaps	-3224	+3224
(iii) Maturities	+3222	-3222
(iv) EC Commission drawings	-	-
(v) Other bank customers	+1378	+3
(vi) Government		
(a) departments' expenditure	-1290	-13
(b) public sector debt interest	-422	-
(c) HMG debt interest	-358	-
(vii) Interest on the reserves	+870	-1
TOTAL INTERVENTION	+1020	+157
(viii) Public sector borrowing under ECS		
(a) borrowing	+794	
(b) repayment	-625	
Net	+169	
(ix) HMG III capital repayments	-1250	
(x) IMF oil facility repayments	-162	
(xi) Long-term debt capital repayments	-12	
(xii) Revaluations arising from renewal of EMCF swap	+140	-140
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CHANGE IN THE RESERVES	-95	+17
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3. End-November levels	28,189	1627

During this period the rate rose from £2.3450 to £2.3585 and from 74.29 to 77.54 in effective terms.