

PRIME MINISTER

THE RESERVES

The market report is below. There is one particular point of which you should be aware.

You will remember that the UK, in common with all other members of the EMS, holds 10 per cent of its reserves in the form of ECUs. All countries may ask other Member States to convert ECUs into usable currencies when their own currency reaches the limit of the ban — even though we are not a member of ERM.

The Belgians today made such a request. In our case this meant providing them with \$100 million. We shall receive a commercial rate of interest.

It is possible that other countries could now also take advantage of this facility. We could easily meet amounts which Belgium and Denmark might require. A French request could cause more difficulty: it could amount to as much as \$800 million. We could not easily spare the liquid reserves to meet the whole of that amount. But we can cross that bridge if we come to it.

Julie Bowers  
Duty Clerk  
PP David Norgrove  
8 January 1987

As we are not a member  
of the ERM I hope we  
could resist: — ~~using~~  
ms

JALBDY



**SECRET**

**Foreign Exchange Markets: Evening Report**

date: 8 January 1987

Previous close		Today		% change \$ / currency since Plaza
		opening	close	
68.8	£ ERI	68.7	68.8	-16.1
1.4202	\$/£	1.4655	1.4721	+7.1
2.8356	DM/£	2.8401	2.8316	-27.4
0.95	oil price adjusted ERI RATE	-	0.95	
1.3686	ECU/£	1.3721	1.3700	
108.2	\$ ERI	-	108.1	-22.6
1.9287	DM/\$	1.9280	1.9235	+47.7
158.25	Yen/\$	158.20	158.33	+50.7
<b>3 month interest rates</b>				
1 1/8	UK interbank £	1 1/8	1 1/8	
6/8	Eurodollars	6 3/8	6	
4 1/8	Euromark	4 1/16	4 5/8	

Jan \$18.10 Feb \$18.10 Mar \$17.90 Brent oil prices Jan \$18.25 Feb \$18.30 Mar \$18.10

**Market Comment**

EMS tensions again dominated activity. The narrow band remained fully stretched between the Germans and the Danes, with the Germans buying more than \$1 billion FF and other countries selling substantial DMs.

After early gains to around DM1.94, the dollar fell as bearish sentiment reasserted itself, and has dropped below DM1.92 since the close. Japanese intervention provided some support. (US employment figures out tomorrow.) Sterling had a steady day, closing unchanged on the Index, with oil a little firmer.

Rates at 5.20pm: (unchanged at 1900)

\$1.4760 DM2.8317 DM/\$1.9185 ¥/\$158.10

*John Faith*

**UK reserves transactions (\$ million)**

(a)	Today	This month so far	Total since 1 April '86	(b)	Estimated end-month position
	+32	+106	+1652	Market intervention	+214
	-17	-127	-2746	Off-market transactions	-429
	+15	-21	-1094	<b>Total</b>	<b>-215</b>
(a) Spot and forward transactions on a done date basis				Net borrowing	0
(b) Spot transactions only on a value date basis, as in published figures				Valuation changes (EMCF)	-41
				<b>Total change in reserves</b>	<b>-256</b>
				Change in the forward book	-

**Other countries market intervention (\$ million equivalent)**

Germany +1011 (FF) +41 (Dkr) +2 (IE)	US -	Denmark -382 (DM)
France -376 (DM)	Japan +100\$ (NY yesterday) +5\$ (FE)	Holland -
Italy -239 (DM) -12 (ecu)	Ireland -87 (DM)	Belgium -303 (DM)



Hong Kong	Previous	Today	Change
Hong Kong dollar	7.7855	7.7835	little change
Hang Seng Index	2607.11	2603.33	down 4 points
Overnight interbank rate	5 1/2 %	5 1/4 %	down 1/4 %