

FE 440.07

Feb 20 4:51

You may or may not  
wish to keep these.  
If not please shred.

Ta!

Mandy

Tim, } Past policy has always favoured  
Ed. } retaining such papers for their  
possible historical value - hence  
the mask - but we see so few  
I don't honestly think they should  
be missed if shredded.

Tim said  
to keep 22/4.

Rob.

Mr. Mumford ✓ Thank you

I attach a run of figures on the covered and uncovered differentials, also movements on the spot rate and market intervention.

Any conclusions must be very tentative and a major factor at any time must be market expectations on interest rates etc.

But, with these reservations, there is some evidence that when the spot rate is stable (by end of 1975), the covered differential tending to arbitrage point, there is some correlation between the uncovered differential & the inflow as measured by market intervention.

On the other hand, when the spot rate is volatile, and the uncovered differential is very wide, then the size of the covered differential has little impact on the outflows.

In short, confidence out weighs the arithmetic. We are currently in a situation close to end 1975.

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Differential at 3 months  
(Euro £ - Inter-bank £)  
End-month

Spot rate  
(end-month)

Market Intervention (£mns)  
Monthly Total

	<u>Covered</u>	<u>Uncovered</u>							
1975	July	-0.61	3.56		2.1515		+461		
	August	-0.31	3.06		2.1102		+126		
	September	-0.82	2.63		2.0436		+159	Peak of covered differential against £:	
	October	-0.10	4.81		2.0785		+202	28/10/76	6.14
	November	-0.56	4.31		2.0202		+433		
	December	-0.17	4.88		2.0233		+296		
								Peak of uncovered differential in favour of £	
1976	January	-0.93	4.12		2.0292		+678	27/10/76	10.62
	February	-0.43	3.19		2.0253		+193		
	March	-1.33	2.94		1.9158		-1112	Trough of spot rate:	
	April	-1.08	4.38		1.8410		-7232	28/10/76	1.5550
	May	-0.89	4.81		1.7590		-328		
	June	-3.10	5.19		1.7847		-1146		
	July	-1.78	5.44		1.7842		-261		
	August	-2.22	5.56		1.7764		-351		
	September	-4.05	7.25		1.6680		-498		
	October	-5.89	9.88		1.5860		-339		
	November	-1.50	9.69		1.6537		+124		
	December	-1.27	9.38		1.7020		+592		
1977	January	-1.36	7.06		1.7150		+2124		
	February	-1.73	6.12		1.7128		+422		
	March	-0.18	3.88		1.7201		+1648		
	April (to 19.4.77)	-0.95	3.50		1.7190		+1169		

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Mr. Byatt  
As requested.

Mr. [Signature]  
As requested [Signature]

RAB

B.

£ millions, not seasonally adjusted

	Current account	Structural capital	Official £ holdings	Other short- term flows	Balance for official financing	Public sector borrowing under ECS	Increase (-) in reserves/ IMF drawings/drawings on/repayments of \$5.3 bn. credit	Memo item: \$/£ rate
1977 H1	-1,158	- 316	- 330	+ 811	- 993	+ 712	+ 282	1.557
H2	- 401	- 735	- 310	+ 210	-1,236	+ 696	+ 540	1.494
Year	-1,559	-1,051	- 640	+1,021	-2,229	+1,408	+ 822	1.525
1978 H1	+ 243	- 319	- 50	+ 385	+ 259	+ 637	- 896	1.471
H2	+1,493	- 752	-	+ 32	+ 773	+ 326	-1,099	1.461
Year	+1,736	-1,071	- 50	+ 417	+1,032	+ 963	-1,995	1.466
1979 Q1	+1,027	- 215	-	+ 70	+ 882	+ 100	- 982	1.438
Financial Years								
1976/77	-2,265	- 829	-1,661	- 91	-4,846	+2,064	+2,782	
1977/78	-1,020	- 922	- 500	+ 796	-1,646	+1,428	+ 218	
1978/79	+2,877	-1,338	- 25	+ 199	+1,713	+ 650	-2,363	

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Intervention  
(\$ mns.)

<u>Period</u>	<u>Range</u>	<u>Intervention</u> <u>(\$ mns.)</u>	<u>Average \$</u> <u>per point</u>	<u>Average \$</u> <u>per day</u>
1-14.12.76.	1.66-1.68	+ 190	1	+ 19
15-24.12.76.	1.68-1.70	+ 260	1.3	+ 32
29-31.12.76.	1.70-1.70 $\frac{1}{2}$	+ 190	3.8	+ 63
4-13. 1.77.	1.70 $\frac{1}{2}$ -1.71	+ 690	13.8	+ 86
14-18. 1.77.	1.71-1.71 $\frac{1}{2}$	+ 330	6.6	+ 110
19-21. 1.77.	1.71 $\frac{1}{2}$ -1.71 $\frac{3}{4}$	+ 330	13.2	+ 110
24-26. 1.77.	1.71 $\frac{3}{4}$ -1.72	+ 630	25.2	+ 210
27-28. 1.77.	1.71 $\frac{1}{2}$ -1.71 $\frac{3}{4}$	- 80	3.2	- 40

3 months'  
interest differential  
(euro- $\text{\$}$  - interbank  $\text{\$}$ )  
end - month  
covered - month  
uncovered

Spot  
rate  
(end  
month)

Market  
intervention  
(monthly totals,  
 $\text{\$}$  mn)

1975	October	-0.10	4.81	2.0785	+202				
	November	-0.56	4.31	2.0202	+433				
	December	-0.17	4.88	2.0233	+296				
									Peak of covered differential against $\text{\$}$ :
1976	January	-0.93	4.12	2.0292	+678				6.14% , 23/10/76
	February	-0.43	3.19	2.0253	+193				
	March	-1.33	2.94	1.9158	-1112				Peak of uncovered differential in favor of $\text{\$}$ :
	April	-1.08	4.38	1.8410	-1232				10.62% , 27/10/76
	May	-0.89	4.81	1.7590	-328				
	June	-3.10	5.19	1.7847	-1146				Trough of spot rate:
	July	-1.78	5.44	1.7842	-261				$\text{\$}$ 1.5550 , 28/10/76
	August	-2.22	5.56	1.7764	-351				
	September	-4.05	7.25	1.6680	-498				
	October	-5.89	9.88	1.5860	-339				
	November	-1.50	9.69	1.6537	+124				
	December	-1.27	9.38	1.7020	+592				
1977	January	-1.36	7.06	1.7150	+2124				
	February	-1.73	6.12	1.7128	+422				
	March	-0.18	3.88	1.7201	+1648				
	April	-0.98	2.50	1.7193	+1444				
	May	-4.31	2.06	1.7188	-189				
	June	-1.15	2.00	1.7202	+1640				
	July	-0.63	1.50	1.7375	+2114				

Market intervention. (\$mm)

July	4	+187	}	+238	\$ down 1 1/2% against DM
	5	+92			
	6	+69			
	7	-72			
	8	-38			

	11	+24	}	+203	\$ down 1% against DM
	12	+12			
	13	+138			
	14	+37			
	15	-9			

	18	+60	}	+357	\$ down 1 1/8% against DM - Blumenthal statement
	19	+121			
	20	+98			
	21	+70			
	22	+9			

	25	+51	}	+1097	\$ up 1 7/16% against DM. — £ allowed to move up from \$1.72
	26	+137			
	27	+786			
	28	+176			
	29	-53			

all at 174<sup>20</sup>

\$370	@	4 1/2	17250
130	@	4 1/2	17300
620	@	4 1/2	17350
all at @ 174 <sup>20</sup>			