

FINANCIAL SECRETARY

Principal Private Secretary  
 PS/Chief Secretary  
 Sir D Wass  
 Mr Burns  
 Sir K Couzens  
 Mr Barratt  
 Mr Hancock  
 Mr Middleton  
 Mr Britton  
 Mr Lavelle  
 Mr Monck  
 Mr Unwin  
 Mrs Lomax  
 Mr Riley  
 Mr Turnbull  
 Miss O'Mara  
 Mrs Rowlatt  
 Mr Spencer  
 Mr Towers  
 Mr Owen  
 Mr Ridley  
 Mr Cardona

Mr Anson - UKTSD

Mr Sangster )  
 Mr Byatt ) - B/E  
 Mr Gill )  
 Mr Smeeton )

## INTERVENTION IN FEBRUARY

I attach our usual note about the Bank's intervention tactics last month.

2. The effective exchange rate fell 6% during the month, from 105.5 on 29 January to 99.2 on 25 February. Much of this fall was concentrated in the last few days of the month first as the DM recovered sharply in anticipation of and immediately following the Bundesbank's measures announced on 19 February; and secondly following rumours of a substantial MLR cut in the Budget (in particular a report in the Observer on 22 February that MLR would be cut by 3%).

3. The fall in the rate tended either to reflect the rise in the DM or result from dealers marking the sterling rate down following or anticipating news: only on occasion did there appear to be any significant selling of sterling in the market. The Bank intervened to support the rate during the last three days of the month; but over the month as a whole market intervention was very small. Total spot and forward intervention including off-market transactions was positive, but also small. Our clean float over the period contrasts with very substantial intervention during the month by Germany (in particular), the US, France and Italy - as you have seen from Mr Duncan's note of 5 March.

4. As you know, the externals in banking February were positive (+ £140 million); but within this figure the contribution of transactions on the reserves and official overseas borrowing was -£50 million.

*DLCP*

D L C PERETZ  
20 March 1981

## INTERVENTION IN FEBRUARY 1981

This note discusses the Bank's intervention tactics in 'dealing February' (ie 29 January to 25 February), and comments on intervention figures for banking February. Tables showing reserve transactions on a cumulative three and six month basis are attached.

### Prospects at the start of February

At the start of the dealing month, the Bank had advance knowledge of calls on the reserves totalling \$370 million, mainly representing government expenditure, interest and debt repayment. \$372 million of forward purchases of foreign currencies from operations in previous months would mature and, in addition, about \$200 million was likely to accrue to the reserves as a result of interest received and new borrowing.

### February as a whole

The main features of February were as follows :

(a) In the first half of the month the effective rate fluctuated around 104. From 13 February it began falling, to reach 98.9 by the end of the month, reflecting in part the recovery of the Deutschemark and in part rumours of a substantial cut in MLR in the Budget. The dollar rate fell from \$2.38 on 2 February to \$2.22 on 25 February. The sterling/Deutschemark rate rose initially from 5.02 on 29 January to 5.07 on 16 February (the highest level for five years) but the DM subsequently strengthened as a result of the Bundesbank's introduction of measures to raise interest rates, and the exchange rate stood at 4.69 on 25 February.

(b) The Bank spent \$33 million in the market supporting the rate from 23 to 25 February but, taking the month as a whole, they bought \$7 million from the market.



(c) Customer purchases of sterling came to \$218 million, offset by \$212 million of purchases of foreign currency by Government departments.

(d) Maturing forward swaps amounted to \$372 and, in the absence of forward market operations, the underlying rise in the reserves would have been \$411 million. \$415 million was swapped forward to show an underlying change in the spot reserves of - \$4 million.

(c) Total intervention during the month (spot and forward) amounted to +\$55 million.

#### Intervention in dealing February

At the start of dealing February sterling stood at \$2.4052 and 105.47 effective. The markets were subdued over the first two weeks of the month with sporadic selling of sterling resulting from MLR nervousness. Between 14 and 20 February, the strengthening of the Deutschemark (resulting from market anticipation of the Bundesbank's measures) tended to depress the effective rate. This fall was intensified (with the \$ rate falling as well) in the last few days of the month as a result of rumours of a cut in MLR in the Budget, and the Bank intervened in a modest way at this point to steady the rate.

