

PO - CH / NL / 0250

PART B

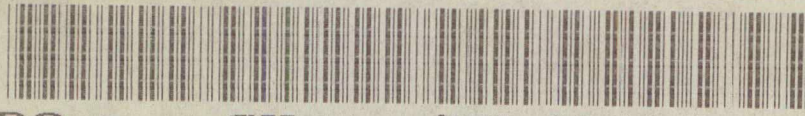
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PART B

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SECRET

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PART B

CHANCELLOR'S PAPERS ON
FOREIGN EXCHANGE
RESERVES AND
INTERVENTION IN
INTERNATIONAL MARKETS

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PO -CH /NL/0250

PART B

PART B

DD: 25 years

[Signature] 27/9/95

Begins: 3/10/88

Ends: 14/10/88 (CONTINUED)

FROM: MISS M O'MARA
DATE: 3 October 1988

ECONOMIC SECRETARY

cc: Chancellor
Sir P Middleton
Sir T Burns
Sir G Littler OR
Mr Scholar
Mr Peretz
Mr Gieve
Mr N P Williams
Mr Polin

cl.
OK?

** A. M. M. M.*
J. P. S.
Pass m.

RESERVES IN SEPTEMBER

I attach for your approval the draft press notice accompanying press briefing on the September reserves, prepared by Mr Polin.

2. We are publishing an underlying fall of \$143 million. In the light of the support given to sterling at the beginning of the month, the Chancellor had earlier agreed (Miss Wallace's minute of 22 September) to publication of a fall of around \$250 million, unless we had to intervene heavily in the aftermath of the UK trade figures. In the event, sterling rose on publication of the trade figures, particularly against the deutschemark, and we took in reserves, thus reducing the size of the underlying fall.

3. Publication of the first underlying fall since February and the largest underlying fall since August 1987 may attract some press comment. However, the market is expecting a fall of around \$50 million on average, with one of the main forecasters suggesting a fall of \$250 million, so the announcement is unlikely to have any market impact. In any case, there is no harm in allowing the market operators to conclude that we have been prepared to support the exchange rate on occasion, nor of allowing them to become accustomed to seeing reserves fall once again.

4. As you know, we shall be publishing details of the first Ecu Treasury Bill tender tomorrow afternoon and this may lead the press to focus more attention on the reserves change than they have tended to do in recent months.

5. Table 1 shows that we took in reserves worth \$131 million net in the form of market intervention last month. As usual, there was no new borrowing under the exchange cover scheme and repayments totalled only \$14 million.

6. Table 2 shows other countries' market intervention, with the French and Italians each making heavy sales of dollars (almost \$1.4 billion in both cases). German sales at around \$½ billion were rather lower than in recent months. The Canadians, by contrast, creamed off almost \$1 billion. The US sold \$330 million in support of the deutschemark. The Japanese were again conspicuous by their absence.

7. Within the EMS, the deutschemark remained strong, sharing top position with the Irish punt. Belgium, Italy and France all made substantial DM sales.

MOM

MISS M O'MARA

SECRET

TABLE 1 - RESERVE TRANSACTIONS FOR SEPTEMBER 1988

		\$ million	
		Spot	Forward
1.	End August levels	50639	5038

2.	Transactions in September		
(i)	Market	+ 131	
(ii)	Swaps	-1495	+ 1495
(iii)	Maturities	+ 1357	-1357
(iv)	Other Bank customers	-136	-5
(v)	Government		
	(a) departments' expenditure	-36	-156
	(b) public sector debt interest	-73	-
	(c) HMG Debt interest	-78	-
(vi)	Interest on the reserves	+ 187	
TOTAL INTERVENTION		-143	-23
(vii)	Public sector borrowing under ECS		
	(a) borrowing	0	
	(b) repayment	-14	
	net	-14	

CHANGE IN THE RESERVES		-157	-23

3.	End September levels	50482	5015

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TABLE 2 - OTHER COUNTRIES' SPOT MARKET INTERVENTION+

September 1988

	Dollars	(\$ million equivalent) OTHER CURRENCIES (including EMS)
Ireland	+ 23 -15 agst DM	+ 6 DM
Belgium	-260	-278 DM + 20 Swir
France	-1364	-146 DM
Italy	-1350 -6 agst DM	-220 DM -40 ECU + 30 Ffr
Netherlands	-240	-27 DM
Germany	-235	-
Denmark	-14 -10 agst DM	-
Spain	-712 -10 agst DM	-35 DM
Sweden	+ 50	+ 53 DM + 49 Yen
Norway	-121	+ 115 DM
Switzerland	-30	-
Japan	-	-
Canada	+ 964 -25 agst DM	-
US	-330 agst DM -28 agst Yen	-
Greece	-1	-
Austria	-20 agst DM	-
Portugal	+ 116	-

+ On a done date basis. UK figures in previous table are on a dealing month basis.

SECRET

FROM: I POLIN
DATE: 3 October 1988

- 1. MISS O'MARA *mem 3/10*
- 2. ECONOMIC SECRETARY

cc Distribution
 PPS
 PS/EST
 Sir P Middleton
 Sir T Burns
 Sir G Littler
 Mr Lankester
 Mr Scholar
 Mr H Evans
 Mr Odling-Smee
 Mr Sedgwick
 Mr Gieve
 Mr Grice
 Mr Pickford
 Mr Bush
 Mrs Ryding
 Mr N P Williams
 Mr Hudson
 Mr Segal
 Mr Cropper
 Mr Call

THE RESERVES IN SEPTEMBER 1988

The reserves announcement for September will be made on Tuesday 4 October at 11.30 am. This month's announcement reports a fall in the reserves of \$157 million and an underlying fall of \$143 million.

Ian Polin
 I POLIN

Also copies to:

Mr Gray - No 10
 Mr Cassell - Washington (after publication)

Mr M Foot)
 Mr D J Reid)
 Mr J Milne) B/E
 Miss J Plumbly)
 Mrs Jupp)

DRAFT PRESS NOTICETHE RESERVES IN SEPTEMBER 1988

The UK official reserves fell by \$157 million in September. Repayments of borrowing under the exchange cover scheme amounted to \$14 million. There was no borrowing under the exchange cover scheme this month. After taking account of the repayments of foreign currency borrowing, the underlying change in the reserves during September was a fall of \$143 million. At the end of September, the reserves stood at \$50,482 million (£29,942 million*) compared with \$50,639 million (£30,124 million+) at the end of August.

Note to Editors

2. The underlying change 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) and on the Telerate Monitor (Code 22494).

* When converted at the closing market rate on Friday 30 September £1=\$1.6860

+ When converted at the closing market rate on Wednesday 31 August £1=\$1.6810

3. There was no new borrowing under the public sector exchange cover scheme this month but repayments of such borrowing were as follows:

British Railways Board, \$3 million; British Coal, \$2 million; Yorkshire Water Authority, \$2 million; Shetland Islands Council, \$2 million; Lothian Regional Council, \$1 million; Northern Ireland Department of Finance, \$1 million; Welsh Water Authority, \$1 million; Others, \$2 million.

THE RESERVES IN SEPTEMBER 1988 : PRESS BRIEFINGFactual : Main features of markets in September

	<u>1 Sep</u> <u>(cob)*</u>	<u>Month's</u> <u>High</u>		<u>Month's</u> <u>Low</u>		<u>30 Sep</u> <u>(Cob)*</u>
£ ERI	75.5	76.0	(7th)	75.0	(23rd)	75.9
\$/£	1.6735	1.7110	(7th)	1.6595	(26th)	1.6860
DM/£	3.1445	3.1735	(29th)	3.1170	(2nd)	3.1692
\$ ERI	100.3	100.3	(1st)	98.8	(12th)	99.6
DM/\$	1.8790	1.8910	(26th)	1.8395	(7th)	1.8797
Yen/\$	136.67	137.20	(2nd)	132.90	(9th)	134.57

*cob = close of business.

Sterling quickly recovered from a nervous start to the month and enjoyed a period of stability until close to publication of UK trade figures. Having opened on 1 September at \$1.6825, DM3.1570 and ERI 75.8, it dipped on a rumour that Goldman Sachs had forecast a fall to DM3.08 but then staged a recovery, reaching its highs for the month of \$1.7110 and ERI 76.0 on 7 September, although remaining slightly easier against continental currencies. It subsequently fell against the dollar in the wake of the US trade figures for July on 14 September but was relatively stable against continental currencies. It rose on better figures for bank and building society lending but became vulnerable closer to publication of the UK trade figures for August and fell to a low for the month against the effective on 23 September and against the dollar a little later. Following improved trade figures for August, sterling rose, particularly against the deutschemark, reaching the month's high on 29 September.

Having opened in London on 1 September at DM1.8765 and Y136.70, the dollar rose to the month's high against the yen when the Bank of Japan stated that it would not be raising its discount rate. However, the announcement of an unexpected rise in US unemployment dampened expectations of further increases in US

interest rates and, the dollar fell sharply. It reached the month's lows in the first full week of September, as Mulford stated the US were aware of the dangers of a destabilising rise in the dollar, but better-than-expected US trade figures for July (\$9.5 billion from a revised \$13.7 billion in June) led to a sharp rise. Although restrained by reports of intervention by the Bundesbank and the Federal Reserve, the dollar reached the month's high against the deutschemark on 26 September. It traded a narrow range for the remainder of the month.

Previous reserve changes

(i) At beginning of January 1987, reserves stood at \$21,923 million; at end of December 1987, they stood at \$44,326 million, a rise of \$22,403 million (including 1987 revaluation of + \$2,890 million).

(ii) The underlying rise in reserves in 1987 totalled \$20,475 million.

(iii) Reserve changes from beginning of 1988 have been:

		<u>\$ million</u>		
		<u>Underlying change</u>	<u>Total change</u>	<u>Level of reserves at end period</u>
1988	January	+ 38	- 1,233	43,093
	February	- 25	- 166	42,927
	March	+ 2,225	+ 1,713	47,519+
	April	+ 514	+ 338	47,857
	May	+ 814	+ 676	48,533
	June	+ 84	- 14	48,519
	July	+ 910	+ 1,307	49,826
	August	+ 827	+ 813	50,639
	September	- 143	- 157	50,482
		-----	-----	
	Totals	+ 5,244	+ 3,277	

+after revaluation of + \$2,879 million.

(iv) October 1987 underlying change of \$6,699 million was largest ever.

(v) Underlying fall of \$143 million in September was largest fall since August 1987.

(vi) Reserves in August of \$50,639 million were highest ever.

