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PRIME MINISTER

MARKETS

Short-term interest rates continued to move up a little after the Bank gave its signal for an increase of 1 per cent in base rates. By the close, three-month inter-bank sterling was trading at 12³/₄ - 5/₈ per cent.

The Treasury assure me that this is not in itself grounds for nervousness about a further increase. Rates often fluctuate after a move, and in any case, that level of interest rates is quite consistent with base rates at 12¹/₂ per cent.

At 1900 hours the exchange rate was at \$1.44¹/₂ and nearly DM 3.56. I guess that would mean a figure on the Index of about 78¹/₂.

The Market Reports and the Treasury briefing line are below.

DRS

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DAVID NORGROVE

8 January 1986

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SECRET

① Mr. Norgrove
② PAME Minister

Foreign Exchange Markets: Evening Report

date: 8 JANUARY 1986

Previous close		Today opening	Today close	% change in \$ since NY close 20.9.85.
77.5	£ ERI	77.6	77.9	
82.1	£ ERI (excl \$)	82.2	82.7	
1.6077	ECU/£	1.6118	1.6200	
1.4405	\$/£	1.4385	1.4445	-4.9
3.5105	DM/£	3.5164	3.5369	
289.97	YEN/£	290.10	291.47	
125.1	\$ERI	-	125.5	-10.1
2.4370	DM/\$	2.4405	2.4485	-13.8
201.30	Yen/\$	201.60	201.78	-15.4
	3 month interest rates			
12	UK interbank £	12 ³ / ₈	12 ⁵ / ₈	
8 ¹ / ₁₆	Eurodollars	7 ¹⁵ / ₁₆	8	
+ 3 ⁵ / ₁₆	Uncovered margin	+47 ¹ / ₁₆	+45 ⁵ / ₁₆	
4 ¹ / ₁₆	Euromark	4 ⁵ / ₁₆	4 ⁵ / ₁₆	
\$26.40	SPOT BRENT (JANUARY)		\$25.75	

Market comment Sterling gained ½ cent and 2 pennings after the Bank signalled an increase of 1% in bank base rates. It approached \$1.45 before easing back as the dollar strengthened. The dollar was firmer, underpinned by a drop of 0.1% in the unemployment rate and a higher than expected increase in non-farm jobs (+320,000). Since the close, the dollar has moved firmly through DM 2.45, which it has recently found difficult, and at 5.30 pm rates are DM 2.46 with the £ at DM 3.5440. John Faith

Other countries market intervention (\$m equivalent)

Germany	US	Denmark	Sweden +35 \$ + 8 (DM) + 5 Yen
France	Japan	Holland +14 \$	Spain +185 \$
Italy -57 \$, -92 (DM)	Ireland -13 \$, -12 (DM)	Belgium	Portugal -17 \$

\$ million

UK reserves transactions

	A Today	B This month so far	C Expected for rest of month	D Total for month (B & C)	E Total since 1 Jun '85
Market Intervention	+2	-64	-	-64	-55
Off-market Intervention	-18	+474	-297	+177	-534
Total Intervention	-16	+410	-297	+113	-589
Net Borrowing	-19	-29	+83	+54	
Total change in Reserves	-35	+381 *	-214	+167	

*of which \$ +145 m represents a change in the forward book

Hong Kong**Previous****Today****Change**

Hong Kong dollar	7.8085	7.8075	little change
Hang Seng Index	1815.53	1826.84	up 11 points
Overnight interbank rate	7% ₀	7%	unchanged

DOMESTIC MARKETS: CLOSING REPORT FOR:

Wednesday 8 January 1986

MONEY MARKETS

Interest rates	0'night	7 days	1 month	3 months	12 months
£ Interbank	10 (-1)	12 ⁷ / ₁₆ (+2 ⁵ / ₁₆)	12 ²³ / ₃₂ (+1 ¹ / ₃₂)	12 ⁵ / ₈ (+1 ¹ / ₃₂)	12 ¹ / ₂ (+7 ¹ / ₁₆)
Euro \$	()	8 (—)	8 ¹ / ₁₆ (—)	8 (—)	8 ¹ / ₁₆ (—)
Differential	()	+4 ⁷ / ₁₆ (+1 ⁹ / ₁₆)	+4 ²¹ / ₃₂ (+1 ¹ / ₃₂)	+4 ⁵ / ₈ (+1 ⁹ / ₃₂)	+4 ⁷ / ₁₆ (+7 ¹ / ₁₆)

