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Prime Minister (2)

The figures were released

ERMP C/8

FROM: I POLIN
DATE: 3 August 1987

Friday.

MEA 4/8

1. MR KELLY ^{cash} 3.8.
2. ECONOMIC SECRETARY

Distribution

PPS
 PS/EST
 Sir P Middleton
 Sir T Burns
 Sir G Littler
 Mr Cassell
 Mr Peretz
 Mr Sedgwick
 Mr Bottrill
 Mr Grice
 Mr Culpin
 Ms Goodman
 Mr Pickford
 Mr Cropper

THE RESERVES IN JULY 1987

The reserves announcement for July will be made on Tuesday 4 August at 11.30 am. This month's announcement reports a rise in the reserves of \$551 million and an underlying rise of \$499 million.

I. Polin
 I POLIN

Mr Norgrove - No 10
 Mr Lankester - Washington (after publication)

Mr Gill)
 Mr D J Reid)
 Mr J Milne) - B/E
 Miss J Plumbly)
 Mrs Jupp)

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DRAFT PRESS NOTICE

THE RESERVES IN JULY 1987

The UK official reserves rose by \$551 million in July. Accruals of borrowing under the exchange cover scheme amounted to \$150 million; repayments of such borrowing amounted to \$141 million. Capital repayments on assignments to HMG of other public sector debt taken out under the exchange cover scheme amounted to \$14 million. The valuation change arising out of the quarterly rollover of the EMCF swap amounted to a rise of \$57 million. At the end of July, the reserves stood at \$34,915 million (£21,915 million*) compared with \$34,364 million (£21,311 million⁺) at the end of June.

Note to Editors

2. After taking account of foreign currency borrowing and repayments, the underlying rise in the reserves during July was \$499 million. The underlying change in the reserves is the result of a variety of transactions, both debits and credits, including, for example, transactions for Government departments and with other central banks, and interest receipts and payments. The underlying change should not therefore be taken as an indication of market intervention during the month. The above figures can also be obtained from the Reuters Monitor (Code TREA).

3. New borrowing under the public sector exchange cover scheme was as follows:

British Coal, \$68 million; South of Scotland Electricity Board, \$50 million; Yorkshire Water Authority, \$32 million.

* When converted at the closing market rate on Friday 31 July
 £1=\$1.5932

+ When converted at the closing market rate on Tuesday 30 June
 £1=1.6125

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Repayments of such borrowing were:

British Coal, \$89 million; Electricity Council, \$27 million; Northumbrian Water Authority, \$13 million; British Telecommunications PLC, \$4 million; South West Water Authority, \$3 million; North of Scotland Hydro Electricity Board, \$1 million; Shetland Islands Council, \$1 million; Yorkshire Water Authority, \$1 million; Others, \$2 million.

4. The quarterly rollover of the EMCF swap, ie 20 per cent of the UK's gold and US dollar reserves, entailed a valuation increase of \$57 million. This largely reflects the rise in the ECU value of gold, as valued by the EMCF. For the purposes of the swap, the EMCF values gold and dollars in terms of ecus at the end of each quarter, whereas the UK values gold and ecus held in the reserves on an annual basis.

THE RESERVES IN JULY 1987 : PRESS BRIEFINGFactual : main features of markets in July

	<u>£ ERI</u>	<u>\$/£</u>	<u>DM/£</u>	<u>\$ ERI</u>	<u>DM/\$</u>	<u>Yen/\$</u>
1 July	72.3	1.61½	2.95	102.2	1.82½	146½
6 July	72.8	1.61½	2.97½	103.1	1.84	149½
13 July	73.1	1.62	2.98	103.2	1.84	151
22 July	72.6	1.59½	2.97	104.0	1.86½	152½
27 July	72.5	1.60	2.96½	103.7	1.85½	150
31 July	72.3	1.59½	2.96	103.7	1.86	150

Sterling traded mainly on the sidelines in the first half of the month but rose from 72 to 73 in effective terms as the oil price rose above \$20 a barrel for the first time in nineteen months. After publication of disappointing US trade data on 15 July, sterling rose against the dollar and the deutschemark to touch highs for the month of \$1.64 and DM2.99½. The publication of worse than expected May UK trade figures and bank lending figures pushed sterling below \$1.60, but it ended the month ^{at} ~~around~~ 72.3 in effective terms.

The dollar opened the month trading steadily around DM1.82½ and Yen 146½. It rose on comments from Nakasone that the yen decline was in accordance with G7 wishes and publication of a reduced Japanese trade surplus. But upward movement was limited by fear of central bank intervention. Following publication of worse than expected US trade data on 15 July the dollar fell sharply to around DM1.83 and Yen 148½, but advanced later on good economic figures, including a 2.6% rise in US Q2 GNP. It closed the month on a quiet note around DM1.86 and Yen 150.

Previous reserve changes

(i) Reserve changes in recent months have been:

		\$ million	
		<u>Underlying Change</u>	<u>Total Change</u>
1986	September	- 372	+ 3502
	October	- 668	- 434
	November	+ 35	+ 14
	December	+ 96	- 83
1987	January	+ 72	+ 29
	February	+ 287	+ 305
	March	+ 1785	+ 1892
	April	+ 2912	+ 2768
	May	+ 4760	+ 4872
	June	- 230	- 315
	July	+ 499	+ 551

Bank Base Rates

Base rate changes in recent months have been:

		<u>Base Rate</u>	<u>Change</u>
1987	10 March	10½	Down ½%
	19 March	10	Down ½%
	29 April	9½	Down ½%
	11 May	9	Down ½%

POSITIVE

- Reserves ~~very~~ strong after ~~recent months~~ of substantial underlying increases. *in first half of the year.*
- Sterling has remained broadly stable, in line with February agreement at the Louvre, which is holding well.