Level of official debt

Latest published figure, \$16.8 billion at end June* in Financial Statistics, September 1988, Table 10.6. (In May 1979 was \$22 billion.)

*at end June market rates.

POSITIVE

1. Reserves remain very strong. Now stand only slightly below record level of nearly \$51 billion seen last month.
2. Level of official debt has been reduced substantially. At beginning of 1987 was \$19.3 billion and at end of June 1988 was \$16.8 billion. (In May 1979 was \$22 billion.) Government announced on 2 August intention to repay early US \$2.5 billion floating rate notes issued in September 1985. Repayment will be made on 7 October 1988.
3. G7 reaffirmed in Berlin on September 24, their commitment to pursue policies that will maintain exchange rate stability and to continue to cooperate closely on exchange markets.

DEFENSIVE

(A) POLICY

1. Exchange rate policy: Government maintaining firm monetary policy to ensure downward pressure on inflation. Exchange rate policy is part of total economic policy.

A degree of exchange rate stability assists in the battle against inflation and also in getting satisfactory economic performance.

2. Conflict between interest rate and exchange rate policy? In theory, could be conflict between requirements of anti-inflationary policy and exchange rate stability. But if purely short term^{in the} intervention can be used on short term time scale, as earlier this year. [Chancellor in pre-IMF speech briefing, 27 September.]

promising

3. Current account position means Government should let exchange rate fall? [Chancellor said in IMF speech, 28 September, "The exchange rate cannot be assigned the task of balancing the current account, and it is a mistake to think that the automatic response to a current account deficit should be a lower exchange rate."]

Policy of devaluation would be wholly inappropriate. Made it clear time and time again that Government will not accommodate inflation by exchange rate depreciation. Holding down unit costs - which is in industry's own hands - key to competitiveness.

4. Tactics: As Prime Minister reminded House on 17 May, available instruments - interest rates and intervention - will be used as seems right in circumstances. But not sensible to reveal operational details or be more precise.

5. Is Government targeting sterling - deutschemark, sterling - dollar rate/sterling exchange rate index (FERI)? Never focused exclusively on single indicator when setting monetary policy. Look at wide range of indicators of monetary conditions including exchange rate.

6. Does the Chancellor still stand by his managed floating plan? Yes. Still on table. ~~But progress will depend to very large extent on views of next US administration.~~ G7 "continuing the study of ways of further improving the international monetary system and

7. Continuing large deficits will diminish confidence in sterling? No reason why they should. Official reserves are high, net overseas assets are greater as a proportion of GDP than in any other major industrial country. Public sector finances are in sizeable surplus. By any standards, the United Kingdom's creditworthiness is high.

the coordination
process"
(G7 communique
24/9/88)

(B) G7

8. International monetary co-ordination not working? [G7 Communique of 24 September stated Ministers "noted with satisfaction" that policies and commitments undertaken in course of their cooperative efforts were producing desired results.]

International cooperation is alive and well, and reaffirmed in G7 communique of 24 September.

9. G7 committed to exchange rate stability? G7 communique issued in Berlin, 24 September reaffirmed commitment to pursue policies that will maintain exchange rate stability and to continue to cooperate closely on exchange markets.

10. Why no reference to dollar in G7 communique? No need to do so. Communique was wholly appropriate for the circumstances.

11. Chancellor confirmed existence of Louvre ranges before Berlin? Chancellor said dollar/deutschemark rate now around levels at time of Louvre and has been for some time. Yen higher against dollar than at Louvre but Japanese economy performing very well. Comfortable with present rates.

(C) INTERVENTION

12. Why an underlying fall in reserves? Never discuss details of intervention.

13. First underlying fall since February? ~~Misguided to expect reserves to rise every month, eg transactions on behalf of Government departments produce a steady outflow month to month, other things being equal.~~ *So what? More?*
Argument is that reserves stand at historically very high levels.

14. Value of intervention as instrument? Intervention can certainly have role to play in short term. Can check undue exchange rate fluctuations in either direction which do not reflect underlying fundamentals.

Intervention against sterling

15. Intervention inflationary? (Only poses inflationary threat if not funded. Government made clear intervention will be fully funded (as in 1987-88) so that effect on liquidity sterilised.

16. Have other countries been intervening over last month/recently? Never discuss details but well known there has been concerted intervention over recent period.

17. Is intervention profitable? Intervention undertaken to support exchange rate policy - not primarily to make profit. For intervention to be profitable, authorities would need to sell sterling when firm and buy it back when soft. This is, of course, what tends to happen over longer term. [N.B. See also BEQB, September 1983 Pgs 384-391.]

(D) INTEREST RATES/MONETARY POLICY

See also separate Q and A briefing on Full money figures provided to IDT etc on 27 September.

18. Monetary policy: Objective of policy remains as it has always been: to maintain monetary conditions that create downward pressure on inflation.

19. Why keep interest rates up when exchange rate against deutschemark so high? Interest rates now set on purely domestic criteria? Aim to maintain sufficiently tight monetary conditions to bear down on inflation, taking account of all monetary indicators, including exchange rate (not just sterling/deutschemark exchange rate).

(E) EUROPEAN MONETARY INTEGRATION

20. UK membership of exchange rate mechanism (ERM)? [Prime Minister in various speeches in tour of Europe (19-25 September) stated other countries must "catch up" with various UK reforms before UK can even consider membership.]

Matter kept under continual review. Will join when Government considers time is right.

21. Recent interest rate moves would not have been necessary if UK had been in ERM? Joining ERM would not be soft option. Countries within ERM frequently change their interest rates.

22. Sterling's recent fluctuations would not have occurred if UK had been in ERM? Countries within ERM not necessarily protected from realignments.

23. Join ERM by 1992? No fixed timetable. Will join when Government considers time is right.

24. Proposals for European Central Bank and common European currency? [Prime Minister repeated UK's position in series of speeches and interviews on her European tour.]

Prime Minister has said Community must focus on immediate and practical requirements - implementing commitment to free movement of capital; establishing genuine free market in financial services and making greater use of private ecu (UK's new ecu Treasury Bill programme good example of what can be done). These are "what Community business and industry need and what European consumer wants."

(F) GOVERNMENT FOREIGN CURRENCY BORROWING PROGRAMME

[ANNOUNCEMENT OF DETAILS OF FIRST ECU TREASURY BILL TENDER WILL NOT BE MADE UNTIL 2.30PM TUESDAY 4TH OCTOBER.]

25. Details of new UK ECU Treasury Bill Programme? Full details were published in Bank of England Information Memorandum on 14 September.

26. Is repayment of 1992 debt and refinancing by short-term bill programme sensible in view of recent events? Reserves near record level. Decision made as part of overall reserves management. New ECU Treasury bill programme will be secure and flexible source of funds.

27. Arrangements for first UK ECU Treasury bill tender? Will be announced later today.

TABLE 3 - TOTAL PUBLISHED RESERVES

			<u>\$ billion</u>
	<u>Total reserves changes</u>		<u>Level at end</u>
	<u>during month</u>		<u>of month</u>
USA	+ 3.9	(end August)	48
Japan	+ 1.3	(end August)	90
Germany	- 1.5	(w/c 15 September)	38
France	- 1.4	(end August)	61
Italy	+ 0.5	(end August)	57
Canada	- 1.5	(end August)	14
United Kingdom	- 0.2	(end September)	50

Notes

1. The figures for Germany, France and Italy were originally published in local currencies; they have been converted to dollars at appropriate exchange rates.
2. Figures not strictly comparable because of different valuation conventions for eg gold.

MP

FROM: ALLEN RITCHIE
DATE: 3 October 1988

1. MRS LOMAX *RL 8710.*
2. ECONOMIC SECRETARY

cc PS/Chancellor *2*
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Evans
Mr Peretz
Mr Odling-Smee
Mr Gieve
Mr Ilett
Miss O'Mara
Mr Tyrie

DANISH CONSUMER CREDIT TAX

You asked (Ms James minute to Mrs Lomax of 29 September) why the Danish authorities chose to mix a tax with a relief, rather than just reduce the value of the tax relief.

2. This puzzled us when we looked at this tax before, and we raised the point with Danish officials. Apparently, the reasons for introducing a new tax, rather than reducing the existing tax relief, were essentially presentational. The Danes had recently passed major tax reform legislation, which, inter alia, reduced the tax relief on interest payments from 100 per cent of payments to 50 per cent, and did not want to re-open this at such an early stage.

Allen Ritchie

ALLEN RITCHIE

FIM2

MP

MG EVENING REPORT

FOREIGN EXCHANGE MARKETS

Tuesday 4 October 1988

Previous close		Today		since Plaza	%change \$/currency since Paris	since 16 October 1987
		opening 8.30am	close 4.00pm			
75.9	£ERI	76.0	75.8	-7.6	9.7	3.0
1.6960	\$/£	1.6995	1.696	23.4	11.0	1.9
3.1608	DM/£	3.1602	3.1532	-19.2	13.0	5.2
1.5241	ECU/£	1.5222	1.5213			
99	\$ERI	-	98.8	-29.2	-5.0	-1.4
1.8637	DM/\$	1.8595	1.8592	52.8	-1.8	-3.2
133.62	Yen/\$	133.20	133.2	79.1	15.3	7.3

✓

Oct \$11.50 Nov \$11.70 Dec \$11.85 Spot Brent Oct \$11.52 Nov \$11.67 Dec \$11.82

UK RESERVE TRANSACTIONS (\$million)

(a)	Today	This month so far	Total since 1 Apr 88	(b)	Estimated end-month position
	-3	29	3918	Market intervention	169
	9	-25	-1169	Off-market transactions	819
	6	4	2749	TOTAL	988
				Net borrowing	-1716
				Valuation changes (EMCF swap) (not yet known)	0
				TOTAL CHANGE IN RESERVES	-728

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

(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 -	Germany -7\$	Italy -
Denmark -	Holland -	Japan -
France -	Ireland -	US -

MARKET COMMENT

The dollar drifted downwards mainly against the Mark (remaining steady against the Yen) in quiet New York markets. It saw some corporate selling in the Far East and fell, mainly against the Yen. Today the dollar has remained steady with a bearish undertone having decided the upside scope is limited for fear of Central Bank intervention (around DM1.88/89). Sterling having had a quiet night, lost a pfennig very quickly on the news that the Kuwaiti Investment Office are obliged to sell off a substantial portion of its BP holdings. Sterling fell to lows of \$1.6930 and DM3.15. But it had recovered some of its losses by the close.

