

PRIME MINISTER

EXCHANGE RATE

You should know that the Lord Privy Seal was asked about the exchange rate at his lobby briefing this afternoon, following your Answers in the House about EMS. He made some unfortunate remarks which were interpreted as implying that sterling might be overvalued.

What did he say

When this reached the markets, sterling fell 1½ cents against the dollar, and 6 pfennigs against the Deutschmark. The Bank of England spent \$20 million in defence of sterling.

The Treasury then issued a denial that the Government thought sterling was overvalued, and at 1900 the rate had recovered by half a cent to \$144½, and by 3 pfennigs to DM3.24½.

Either the Magnellson

1. Anti-champ note

to L.P.S.

Ananda Ross

DN

6 March, 1986.

JD68

SECRET

Foreign Exchange Markets: Evening Report

date: 6 MARCH 1986

Previous close		Today opening	close	% change in \$ since NY close 20.9.85.
73.7	£ ERI	73.8	73.8	
76.5	£ ERI (excl \$)	76.9	76.7	
1.5757	ECU/£	1.5222	1.5174	
1.4585	\$/£	1.4475	1.4545	-5.5
3.2622	DM/£	3.2837	3.2729	
262.53	Yen/£	262.61	261.40	
117.5	\$ERI	-	118.0	-15.5
2.2367	DM/\$	2.2685	2.2502	~20.8
180.0	Yen/\$	181.05	179.72	-24.7

3 month interest rates

12 1/4	UK interbank £	12 3/16	12 1/16
7 1/16	Eurodollars	7 7/8	7 1/2
+4 9/16	Uncovered margin	+4 9/16	+4 3/16
4 7/16	Euromark	4 3/16	4 3/16

Mar \$ 15.15 Apr \$ 12.40 May \$ 11.70 SPOT BRENT Mar \$ 15.00 Apr \$ 12.60 May \$ 12.05 (4 pm)

Market comment The main news was the $\frac{1}{2}\%$ cut in the German discount rate, which is expected to be followed soon by the US and Japanese. The dollar closed towards the bottom of the day's range, higher against the DM but slightly down on the yen. Sterling traded in narrow ranges. The EMS was fully stretched between the DM and B. France with large interventions by France, Belgium and Ireland. Rates at 5.50pm: DM 2.24 1/4, \$1.46 1/4

John Firth

Other countries market intervention (\$m equivalent)

Germany -	US -	Denmark -	Norway - 80 \$
France +11 (DM)	Japan -	Holland -	
Italy -	Ireland -70 \$ -11 (DM)	Belgium -128 (DM)	

\$ 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	+17	+51	-	+51	+9
Off-market Intervention	+51	+45	-311	-266	-565
Total Intervention	+68	+96	-311	-215	-556
Net Borrowing	+14	+33	+142	+175	
Total change in Reserves	+82	+129 *	-169	-40	

*of which \$ -65 m represents a change in the forward book

Hong Kong	Previous	Today	Change
Hong Kong dollar	7.8085	7.8080	little change
Hang Seng Index	1664.33	1668.51	little change
Overnight interbank rate	4½%	6%	up 1½%



DOMESTIC MARKETS: CLOSING REPORT FOR:

Thursday 6 March 1986

MONEY MARKETS

Interest rates	0'night	7 days	1 month	3 months	12 months
£ Interbank	16 ()	127/8 (+1/16)	129/16 (-1/16)	123/32 (-5/32)	11 1/2 (-1/8)
Euro \$	()	73/4 (—)	7 11/16 (-1/16)	7 9/16 (-1/16)	7 9/16 (-1/8)
Differential	()	+5 1/8 (+1/16)	+4 7/8 (—)	+4 1/32 (-3/32)	+3 5/16 (—)

