

PRIME MINISTER

CF-PC
ALG
11/9

FINANCIAL MARKETS

Following a rocky day or so earlier in the week, the Foreign Exchange markets have settled down in the second half of the week. I attach Thursday's evening report, showing that the sterling effective rate has steadied at just under 91. The Friday evening report is not yet available (we will send it in Saturday's box), but sterling has again been steady during the day.

Meantime, the UK Equity Market, which dropped quite sharply on Wednesday, has now had two days of renewed increase on Thursday and Friday.

ALG.

mt

P. GRAY

8 SEPTEMBER 1989

MRMAOJ

FOREIGN EXCHANGE MARKETS

MG EVENING REPORT

Thursday 7 September 1989

Previous close		Today		since Plaza	%change since Paris	since 16 October 1987
		opening 8.30am	close 4.00pm			
90.9	£ERI	90.7	90.9	-12.9	6.2	-0.7
1.5502	\$/£	1.5415	1.5447	13.0	1.1	-7.2
3.0666	DM/£	3.0640	3.0689	-21.4	9.9	2.4
1.4770	ECU/£	1.4758	1.4782			
72.3	\$ERI	-	72.6	-26.5	0.0	4.3
1.9782	DM/\$	1.9877	1.9867	-30.4	8.8	10.3
146.47	Yen/\$	146.90	147.07	-38.9	-4.2	3.1
74.04	Yen/DM	73.90	74.03			

Sept \$17.87 Oct \$17.77 Nov \$17.62 Spot Brent Sept \$17.80 Oct \$17.70 Nov \$17.50

UK RESERVE TRANSACTIONS (\$million)

(a)	Today	This month so far	Total since 1 Apr 89	(b)	Estimated end-month position *
*	10	-30	-4895	Market intervention	-20
	8	52	672	Off-market transactions	-143
	18	22	-4223	TOTAL	-163
* excluding -25\$ agst DM				Net borrowing	-27
(a) Spot and forward transactions on a done date basis.				Valuation changes	0
				TOTAL CHANGE IN RESERVES	-190

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

* On conventional assumption of no further market intervention.

OTHER COUNTRIES MARKET INTERVENTION (\$million equivalent)

Belgium -15\$ agst DM	Germany -50\$	Italy +75DM, -20\$ agst DM
Denmark -10\$ agst DM	Holland -10\$ agst DM	Japan -200\$
France -20\$ agst DM	Ireland -	US -50\$ agst DM
Nor -10\$ agst ECU, -13\$, Sp -15\$ agst Y, Port -10\$ agst DM, +17\$, Swed -10\$ agst DM, -10\$ agst Y.		-50\$ agst Yen
Swiss -30\$, Austria -10\$		

MARKET COMMENT

Although weakening a little in New York, the dollar moved up this morning to just below DM1.99 in early trading after wire service report quoted Fed. official as saying that dollar's recent rise would not worsen trade deficit. Following Bundesbank mid-day announcement of no change in German interest rates, dollar rose to highs of DM1.9927 and Yen147.3 before easing on concerted intervention and profit taking.

Sterling has been side-lined for most of the day, trading steadily against the DM with some demand from Europe. After seeing a low of \$1.5390 against strengthening dollar sterling regained lost ground as dollar slipped back after concerted intervention.

Rates at 5:37 pm. \$1.5447 DM3.0716 DM/\$1.9885 Yen/\$147.09 Yen/DM73.97.

Michael Foot on duty

NAME: B. Nelson
TEL NO: 270-5558

MONEY MARKETS

Thursday 7th September 1989

INTEREST RATES

	£ Interbank		Eurodollar	
	Today	Change	Today	Change
7 days	13 15/16	0	8 7/8	0
1 mth	14	0	8 15/16	0
3 mth	14 1/32	1/64	8 15/16	0
12 mth	13 3/4	0	8 7/8	0

BILLS

	Today		Change	
3 Month Treasury Bills	13 9/16	-	13 7/16	0

BANK MONEY MARKET OPERATIONS

	Purchases £ m	Rates	Discount Rate on Eligible Bank Bills	
Band 1 (0-14 days)	536	13 7/8	14-13 3/4	
Band 2 (15-31 days)			13 27/32-25/32	
Band 3 (32-63 days)			13 23/32-11/16	
Band 4 (64-91 days)			13 9/16-7/16	
TOTAL BILLS	536			
Repurchase				
Lending	25			
TOTAL OPERATIONS	561	against shortage £	550 m	

US RATES

	3 month CDs		10 yr Tsy Bond		20 yr Tsy Bond	
Today/Change	8.80	0.00	8.17	-0.01	8.23	-0.02

STOCK MARKET

	FT Ind-Ord		FTSE		Gilt index
Today/Change	1999.1	20.4	2415.9	25.1	0.00

HONG KONG

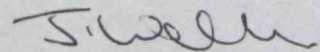
	Previous	Today	Change
Hong Kong Dollar	7.8103	7.8095	0.0008
Hang Seng Index	2577.62	2583.16	5.54
3 month interbank rate	9 3/16	9 1/4	up 1/16

MARKET COMMENT

GILTS opened 1/16 better through the list and by mid-morning, was 1/8 better on modest bear closing. By early afternoon the tone had improved further following the Bundesbank decision and gains of 1/4 were seen in all sectors. Sellers of longer maturities were, however, reported at these best levels and by the close shorts were 3/16 better, mediums 1/8 and longs only 1/16.

INDEX-LINKED perked up a little, particularly medium maturities, and closed up 1/8.

EQUITIES opened firmly and progressed well for the rest of the day. Polly Peck has agreed to purchase Del Monte for \$557mn, financed partly by a well-leaked rights issue for \$283mn



NAME: James Welch
TEL NO: 270 4616