Rates at 5.35PM: \$1.6950 DM3.1576 DM/\$1.8629 Y/\$133.30

Tom Palmi

HONG KONG	Previous	Today	Change
Hong Kong dollar	7.8125	7.8125	0
Hang Seng Index	2429.07	2415.76	-13.31
3 month interbank rate	8 1/4%	8 1/4%	UNCHANGED

Terry Smeeton

NAME: I.C.Polin
TEL NO: 270-5556

MONEY MARKETS

Tuesday 4th October 1988

INTEREST RATES

	£ Interbank		Eurodollar	
	Today	Change	Today	Change
7 days	12	1/4	8 3/8	3/16
1 mth	11 15/16	1/8	8 1/4	1/16
3 mth	11 31/32	1/32	8 1/2	0
12 mth	11 13/16	1/8	8 3/4	-1/16

BILLS

	Today		Change	
3 Month Treasury Bills	11 1/2	-	11 3/8	0

BANK MONEY MARKET OPERATIONS

	Purchases £ m	Rates	Discount Rate on Eligible Bank Bills
Band 1 (0-14 days)	81	11 7/8	11 7/8-3/4
Band 2 (15-31 days)	32	11 13/16	11 11/16-21/32
Band 3 (32-63 days)			11 11/16-41/64
Band 4 (64-91 days)			11 21/32-5/8
TOTAL BILLS	113		
Repurchase			
Lending	25		
TOTAL OPERATIONS	138	against shortage	£ 150 m

US RATES

	3 month CDs		10 yr Tsy Bond		20 yr Tsy Bond	
Today/Change	8.35	0.00	8.84	-0.03	8.95	-0.02

STOCK MARKET

	FT Ind-Ord		FTSE		Gilt index	
Today/Change	1457.6	1.8	1807.3	4.7	87.99	0.02

MARKET COMMENT

GILTS opened easier with sterling; possibly influenced by the MC's report on BP. Shorts were down 1/8, mediums 1/16 and longs 1/8. Slightly below this level, support appeared ascribed in some quarters to the Bank, and prices steadied and then rallied. The market was actually ahead in the afternoon but came back to finish 1/8 down in shorts, unchanged in mediums and 1/8 to 1/16 better in longs.

INDEXED LINKED saw some demand, partly against conventionals and finished 1/8 to 1/4 better.

EQUITIES opened lower on news of Grand Met's 1:7 rights issue to raise £479 mn to help finance £3.1 bn cash bid for Pilsbury, the US food giant. Prices gradually recovered moving into gains in the afternoon after 3pm. BP fell back after Government announced that KIO have been asked to reduce its holdings in the company from 21.6% to 9.9% in the next year, but closed little changed.

Peter Smith

NAME: Peter Smith
TEL NO: 270 4613

GILT-EDGED MARKET

Tuesday 4th October 1988

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

ISSUE DEPARTMENT: MARKET TRANSACTIONS

	Today	October
Gross sales shorts		
Gross sales mediums	24.9	56.7
Gross sales longs and undated	57.5	249.6
Gross sales index-linked	52.4	67.5
Part paid calls		
Buying in non-next maturities shorts		
Buying in non-next maturities mediums	-51.9	-79.5
Buying in non-next maturities longs	-144.7	-367.4
Buying in non-next maturities index-linked	-22.1	-37.1
CRND: Market transactions	-5.5	-17.9
TOTAL 'GROSS' SALES	-89.4	-128.1
Buying in of next maturities	-22.0	-51.9
Redemptions	-0.2	-1.1
TOTAL TRANSACTIONS WITH MARKET	-111.6	-181.1

		Future calls	
Sales required to meet	*	target of	£ m
			=====

PRICES/YIELDS OF GILT-EDGED STOCKS

	Yesterday's close		Change from yesterday's close	
	Par	yield (per cent)	Price (£/32)	Yield (%)
Shorts	10.116		-5	0.04
Mediums	9.878		-3	0.02
Longs	9.398		2	-0.01

REPRESENTATIVE STOCKS

	Price (£/32)		Yield (per cent)	
	Today	Change	Today	Change
8% Treasury 1992	93	20	-5	10.20
8 3/4 Treasury 1997 'C'	93	23	3	9.82
11 3/4 Treasury 2003/07	115	26	2	9.67
3% Treasury 1992	83	12	0	8.33
2 1/2% Index-Linked 2016	98	22	5	3.87
2% Index-Linked 1994	94	1	1	3.58

GILT FUTURES

		Open	Close	Volume
Long Contract	December	95.15	95.21	19481
Medium Contract	December	93.31	94.00	205

NAME: Peter Smith
TEL NO: 270 4613



FROM: A C S ALLAN
DATE: 4 October 1988

PS

MISS O'MARA

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Scholar
Mr Peretz
Mr Gieve
Mr N P Williams
Mr Polin

RESERVES IN SEPTEMBER

The Chancellor had the following comments on the reserves briefing attached to your minute to the Economic Secretary of 3 October:

- (i) in Defensive (1), change "getting satisfactory economic performance" to "promoting satisfactory economic performance";
- (ii) in Defensive (5), change "Never focused exclusively" to "Never focus exclusively";
- (iii) in Defensive (6), delete the last sentence ("But progress will depend to a very large extent on views of next US administration"), and substitute "G7 continuing their study of ways of further improving the international monetary system and the co-ordination process: G7 communique 24 September";
- (iv) in Defensive 13, delete the answer and substitute "So what? More important is that reserves stand at historically very high levels".
- (v) in Defensive 15, amend the beginning to read "Intervention to sell sterling only poses inflationary threat ...";



(vi) in Defensive 24, delete the last sentence ("These are what community business and industry need and what European consumer wants")

ACSA

A C S ALLAN

MINISTÉRIO DAS FINANÇAS
Gabinete do Ministro

The Right Honourable
Mr. Nigel Lawson
Chancellor of the Exchequer

CH/EXCHEQUER	
REC.	21 OCT 1988
ACTION	MISS O'MARA
COPIES TO	EST. SIR P. MIDDLETON, SIR T. BURNS, SIR G. LITTIER, MR LANKESTER, MR SCHOLAR, MR BIEVE, MR GRICE, MR N.P. WILLIAMS.

[Handwritten signature]
21/10

Ch. Again, no reply necessary, I think.

[Handwritten initials]
21/10
4 October 1988

[Handwritten signature]

Thank you very much for your letter of September the 14th, on the UK ECU Treasury Bill Programme. I am most interested in this matter, as we ourselves in Portugal are launching a similar programme "Bicentenário do Ministério das Finanças", as we commemorate the bicentenary of the Ministry of Finance.

Our programme however is slightly different from yours: the subscriber is able to choose in which currency to denominate its bills, in ECU or in Escudos, but the bills shall be payable in the equivalent Escudo value at subscription and at maturity.

The programme is expected to raise about 100 billion escudos (around 600 million ECU).

With best regards *[Handwritten flourish]*

[Handwritten signature]

MIGUEL CADILHE
Minister of Finance



MP

FROM: S M A JAMES
DATE: 4 OCTOBER 1988

MR PERETZ

cc: PS/Chancellor *2*
Sir P Middleton
sir T Burns
Sir G Littler o/r
Mr Lankester
Mr Scholar
Miss O'Mara
Mr Grice
Mr Gieve
Mr Williams
Mr Cropper

ECU TREASURY BILLS: FIRST TENDER

The Economic Secretary has seen and was grateful for your minute of 3 October.

S M A JAMES
Private Secretary

mp

FOREIGN EXCHANGE MARKETS

MG EVENING REPORT

Wednesday 5 October 1988

Previous close		Today opening 8.30am	Today close 4.00pm	since Plaza	%change \$/currency since Paris	since 16 October 1987
75.8	£ERI	75.8	75.8	-7.6	9.7	3.0
1.6960	\$/f	1.6935	1.695	23.4	10.9	1.8
3.1532	DM/£	3.1567	3.1561	-19.1	13.1	5.3
1.5213	ECU/£	1.5215	1.5223			
98.8	\$ERI	-	98.9	-29.2	-4.9	-1.3
1.8592	DM/\$	1.8640	1.862	52.6	-1.9	-3.3
133.20	Yen/\$	133.50	133.5	78.7	15.0	7.0

Oct \$11.52 Nov \$11.67 Dec \$11.82 Spot Brent Oct \$11.30 Nov \$11.45 Dec \$11.57

UK RESERVE TRANSACTIONS (\$million)

(a)	Today	This month so far	Total since 1 Apr 88	(b)	Estimated end-month position *
	10	39	3928	Market intervention	179
	83	58	-1086	Off-market transactions	940
	93	97	2842	TOTAL	1119
				Net borrowing	-1716
				Valuation changes (EMCF swap) (not yet known)	0
				TOTAL CHANGE IN RESERVES	-597

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

(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 -	Germany -	Italy -
Denmark -	Holland -	Japan -
France -	Ireland -	US -

MARKET COMMENT

In quiet New York markets last night the deutschemark lost ground on the back of some technical selling and profit taking. The dollar closed in New York 1/2 pfennig higher on its previous London close. Today the dollar firmed against the Mark during the morning session reaching DM1.8670 by mid afternoon but drifted downwards towards the close as markets nervously watched the oil price. Sterling eased this morning, after a quiet overnight session, as markets digested the implications of the KIO/BP announcement. Sterling reached lows of \$1.691 and DM3.1535 by mid morning but had recovered some of its losses by the close.

Rates at 5.40PM: \$1.6955 DM3.1591 DM/\$1.8632 Y/\$133.42

Ian Polin

HONG KONG	Previous	Today	Change
Hong Kong dollar	7.8125	7.813	-0.0005
Hang Seng Index	2415.76	2417.42	1.66
3 month interbank rate	8 1/4%	8 3/16%	DOWN 1/16%

Chris Bailey

NAME: I.C. Polin
TEL NO: 270-5556

SECRET

MONEY MARKETS

Wednesday 5th October 1988

INTEREST RATES

	£ Interbank		Eurodollar	
	Today	Change	Today	Change
7 days	12 1/16	1/16	8 1/8	-1/4
1 mth	11 15/16	0	8 1/4	0
3 mth	12	1/32	8 1/2	0
12 mth	11 13/16	0	8 13/16	1/16

BILLS

	Today	Change
3 Month Treasury Bills	11 9/16	0

BANK MONEY MARKET OPERATIONS

	Purchases £ m	Rates	Discount Rate on Eligible Bank Bills
Band 1 (0-14 days)	313	11 7/8	11 15/16-3/4
Band 2 (15-31 days)	37	11 13/16	11 23/32-45/64
Band 3 (32-63 days)			11 21/32-5/8
Band 4 (64-91 days)			11 41/64-19/32
TOTAL BILLS	350		
Repurchase			
Lending	55		
TOTAL OPERATIONS	405	against shortage £	500 m

US RATES

	3 month CDs		10 yr Tsy Bond		20 yr Tsy Bond	
Today/Change	8.35	0.00	8.85	0.01	8.96	0.01

STOCK MARKET

	FT Ind-Ord	FTSE	Gilt index
Today/Change	1471.7	14.1	1826.3
			19.0
			88.06
			0.07

MARKET COMMENT

GILTS opened easier with losses of 1/16-1/8 through the list. The rumours of intervention yesterday prevented any further fall and prices crept better during the day. At the close shorts, mediums had gained 1/8 and longs 1/4.

