



15

10 DOWNING STREET

Prmie Mitter

There is a lot of
market talk about the
need for an increase in
interest rates.

DRW

25/9

ms

Foreign Exchange Markets: Evening Report

date: 25 September 1986

Previous close		Today opening	Today close	%change since Plaza
69.4	£ ERI	69.4	68.7	
1.4473	\$/£	1.4450	1.4320	+4.2
2.9641	DM/£	2.9680	2.9370	
223.77	Yen/£	223.71	221.53	
1.4149	ECU/£	1.4171	1.4107	
110.0	\$ ERI	-	110.9	-20.6
2.0480	DM/\$	2.0540	2.0510	+39.2
154.61	Yen/\$	154.55	154.70	+54.2
	3 month interest rates			
10 1/4	UK interbank £	10 5/16	10 3/8	
6	Eurodollars	6	6	
4 7/16	Euromark	4 9/16	4 9/16	

Oct \$13.95 Nov \$14.30 Dec \$14.45 Brent oil prices Oct \$13.55 Nov \$14.00 Dec \$14.15

Market Comment

The market was largely quiet in the morning with little movement in sterling. But after noon, sterling came under severe pressure. Rumours that Venezuela might leave OPEC (subsequently denied) brought oil prices down 40 cents. When the pound reached \$1.43 1/2 stop-loss selling in Chicago was triggered. Further sales out of the Middle East (£500m) and Eastern Europe proved difficult to resist. So after 2.30pm it was agreed not to intervene further. Sterling closed at a new low on the Index. The dollar was little changed against the DM and yen. Since the close, markets have steadied. Rates at 5.25:

\$1.4345 DM2.9350 DM/\$2.0460 ¥/\$154.60
 Same at 1980 2.9350 at 1980

John Feitel

UK reserves transactions (\$ million)

(a)	Today	This month so far	Total since 1 July 1986
	-95	-96	-102
	-8	-507	-864
	-103	-603	-966

(b)	Estimated end-month position
Market intervention	-79
Off-market transactions	-569
Total	-648
Net borrowing	+3880
Valuation changes	-
Total change in reserves	+3232
Change in the forward book	-

(a) Spot and forward transactions on a done date basis

(b) Spot transactions only on a value date basis, as in published figures

Other countries market intervention (\$ million equivalent)

Germany —	US —	Denmark —
France —	Japan —	Holland —
Italy -142(DM)	Ireland —	Belgium —

Hong Kong	Previous	Today	Change
Hong Kong dollar	7.8035	7.8035	unchanged
Hong Seng Index	2008.30	2012.75	up 4 points
Overnight interbank rate	5 ³ / ₄ %	N.A. because of Bank fire	—

DOMESTIC MARKETS: CLOSING REPORT FOR:

Thursday 25 September 1986

MONEY MARKETS

Interest rates	O'night	7 days	1 month	3 months	12 months
£ Interbank	9 ()	9 3/16 (-1/16)	10 (+1/4)	10 9/16 (+9/32)	10 15/16 (+1/4)
Euro \$	()	6 3/16 (-5/16)	5 5/16 (-1/8)	5 5/16 (-1/16)	6 1/8 (-1/8)
Differential	()	+3 (+1/8)	+4 1/16 (+3/8)	+4 5/8 (+11/32)	+4 13/16 (+3/8)

Bills (discount rates) (days)	Band 1 (0-14)	Band 2 (15-31)	Band 3 (32-63)	Band 4 (64-91)
Eligible bank bills	9 5/8 - 3/8 (-1/8)	9 3/4 - 1/16 (-1/16)	10 - 9 7/8 (+1/16)	10 1/2 - 9 1/2 (+1/8)
3 month Treasury bills	9 5/8 - 1/2 ()	3 month Local Authority bills		10 1/4 (-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	£ 70 m			
Total operations	£ 70 m	against shortage/surplus	£ FLAT m	

STOCK MARKET

FT Ind-ord 12423 (-22.2) FTSE 100 15759 (-27.5) FT Govt Securities 3.06 (+0.20)

Gilt Edged Market

Authorities bought/sold £ 33 m (net)

(Change from opening)	Price £	Yield
Shorts	-3/8	+0.10
Mediums	-5/8	+0.10
Longs	-5/16	+0.04

Gilt Futures Dec. Long Contract Open 111.20 Close 110.14 Volume 14919
 Gilt Futures Dec. Short Contract Open 96.36 Close 96.03 Volume 520

FOREIGN EXCHANGE

£ Effective	68.7 (-0.7)
\$/£ rate	1.4320 (-0.0153)
DM/£ rate	2.9370 (-0.0211)

US RATES

3 month CD's	5.80 (-0.05)
10 yr Tsy Bond	7.46 (-0.08)
20 yr Tsy Bond	8.06 (-0.12)

Money market rates were firmer on further reflection about yesterday's trade figures and the weaker £ rate.

Gilts improved after yesterday's sharp falls with shorts up 1/16 and longs up 1/2. The Germans again failed to cut rates and with Sterling falling prices fell sharply. Despite a better US prices were lower at close with shorts down 1/4 mediums down 3/8 and longs down 1/2. Equities were depressed on base rate fears.

Rich Stone

GILT-EDGED MARKET : DETAIL

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

ISSUE DEPARTMENT: MARKET TRANSACTIONS

Today

End Sept +
Calendar Oct

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

+41.7	+59.4
—	+35.0
—	+196.5
—	—
-73.8	-374.9
-0.8	-12.3
-32.9	-96.8
—	-20.1
-0.1	-0.6
-33.0	-117.6

PRICES/YIELDS OF GILT-EDGED STOCKS

	5 years	10 years	20 years
Par yield curve at close last night	10.967	10.753	10.433
at previous close	10.651	10.549	10.248

Representative Stocks

(change from yesterday's close)

- 11% Exchequer 1991
- 9¾% Exchequer 1998
- 11¾% Treasury 2003/07
- 2% Index-linked 1988
- 2½% Index-linked 2011

Price	Yield
99½ (-3/8)	11.10 (+0.10)
93½ (-1/8)	10.74 (+0.02)
109½ (-5/8)	10.63 (+0.06)
120½ (—)	5.14 (+0.01)
103¾ (-1/8)	3.84 (+0.01)

TAP STOCKS AND RECENT ISSUES

3% Treasury 1991

Price	Yield	Issue dept
79 7/8 (-1/2)	8.32 (+0.15)	287

Certificates of Tax Deposit: Purchases

" " : Surrenders

Rates on surrender for tax

< 1	1<3	3<6	6<9	9-12 mths
4 1/2	9 3/4	10	10 1/4	10 1/4

KNOWN FUTURE GILT-EDGED TRANSACTIONS

	Part Payments (+)	Redemptions/expected buy-ins (-)
Banking	_____	_____
Banking	_____	_____
Banking	_____	_____

Sales required to meet 'Gross' sales Target for Banking _____

£m _____