Bills (discount rates) (days)	Band 1 (0-14)	Band 2 (15-31)	Band 3 (32-63)	Band 4 (64-91)
Eligible bank bills	125 1/2 - 3/8 (-1/8)	125 1/16 - 7/32 (-7/64)	12 - 11 7/8 (-7/32)	11 1/16 - 9/8 (-3/16)
3 month Treasury bills	11 1/16 (-1/8)	3 month Local Authority bills	12 (-1/8)	

Bank money market operations (£m)

Bills:	Band 1	Band 2	Band 3	Band 4
Dealing rates	123/8	129/16	(12 1/4)	(12 1/8)
Official Purchases (+)	+67	+385	0	0

Total bills £ 452 m bought/~~sold~~
 Repurchase £ 337 m unwinding on 25 March at 127/16 - 7/32
 Lending £ 265 m

Total operations £ 1054 m against shortage/~~surplus~~ £ 1150 m

STOCK MARKET

FT Ind-ord (299.4 (-1.9)) FTSE 100 (566.1 (-3.0)) FT Govt Securities 86.38 (+0.22)

Gilt Edged Market

Authorities bought/~~sold~~ £ 1.0 m (net)

(Change on day)	Price £	Yield %	Trading
Shorts	0 to +5/16	+0.01 to -0.14	Very Active
Mediums	0 to +3/8	0. to -0.06	
Longs	+1/4 to +1/2	-0.03 to -0.06	
Undated	+1/8 to +1/8	-0.02 to -0.05	

Gilt Futures June Long Contract Open 118.00 Close 117.28 Volume 8940
 Gilt Futures June Short Contract Open 98.55 Close 98.48 Volume 507

FOREIGN EXCHANGE

£ Effective 73.8 (+0.1)
 \$/£ rate 1.4545 (-0.004)
 DM/£ rate 3.2729 (+0.0107)

US RATES

3 month CD's 7.40 (-0.18)
 10 yr Tsy Bond 8 1/16 (+3/16)
 20 yr Tsy Bond 8 3/8 (+1/4)

Money market rates closed easier following the German discount rate cut but above the day's lows. Gilts wilted after hours but sharply higher prices in Japan brought gains of 1/4 in shorts and 1/2 in longs at opening. In hectic trading prices rose until a statement by the PM that it was inappropriate to join the EMS brought prices back to close up 1/4 in shorts and up 1/2 in longs. Equities eased in light trade. Rob Flew

GILT-EDGED MARKET : DETAIL

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

ISSUE DEPARTMENT: MARKET TRANSACTIONS

Today

Banking March

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

+23.4	+236.8
—	+58.8
—	+297.5
—	—
-30.0	-402.1
+6.0	+0.4
-0.6	+191.4
—	-151.9
-0.4	-439.6
-1.0	-450.1

10. Total transactions with market

PRICES/YIELDS OF GILT-EDGED STOCKS

Par yield curve at close last night
at previous close

5 years	10 years	20 years
10.362	10.124	9.806
10.347	10.101	9.783

Representative Stocks

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

Price	Yield
102 7/8 (—)	110.31 (—)
97 9/8 (+1/4)	10.09 (-0.04)
115 1/2 (+3/8)	9.85 (—)
117 9/16 (-5/16)	4.93 (+0.16)
100 1/2 (-1/2)	3.72 (+0.03)

TAP STOCKS AND RECENT ISSUES

2½% Exchequer 1990

Price	Yield	Issue dept
77 1/2 (+1/4)	8.38 (—)	200

Rates on surrender for tax					mnths
< 1	1-3	3-6	6-9	9-12	
12 1/4	12	11 1/2	11 1/4	11 1/4	

Certificates of Tax Deposit: Purchases 2.1

" " " : Surrenders 1.0

KNOWN FUTURE GILT-EDGED TRANSACTIONS

Part Payments (+)

Redemptions/expected buy-ins (-)

Banking Mar	—
Banking Apr	+750
Banking May	+848

—
-354
—

Sales required to meet 'Gross' sales Target for Banking March (250)fm 58