INDEX-LINKED gained 3/8-1/2.

EQUITIES after an unchanged start prices rose rapidly until checked by early falls on Wall Street, but recovered to close around the day's high. Oils were unsettled on lower crude prices, and uncertainty on KIO's stake in BP.

Carl Davey

NAME: Carl Davey
TEL NO: 270 4613

GILT-EDGED MARKET

Wednesday 5th October 1988

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

ISSUE DEPARTMENT: MARKET TRANSACTIONS

	Today	October
Gross sales shorts	3.0	3.0
Gross sales mediums	13.9	70.6
Gross sales longs and undated	134.1	383.7
Gross sales index-linked	21.7	89.2
Part paid calls		
Buying in non-next maturities shorts	-3.1	-3.1
Buying in non-next maturities mediums	-10.4	-89.9
Buying in non-next maturities longs	-153.5	-520.9
Buying in non-next maturities index-linked	-1.8	-38.9
CRND: Market transactions	0.9	-17.0
TOTAL 'GROSS' SALES	4.8	-123.3
Buying in of next maturities		-51.9
Redemptions	-18.3	-19.4
TOTAL TRANSACTIONS WITH MARKET	-13.5	-194.6
		Future calls
Sales required to meet * target of £ _____ m		

PRICES/YIELDS OF GILT-EDGED STOCKS

	Yesterday's close		Change from yesterday's close	
	Par	yield (per cent)	Price (£/32)	Yield (%)
Shorts	10.145		2	-0.02
Mediums	9.872		2	-0.01
Longs	9.389		7	-0.02

REPRESENTATIVE STOCKS

	Price (£/32)			Yield (per cent)	
	Today	Change	Today	Change	
8% Treasury 1992	93 23	3	10.17	-0.03	
8 3/4% Treasury 1997 'C'	93 28	5	9.79	-0.03	
11 3/4% Treasury 2003/07	116 2	8	9.64	-0.03	
3% Treasury 1992	83 10	-2	8.35	0.02	
2 1/2% Index-Linked 2016	99 2	12	3.85	-0.02	
2% Index-Linked 1994	94 8	7	3.54	-0.04	

GILT FUTURES

		Open	Close	Volume
Long Contract	December	95.18	95.28	11062
Medium Contract	December	94.02	94.05	56

NAME: Carl Davey
TEL NO: 270 4613



A large, stylized handwritten signature in black ink, likely belonging to Miss S J Feest.

FROM: MISS S J FEEST
DATE: 5 October 1988

MR J P B BRYCE - IR

cc

PS/Chancellor
Mr Allen
Mr Michie
PS/IR

A large, stylized handwritten mark or signature in black ink, possibly a checkmark or a large letter 'Z'.

CONTROLLED FOREIGN COMPANIES: EXCLUDED COUNTRIES LIST

The Financial Secretary was grateful for your minute of 3 October 1988 and approves the press release as drafted.

A handwritten signature in black ink that reads "Susan Feest".

SUSAN FEEST

THE GOVERNOR'S	MR TOWNEND HO-P	MR C M MILES HO-2
PRIVATE SECRETARY HO-P	MR WARLAND HO-1	MR MILNE HO-G
THE DEPUTY GOVERNOR'S	MR ARROWSMITH HO-3	MR MORTIMER-LEE HO-G
PRIVATE SECRETARY HO-P	MR BAILEY HO-2	MR PAGE HO-2
MR LOEHNIS HO-P	MISS C M BALFOUR BB-4	MR SAGAR HO-3
MR GEORGE HO-P	MR BRIAULT/	MR I D SAVILLE HO-2
MR W A ALLEN HO-P	MR M E F JONES HO-G	MRS SERGEANT HO-3
MR ALTHAUS HO-G	MR CARTER HO-M	MR SHEPPARD HO-4
MR A F BUSHELL HO-4	MR COLLINS HO-M	MS STONEFROST HO-M
MR CHARKHAM HO-4	MR DE HOEST HO-4	MR THORP BB-1
MR T A CLARK HO-M	MR DORRINGTON HO-4	MR URWIN HO-2
MR COLEBY HO-P	MR G I EVANS HO-2	MR R G WARE HO-3
MR FOOT HO-2	MR EXETER HO-2	MR R P WEBSTER HO-3
MR GILL HO-3	MISS T A GRAY HO-4	MR P A D WRIGHT HO-4
MR GREEN HO-3	MISS HOPKINSON HO-3	DEALERS GIMLET HO-2
MR J G HILL HO-G	MR ILES HO-3	GROUP 9, ID HO-2
MR LATTER HO-2	MR JENKINSON HO-2	GROUP 11, ID HO-2
MR KIRBY HO-3	MR M R LEWIS HO-3	GROUP 12, BSD HO-2
MR PLENDERLEITH HO-P	MS M V LOWTHER HO-G	LORD RICHARDSON PADS
MR PRICE HO-3	MR McCONNACHIE HO-G	
MR SMEETON HO-2	MR MIDGLEY HO-4	

US FINANCIAL DEVELOPMENTS

The latest weekly summary of developments in monetary policy and the financial markets is attached.

International Division
Group 1, HO-3
5 October 1988

R T Thorne (4385)

pp BPA

SUMMARY: 26-2 OCTOBER

- The transition period as Nicholas Brady replaces James Baker as US Treasury Secretary and the Reagan Administration reaches a close has reportedly provided an opportunity for other countries to provide a challenge to US leadership in economic issues. Representatives of the IMF, Bank of Japan and the French Government have suggested considering an enhanced role for SDRs in international reserves, with a consequent downgrading in the dollar's role. The US apparently does not favour a wider role for the SDR.

- Camdessus of the IMF also publicly called for cuts in the US budget deficit, which irritated the US by its timing so close to the Presidential election. US Treasury sources reportedly claim that he is trying to undermine US policies.

- The Fed is holding a steady domestic monetary policy at present, and although this week's employment data will be watched closely, they are unlikely to spur Fed action unless payroll employment grows by over 300,000.

- The Fed designated Yamaichi and County NatWest as US government primary dealers last week. Yamaichi's listing, which had been delayed, seems to be in response to the Japanese opening of their own market last month. Nevertheless, Representative Schumer criticised the Fed's move as premature, since Japan's move had not yet been fully analysed.

- The yield curve flattened slightly last week as the fall in oil prices and tentative signs of a continued economic slowdown in September reduced inflationary fears. Meanwhile, the dollar was stable as co-ordinated intervention at the start of the week counterbalanced bullishness over fundamentals.

POLICY

(a) IMF discussions and the dollar

1 According to some reports, the transition period as Nicholas Brady takes over from James Baker as US Treasury Secretary, together with the lull in US policy-making in the period up to the Presidential election, has provided an opportunity for other countries to provide a challenge to US leadership in international economic fora. Camdessus of the IMF, Bank of Japan Governor Sumita and French Finance Minister Berezovoy have all suggested that an enhanced role for SDRs in international official reserves should be considered, thus denting the dollar's role as the main denomination of the world's reserves. The accumulation of dollars by central banks last year, as the public sector was forced to provide much of the financing for the US current account deficit, seems to have been a factor encouraging the desire for diversification.

2 The US Administration apparently does not favour wider use of the SDR, perhaps partly because it sees this as a threat to its influence in the world, but also partly because an expanded issue of SDRs is seen as a possible step along the road to providing public sector funds to bail out ldc's. The US was amongst the countries which blocked a proposal at the IMF Interim Committee to make a new allocation of SDRs to boost liquidity in the international monetary system.

3 Camdessus also made other remarks last week which reportedly irritated the US authorities, and US Treasury sources are even said to have claimed that he is trying to undermine US policies. He called for studies of international monetary reform, including a greater role for the IMF, and the remarks in his IMF speech last week that cuts in the US budget deficit had a central role to play in improving the US balance of payments, stabilising exchange rates and lowering real interest rates apparently surprised the US, being such a public criticism of policies so close to the election. Brady, for his part, assured the G7 that Bush would move quickly to cut the budget deficit if he became President, but otherwise made veiled references apparently cautioning against

accepting economic and financial proposals made by other countries. Apart from these comments, Brady has left most of the details at the IMF/World Bank meetings to Greenspan and Assistant Treasury Secretary David Mulford, who has indicated that he would like to stay in the Administration if Bush becomes President.

4 On the subject of the dollar's current value, the US has maintained a silence for some months now and was apparently irritated by two comments last week. On the one hand, Camdessus called the recent rise in the dollar undesirable, and on the other, West German Finance Ministry state secretary Tietmeyer suggested that the G7 was relaxed about the dollar's rise. The preferred US policy seems thus to be to steer a middle path, leaving the markets with the impression that the dollar's rise is not wholly approved of but that the increase so far will be tolerated.

(b) Domestic policy

5 Markets this week will focus on Friday's employment data, which have in recent months seemed to be a key determinant of US monetary policy. Payroll employment growth of 300,000 or more may excite speculation of further tightening but, whatever the figure, it seems unlikely that the Fed would be prepared to ease in the near future, given continuing inflationary concerns.

6 Fed Governor Wayne Angell, in a speech last week, said that he did not favour fine-tuning to achieve price stability anyway. He favoured placing more emphasis on monetary aggregates (a view supported by other FOMC members, according to the minutes of the August meeting), not least because those statistics could help to provide a counterbalance to signals provided by short-term swings in commodity prices (another of his favourite indicators). While noting that financial markets pay too much attention to short-term changes in consumer prices, he said that the Fed's favourite measure is a three-month average of the most recent 12-month changes in the CPI (a measure which gives inflation of 4.0% at present compared with 4.5% last December, despite higher month-to-month increases in recent months than at the end of last year).