Bills (discount rates) (days)	Band 1 (0-14)	Band 2 (15-31)	Band 3 (32-63)	Band 4 (64-91)
Eligible bank bills	12 ¹ / ₂ - ¹ / ₄ (+1)	12 ⁵ / ₁₆ - (+1 ³ / ₁₆)	12 ⁵ / ₁₆ - ¹ / ₄ (+3 ¹ / ₄)	12 ³ / ₁₆ - ¹ / ₈ (+5 ¹ / ₈)
3 month Treasury bills	12 ¹ / ₄ (+5 ¹ / ₈)	3 month Local Authority bills	12 ¹ / ₄ (+3 ¹ / ₈)	

Bank money market operations (£M)

Bills:	Band 1	Band 2	Band 3	Band 4
Dealing rates				
Official Purchases (+)				

Total bills £ — m ~~bought/sold~~
 Repurchase £ — m ~~unwinding on~~ at
 Lending £ 330 m @ 12¹/₂% to 10 Jan through Discount Window
 Total operations £ 330 m against shortage/surplus £ 400 m

STOCK MARKET

FT Ind-ord 1238 (-11.5) FTSE 100 1404.2 (-11.0) FT Govt Securities 81.56 (-0.23)

Gilt Edged Market

Authorities ~~bought~~/sold £ 139.4 m (net)

(Change on day)	Price £	Yield %	Trading
Shorts	- ⁹ / ₁₆ to - ³ / ₁₆	+0.15 to +0.06	Fairly Active
Mediums	- ³ / ₈ to 0	+0.10 to 0	
Longs	- ¹ / ₈ to 0	+0.02 to 0	
Undated	- ¹ / ₈ to 0	+0.04 to 0	

Gilt Futures Mar Long Contract Open 108.23 Close 109.16 Volume 4140
 Gilt Futures Mar Short Contract Open 94.50 Close 94.60 Volume 862

FOREIGN EXCHANGE

£ Effective 77.9 (+0.4)
 \$/£ rate 1.4445 (+0.004)
 DM/£ rate 3.5369 (+0.0264)

US RATES

3 month CD's 7.85 (+0.09)
 10 yr Tsy Bond 8.94 (-0.12)
 20 yr Tsy Bond 9.38 (-0.18)

Money market rates closed sharply higher after the Bank lent to the market through the Discount Window at 12¹/₂% (1% over established dealing rates). Base rates are now 12¹/₂% with Midland moving first. Gilts opened easier on press comment about higher interest rates. The lower prices brought in substantial switching demand and both the 10¹/₂T97 and the 9¹/₂Cv2004 were exhausted in early trading. The moves in interest rates left the market pondering the future and prices closed down 5/16 in shorts, 1/4 in mediums and 1/8 in longs. Index-linked were ^{on}offer all day and closed down 3/8. Futures closed up 3/4 after opening down 1/4 and options were unchanged on higher business. Equities opened firmer but declined throughout on base rate rises.

Bob Blower

GILT-EDGED MARKET : DETAIL

Transactions basis, cash values (£ million); sales + purchases

ISSUE DEPARTMENT: MARKET TRANSACTIONS

Today

Banking January

1. Gross sales shorts
2. " " mediums
3. " " longs and undated
4. Calls on part-paid Stock sold earlier
5. Buying in, other than next maturities
6. CRND: Market transactions

7. Total 'gross' sales
8. Buying in of next maturities
9. Redemptions

10. Total transactions with market

—	+49.8
+95.3	+149.4
+215.3	+248.4
—	—
-163.6	-235.7
-0.8	-0.8
+146.7	+211.1
-6.7	-222.5
-0.1	-1.9
+139.9	-13.3

PRICE/YIELDS OF GILT-EDGED STOCKS

	5 years	10 years	20 years
Par yield curve at close last night	11.497	11.145	10.718
at previous close	11.364	11.048	10.645

Representative Stocks

- 11% Exchequer 1991
- 12% Treasury 1995
- 11½% Treasury 2003/07
- 2% Index-linked 1988
- 2½% Index-linked 2011

Price	Yield
100 1/8 (-3/8)	11.51 (+0.10)
102 5/8 x1 (-1/8)	11.43 (+0.02)
106 7/8 x1 (—)	10.81 (+0.01)
115 5/8 (-1/8)	5.25 (+0.06)
99 5/8 (-3/8)	3.32 (+0.03)

TAP STOCKS AND RECENT ISSUES

	Price	Yield	Issue dept
Last official sales of tap A.	_____	_____	_____
B.	_____	_____	_____

KNOWN FUTURE GILT-EDGED TRANSACTIONS

	Part Payments (+)	Redemptions/expected buy-ins (-)
Banking <u>Jan</u>	+580	—
Banking <u>Feb</u>	—	—
Banking <u>Mar</u>	—	—

Sales required to meet 'Gross' sales Target for Banking Jan (1000)
 £m 209