The details are :

	(\$ million)		
	29 Jan-13 Feb:	14-20 Feb:	21-25 Feb:
Closing dollar rate	2.2895	2.3250	2.2277
Closing effective	103.75	102.46	99.16
Market intervention	+16	+23	-32
Customer transactions	+118	+22	+47
Net forward transactions	-18	+42	+36

Banking February

Intervention over banking February (22 January-18 February) was as follows :

	(£ million)
Market intervention	+54
Central banks (customer transactions)	+116
Government, interest receipts etc	-118
Public sector borrowing (net)	+2
Swaps outside the banking month	
- new swaps	-238
- maturities	+73
Total change in the reserves	-105
Official borrowing	+54
Official transactions' contribution to external and foreign currency finance adjustment to £M3	-51

(Components do not sum to total because of different conversion rates).

Approximately half of the market intervention and over half of the new swaps shown above took place in the last few days of dealing January. There were no new swaps undertaken over the February make-up day for the purpose of assisting domestic money market operations.

D. C. OWSEN

## SECRET

115

## Reserve transactions for February 1981

	Spot	£ million Forward
1. End January levels	28,394	1,555
<hr/>		
2. Transactions in February		
(1) Market	+7	+19
(11) Swaps	-415	+415
(111) Maturities	+372	-372
(IV) EC Commission drawings	-	-
(V) Other bank customers	+218	-
(VI) Government		
(a) departments	-212	-3
(b) public sector debt interest	-50	
(c) HMG debt interest	-50	
(VII) Interest on the reserves	+126	
TOTAL INTERVENTION	- 4	+59
(VIII) Public sector borrowing under ECS		
(a) borrowing	+100	
(b) repayment	-56	
Net	+44	-
<hr/>		
CHANGE IN THE RESERVES	+40	+59
<hr/>		
3. End February levels	28,434	1,614

During this period, the rate fell from £2.3755 to £2.2032 but rose, in effective terms, from 81.14 to 98.93.

## SECRET

116

Reserve transactions December 1980-February 1981

	£ million	
	Spot	Forward
1. End November levels	28,189	1,627
<hr/>		
2. Transactions December-February		
(i) Market	+334	+21
(ii) Swaps	-1,796	+1,796
(iii) Maturities	+1,557	-1,557
(iv) EC Commission drawings	-	-
(v) Other Bank customers	+945	-
(vi) Government		
(a) departments' expenditure	-658	-7
(b) public sector debt interest	-229	
(c) HMG debt interest	-182	
(vii) Interest on the reserves	+371	
TOTAL INTERVENTION	+342	+253
(viii) Public sector borrowing under ECS		
(a) borrowing	+383	
(b) repayment	-667	
Net	-284	
(ix) IMF oil facility repayment	-78	
(x) HMG III capital repayments	-250	
(xi) N.American loans - capital repayments	-124	
(xii) IMF SDR allocation	+373	
(xiii) Revaluation arising from renewal of EMCF swap	+266	-266
<hr/>		
Change in the Reserves	+245	-13
<hr/>		
3. End February levels	+28,434	1,614

During this period the rate fell from 2.3545 to £2.2032 and from 100.8 to 98.93 in effective terms.



SEPTEMBER 1980 - FEBRUARY 1981

	§ million	
	Spot	Forward
1. End-August levels	28291	1974
<hr/>		
2. Transactions September - February		
(i) Market	+799	+20
(ii) Swaps	-3738	+3738
(iii) Maturities	+3762	-3762
(iv) EC Commission drawings	-	-
(v) Other Bank customers	+1572	
(vi) Government		
(a) departments' expenditure	-1328	-10
(b) public sector debt interest	-421	-
(c) HMG debt interest	-359	-
(vii) Interest on the reserves	+700	-1
TOTAL INTERVENTION	+987	-12
(viii) Public sector borrowing under ECS		
(a) borrowing	+794	
(b) repayment	-827	
Net	-33	
(ix) IMF oil facility repayments	-158	
(x) HMG II capital repayments	-1250	
(xi) North American loans - capital repayments	-124	
(xii) IMF SDR allocation	+373	
(xiii) Revaluation arising from renewal of EMCF swap	+348	-348
<hr/>		
CHANGE IN THE RESERVES	+143	-360
<hr/>		
3. End February levels	28434	1614

During this period the rate fell from  $\text{£}2.4025$  to  $\text{£}2.2032$  and from 97.6 to 98.93 in effective terms.