(c) Two new foreign primary dealerships

7 The New York Fed last week designated Yamaichi International (America) and County NatWest Government Securities as US government securities primary dealers last week, bringing the total number of primary dealers to 46. Yamaichi is the seventh Japanese firm to be so designated and, in its case, the usual one-year period of reporting daily trading which applicants undergo was extended by three months. The delay seemed to be a concession to protectionist sentiment in Congress, whose trade bill contained a measure requiring primary dealerships to be removed from firms from any country not allowing equal US access to their own government securities markets.

8 The Japanese made various concessions to foreign firms last month, and this seems to have thawed US-Japanese tensions a bit and prompted the Fed finally to act. Nevertheless, Representative Schumer, the architect of the measure in the trade bill, complained that the Fed had acted too quickly, since Congress had not finished analysing the recent Japanese moves, and the threat of withdrawal of dealerships had just been beginning to have an effect on Japan. Despite Schumer's remarks, the Fed's move has not undermined the legislation, since Yamaichi's dealership will be withdrawn next autumn along with those of three other Japanese dealers if the Japanese market is not judged to be sufficiently open.

9 County NatWest's listing was uncontroversial and brings the number of UK dealers to five, the others being BZW, Kleinwort Benson, Lloyds and S G Warburg.

MONEY AND CREDIT

10 M3 rose by a modest 0.1% and M2 fell slightly in the week ending 19 September, thus continuing a pattern of only small changes in recent weeks. M1 rose by a brisk 0.3%, close to expectations, after falling in the week before. The recent weakness in the broader aggregates' growth may be partly due to a drawing down of corporate and personal deposits to pay end-quarter taxes as well as to the rise in interest rates this summer.

11 Total US non-financial debt rose 8.1% (saar) in 1988 Q2, down from 8.5% in Q1. Although nonfederal debt growth accelerated to 9.3% from 7.5%, federal government debt rose by just 4.3%, down from 11.5%. Amongst the nonfederal debt, non-financial business debt increased by a particularly sharp 10.4%.

RESERVES AND POLICY IMPLEMENTATION

12 Average adjustment and seasonal borrowing from the Fed's discount window fell \$684 mn to \$556 mn in the week ending 28 September. The technical pressures on reserves which had caused the heavy level of borrowing continued, and indeed intensified, but in the latest week the Fed seemed to be more successful in anticipating the degree of those pressures. Looking behind those technical factors, analysts said that the Fed was apparently holding policy steady, with a discount window borrowing target of \$600 mn and a Fed funds target of 8 1/8%.

13 The reserve pressures were caused by two factors; the 15 September corporate tax date which has increased Treasury balances at the Fed, and the usual seasonal demand for reserves caused by the end of the quarter. Both pressures are likely to dissipate this week as we enter October and the government makes large social security and other payments. The Fed added reserves on every day from 19 September to the end of the month, and particularly aggressively last week, when most of its interventions were at a Fed funds rate of 8 1/4%. The rate rose to a high of 9 1/4% as pressures reached their peak on Friday, but this was in line with the usual end-quarter pattern.

MARKET DEVELOPMENTS (26-30 September)

14 The yield curve flattened somewhat further last week, with 3-month bills ending the week little changed at a 7.48% yield and the 10-year note falling about 10 bp over the week to a yield of 8.86%. In the absence of any major new economic indicators, the sharp fall in the oil price was probably the biggest influence on the market, while a slight pick-up in the latest weekly unemployment insurance claims figure and a purchasing managers'

survey that indicated a slowdown in growth provided further support to the long end of the market. Still, movements in the market are likely to remain sensitive to further indications as to whether August's data were an aberration or the economy really is slowing down.

15 The dollar spent the week in a narrow range, with continuing underlying bullish sentiment derived from the improvement in the US trade deficit and high US interest rates but constrained by fear of intervention. Co-ordinated intervention on Monday last week immediately quashed a slight market feeling that the vaguely worded G7 communique implied that the authorities were prepared to tolerate a further rise in the dollar.

TREASURY AUCTIONS

Monday	3 October	Auction of \$14.0 bn of three- and six month bills, raising \$150 mn of new cash.
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ECONOMIC INDICATORS

Monday	3 October	Factory orders; August
Friday	7 October	Employment and unemployment; September Consumer credit; August
Thursday	13 October	Merchandise trade; August Business inventories; August
Friday	14 October	Producer price index; September Industrial production; September Retail sales; September
Monday	17 October	Capacity utilisation; September Housing starts; September
Friday	21 October	Consumer price index; September

OTHER DATES

Monday	10 October	Columbus Day holiday
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0341c

US: MONEY AND BANKING STATISTICS

1 MONETARY AGGREGATES	Level (\$ bn)	Change in level (\$ bn)		% change (ar)		target base	target range (1988)	
		Latest week/ month	Previous week/month	Latest 4 weeks	Previous 4 weeks		Latest 4 weekly average over: weeks ended 13 weeks ago	% growth
M1 (19. 9.88)	784.9	+ 2.5	- 0.7	+ 1.3	+ 5.0	+ 4.9		
M2 (19. 9.88)	3,037.0	- 0.7	+ 2.0	+ 3.0	+ 2.8	+ 5.9	4-8	3013.2-3129.1
M3 (19. 9.88)	3,857.7	+ 3.3	+ 4.9	+ 8.2	+ 6.3	+ 6.6	4-8	3802.3-3948.6
Credit Aggregate (July)	8,700.9	+54.9	+57.1	+ 7.9	+ 8.3	+ 8.5	7-11	8814.9-9144.4

2 FINANCIAL STATISTICS	Level (\$ bn)	Change in level (\$ bn)		% Change (ar)	
		Latest week	Previous week	Latest 4 weeks	Previous 4 weeks
Business loans# (21. 9.88)	297.0	+0.5	-0.4	-8.0	- 4.3
Commercial Paper (21. 9.88)	420.9	+2.6	-1.2	+ 2.7	+ 5.7
Money Market					
Mutual Funds (21. 9.88)	267.2	+0.7	-0.3	+ 1.5	0.0

3 RESERVES	TWO WEEK PERIOD TO 21 SEPTEMBER		LATEST WEEK TO 28 SEPTEMBER	
	Level (\$ mn)	Change in level (\$ mn) Latest accounting period	Level (\$ mn)	Changes in Level Latest Week
Discount window borrowing of which adjustment and seasonal borrowing	2,971	- 122	2,257	- 654
extended credit	896	+ 285	556	- 684
Net free (borrowed) reserves	2,075 (117)	- 407 - 628	1,701	+ 30

Target bases (1987 Q4 averages)

M2 2897.3

M3 3656.1

Credit aggregate 8238.2

Major commercial banks

US MONEY MARKET RATES *

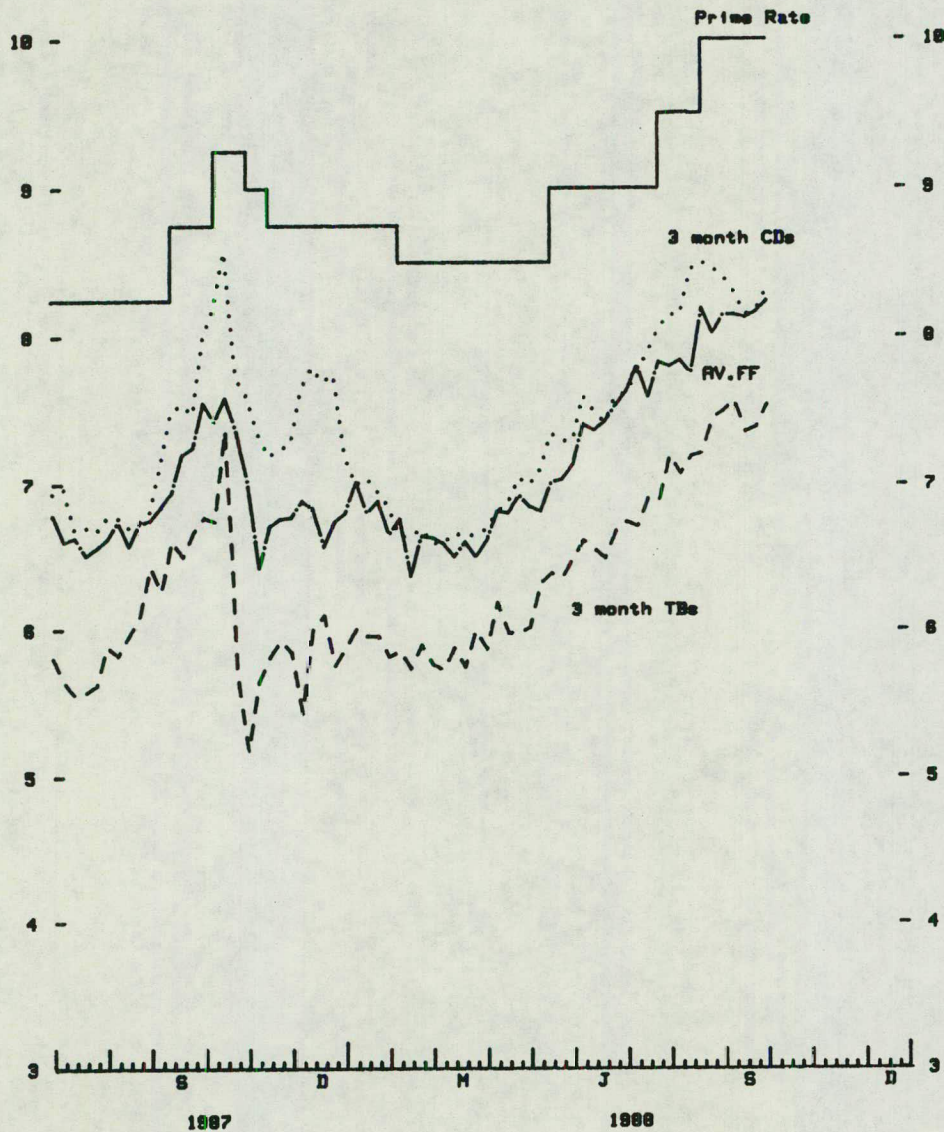
Per cent per annum
11 -

Chart 1
- 11

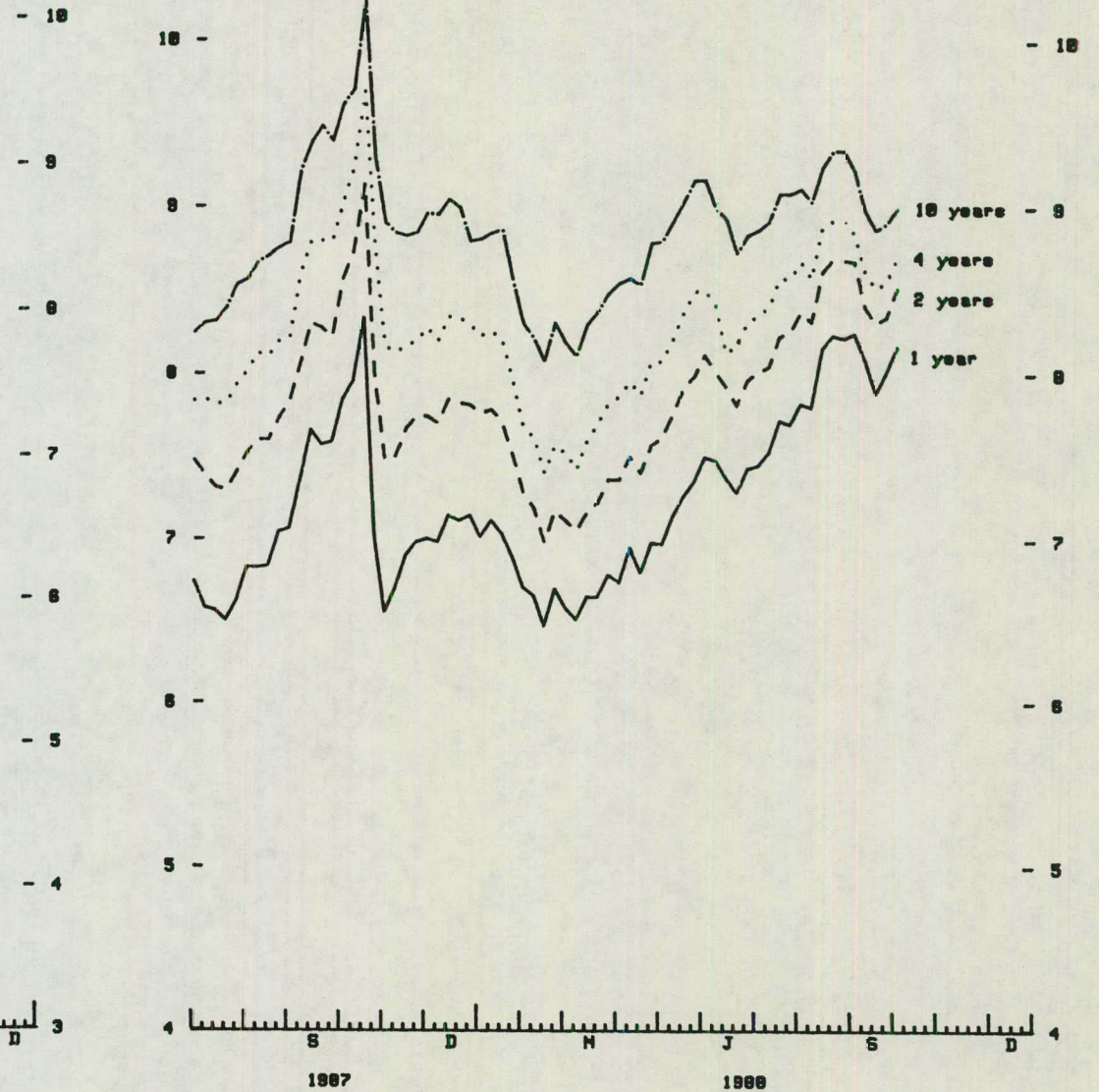
US TREASURY NOTE/BOND YIELDS *

Per cent per annum
11 -

Chart 2
- 11



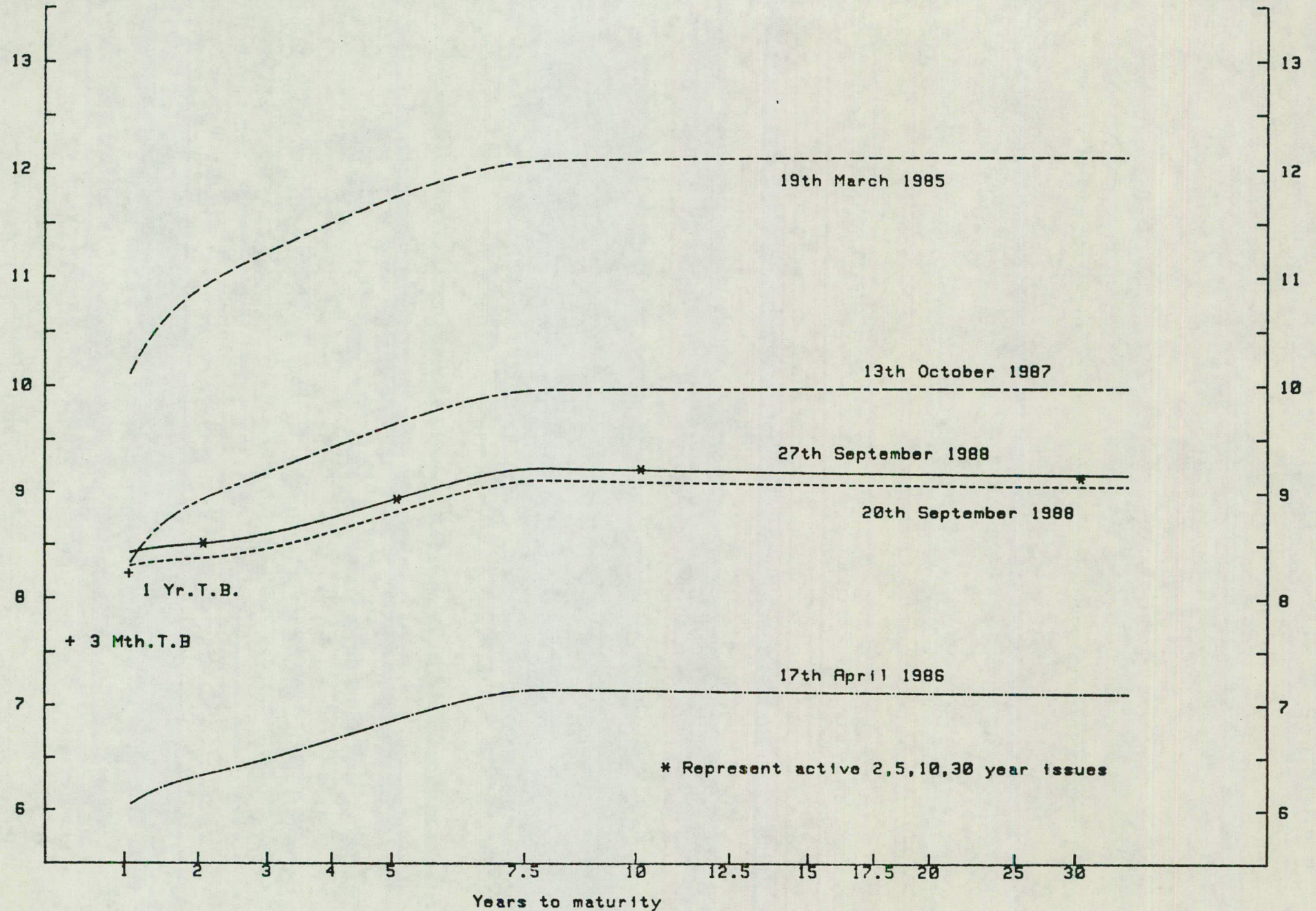
* Wednesday Close Except RV.FF



* Wednesday Close

TIME YIELD CURVES FOR U.S. TREASURY BONDS

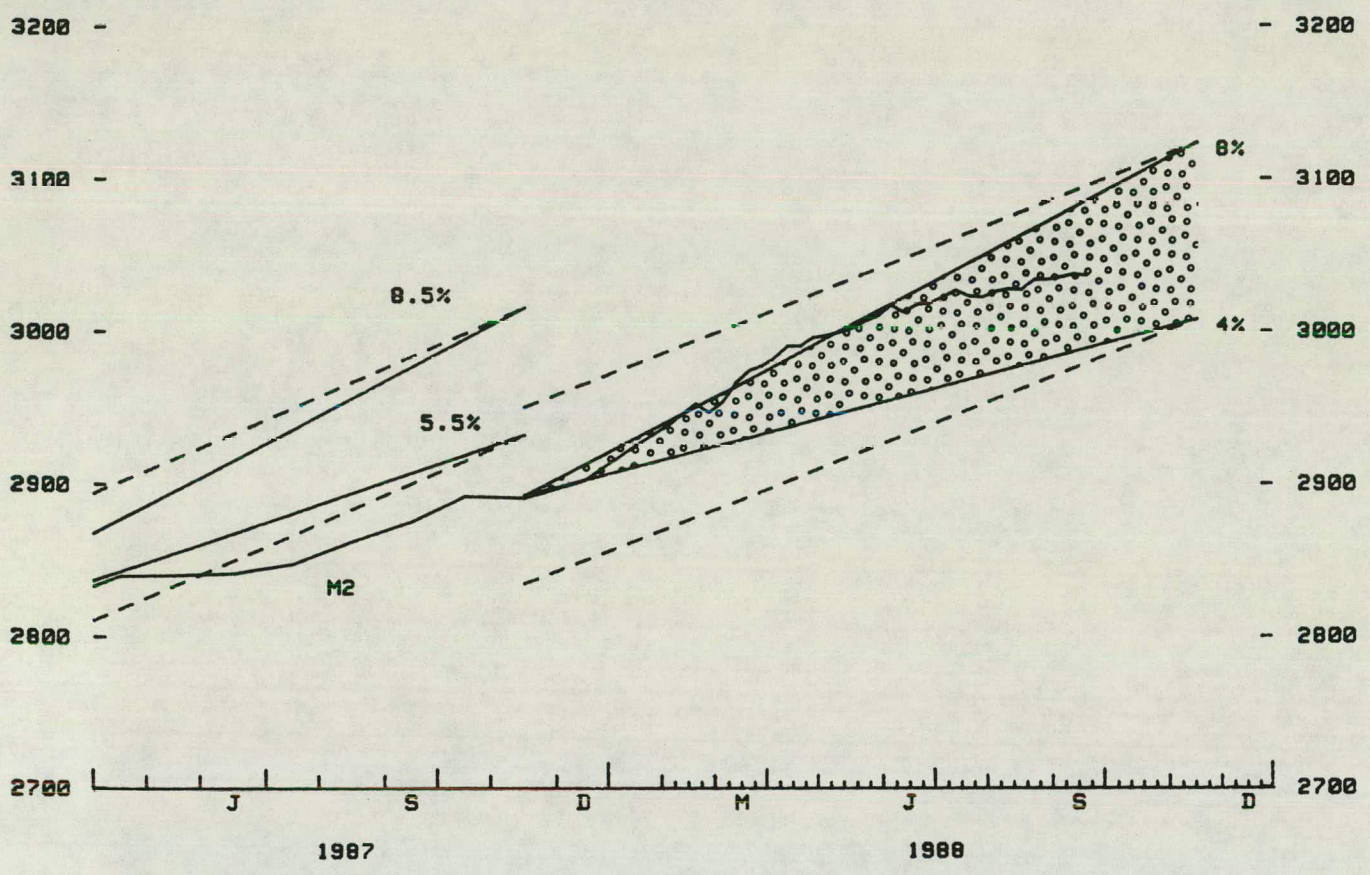
Per cent





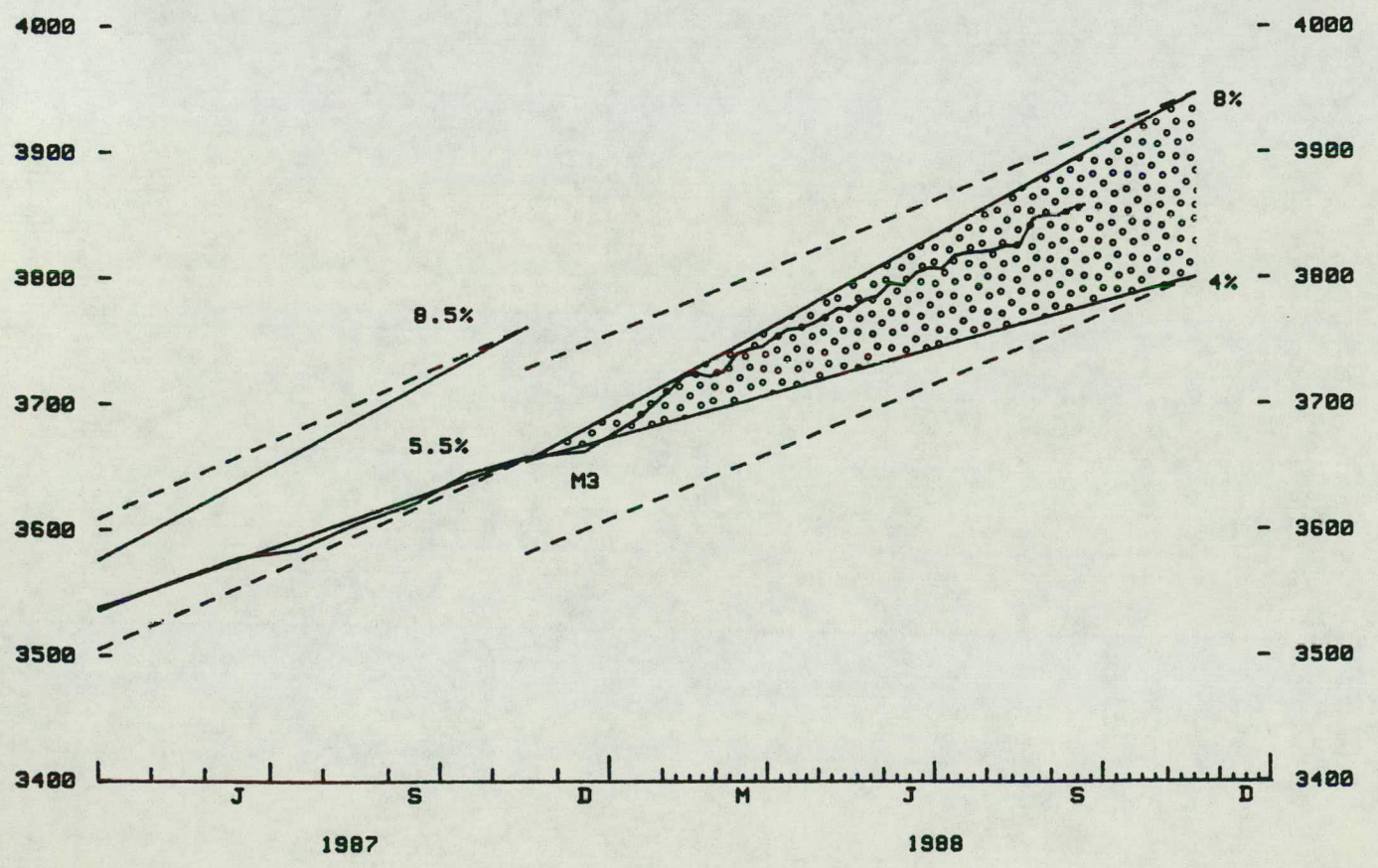
MONEY SUPPLY (M2)

Chart 3
\$bns
- 3200



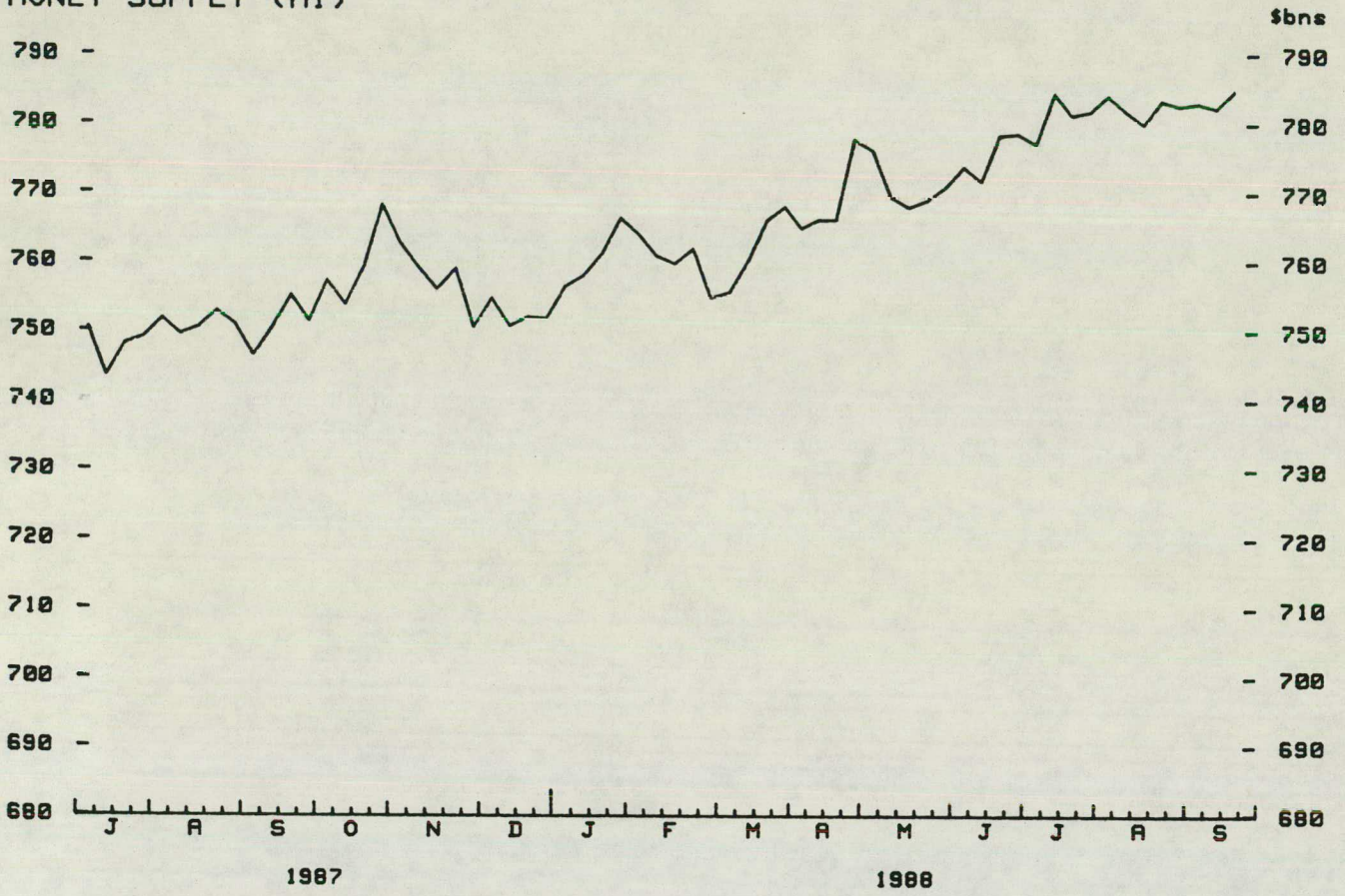
MONEY SUPPLY (M3)

Chart 4
\$bns
- 4000



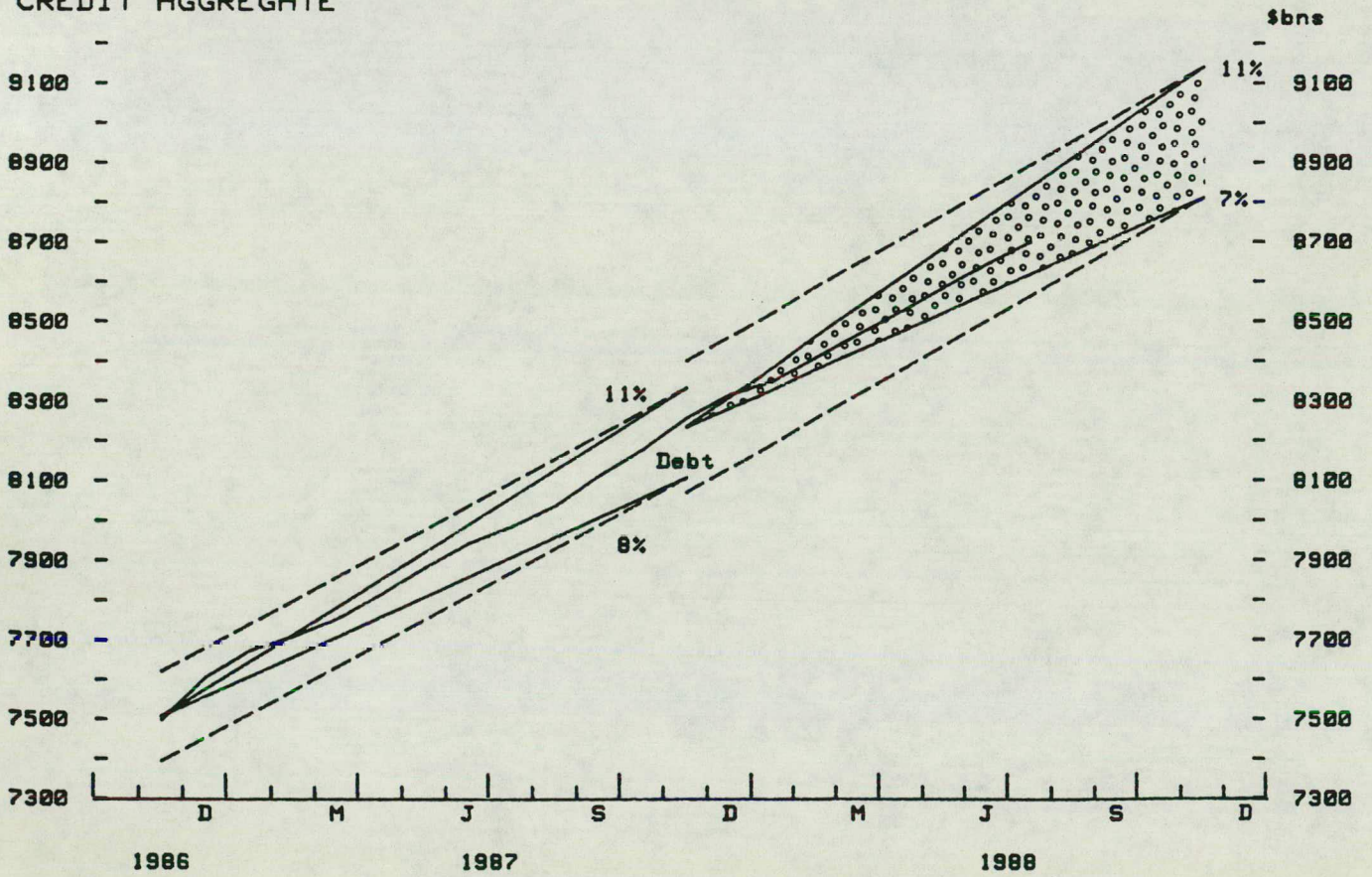
MONEY SUPPLY (M1)

CHART 5



CREDIT AGGREGATE

Chart 6





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

- 6 OCT 1988

My ref:

Your ref:

pmf

Miss Alison Smith
Private Secretary to the
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

FINANCIAL SECRETARY	
REC.	- 6 OCT 1988
ACTION	Mr. Gwyn
COPIES TO	PPS, CST, PMG, EST
	Mr. Bugnet
	Mr. Mackie
	Mr. Pele

2

Dear Alison

EUROCONTROL CHARGES

We spoke briefly at the end of last week.

5 OCT 1988

Mrs. Case
Mrs. Brown

You will recall that my Secretary of State wrote to the Lord President on 18 May (I attach a copy of his letter for ease of reference) requesting a place either in the 1987/88 Session, or at the latest in the next Session, for a Bill to enable Eurocontrol to collect navigation service charges in European Currency Units (ECUs) instead of US dollars as at present. The Lord President replied on 23 May, expressing a wish to be helpful but pointing to the difficulties in introducing a Bill, however short and uncontroversial, so far into the current Session. The Lord President did, however, assure the Secretary of State that everyone would do their best to tuck in a short bill of this kind at the beginning of the coming session.

Since legal advisers have found no other way round the problem in the meantime, and as final decisions are soon to be taken on the content of the coming legislative programme, I am writing to remind you of my Secretary of State's strong wish to deal with this piece of business early in the next Session. He set out the arguments at length in his letter. There is just one point I should like to emphasize even more than before: since May, both Lord Brabazon - as this year's President of Eurocontrol - and the Secretary of State have launched several major initiatives in Europe in order to improve in the short term the efficiency with which European airspace is used. Ministers here believe that the success of these initiatives is extremely important, both operationally and politically. Though the Eurocontrol Bill would not be directly relevant to those initiatives, our failure to bring the legislation forward once again would seriously hamper our Ministers in their discussions with their European colleagues over the next two months. Inevitably, the question

would be: how can they authoritatively urge important but difficult operational changes on reluctant continental administrations when they are not able to implement an apparently simple and sensible change in the method of charging which was agreed among all Eurocontrol's member states some time ago?

As you will be aware from my Secretary of State's letter, it would be an extremely short Bill - probably of only one clause - and would be suitable for introduction in either the Lords or the Commons. Instructions to Parliamentary Counsel are already drafted, and there need be no delay at our end in the drafting and introduction of a Bill once the Lord President gives the word. We do hope he is prepared to help us over this.

I am sending copies of this letter to the Private Offices of members of QL and L and to those of the Secretary of State for Trade and Industry, the Secretary to the Cabinet and First Parliamentary Counsel.

Yours ever

Neil

— — — →
N T E HOYLE
Private Secretary

CONFIDENTIAL



3/1/88

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3LB

My ref:

Your ref:

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
68 Whitehall
LONDON
SW1A 2AT

2
v
dyj
- 22-

Dear John,

17 0 MAY 1988

I am writing to you in your capacity as Chairman of L and QL to seek your advice on handling a small but potentially very embarrassing problem which can be resolved only by a very short (one substantive clause) Bill. The Bill's purpose would be to make a simple amendment to S73 of the Civil Aviation Act 1982 to enable the European Organisation for the Safety of Air Navigation (EUROCONTROL) to collect navigation service charges in European Currency Units (ECUs) instead of in US dollars as at present.

Eurocontrol is responsible for co-ordinating air traffic control services across eight European member states, and collects navigation services charges in those eight and three other associate member countries. I make regulations under the 1982 Act each year to specify the rates of the charges. Similar regulations are made by the other member authorities under their own legislation, so that the new rates come into force simultaneously on 1 January.

The decision to replace the US dollar with the ECU was taken by Eurocontrol's Enlarged Commission in November 1986. But because ECU is a unit of account rather than a currency, the 1982 Act does not allow me by regulation to specify charges in ECUs.

The switch to ECUs would largely solve the severe difficulties caused by the fluctuating level of the dollar against European currencies, so giving greater certainty that the charges paid would be pitched at a level which fully covered costs without overcharging or undercharging the airlines. The industry in Britain and elsewhere in Europe warmly welcomed the decision and the UK gave it full support. We did however enter the caveat that there was no immediate prospect of making the necessary amendment to our primary legislation.

CONFIDENTIAL

Eurocontrol and all the other member states are ready to implement the decision. Eurocontrol's Central Charging Office is now primed to make the switch from 1 January 1989. The UK is now in a minority of one in not being ready. The changeover cannot happen unless all the members act simultaneously, and we are coming under increasing pressure from the other countries and from our own industry who find our inability to implement this small technical change mystifying.

My Department was aware of this potential problem when we put in our bids for legislation but, given the very heavy pressures on the programme, we did not at that time believe the potential embarrassment for the UK at Eurocontrol justified an early bid for a technical measure of this sort in an area which had attracted little public or political interest.

Since then air traffic control matters have become front page news. As you know the Commons Transport Committee is inquiring into traffic control safety and congestion issues. Lack of air traffic control capacity is becoming a major problem all over Europe and we shall not be able to solve it without increased co-operation between the European countries. The fact that we currently hold the Presidency of Eurocontrol provides an opportunity to get things moving the right way. However it also means that our credibility and effectiveness will be undermined if we are seen to be dragging our feet on the ECU. It is difficult for us successfully to push other member nations to make rapid progress on capacity when we are holding up reform of the charging system. We also leave ourselves open to the charge, however unjust, that our failure to implement this small straightforward change shows that we are not wholeheartedly committed to Eurocontrol and its work.

In the present climate of public concern and interest, the political and practical consequences of not proceeding with the amendment go far beyond the original embarrassment we envisaged in being seen to delay a desirable reform which had been agreed by a little known European organisation. Notwithstanding the pressures on the programme, I have concluded that we must bring forward the necessary legislation at the earliest opportunity, and I should be grateful for your advice on how this can best be achieved.

We have looked at the possibilities of implementing the change without a new Bill but have drawn a blank. We have clear legal advice that any attempts to prescribe charges in ECUs under existing legislation would be open to challenge and could well lead to navigation charges having to be repaid to the airlines. The Treasury have been consulted and have no objection to the amendment being made, but it is outside the scope of a Finance Bill. There does not appear to be any other suitable vehicle already in the programme; it is not appropriate for a Private Member's Handout Bill, which in any case offers no certainty of success. The only course therefore seems to be a new Government Bill.

CONFIDENTIAL

Ideally, the Bill should be taken this Session to allow the changeover to be implemented on 1 January 1989 as Eurocontrol wishes. I fully recognise the difficulties with the programme this Session, especially in the Lords, but the amendment will be very simple and non-controversial and draft instructions to Counsel are ready (copy attached). The Bill should not take up much time - it seems an ideal candidate for a Second Reading Committee. If, however, it is impossible to create even a small gap in the programme this Session, I hope you will be able to find room for the Bill in 1988-89, with introduction in the Lords, if that would be more convenient.

I am copying this letter to members of L, David Young, Sir Robin Butler and First Parliamentary Counsel.

Paul
and

PAUL CHANNON

CONFIDENTIAL

BANK OF ENGLAND
LONDON EC2R 8AH

G E A Kentfield
Deputy Chief of the Banking Department
01-601 4284

6 October 1988

Sir Peter Middleton KCB
Permanent Secretary
HM Treasury
Parliament Street
London
SW1P 3AG

Onf

PERM. SEC'S. OFFICE	
RECEIVED	
-7 OCT 1988	
Action	Mr Bottrill
	PSICK PS/CS7
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	Sir G Little
To	M Laker
	M Bennett
	Mrs Lomax

Mr Watts
Mr Mountfield
Mrs Thomas
Mr R Savage (Party)
Miss Tindal (TSol)
Mr Cassell (UKIDEL)
Mr Enoch (UKIDEL)

M Turnbull
M C. Butler
M Beasly
M R. G. Allen
M Waisl

Dear Sir Peter

INDEMNITY RE YUGOSLAVIAN LOAN

I refer to the indemnity given in your letter of 13 June to Anthony Loehnis covering the Bank's US\$30mn commitment to the BIS credit facility in favour of the National Bank of Yugoslavia. The Bank have now been advised that the facility has been fully repaid. In consequence, the Bank's commitment has been terminated.

I am copying this letter to Peter Mountfield and writing separately to Tony Bottrill about HMT's share of the commission received by the Bank in relation to their commitment.

Yours sincerely

G.E.A. Kentfield.

MP

FOREIGN EXCHANGE MARKETS

MG EVENING REPORT

Thursday 6 October 1988

Previous close		Today		since Plaza	since Paris	since 16 October 1987
		opening 8.30am	close 4.00pm			
75.8	£ERI	75.8	75.8	-7.6	9.7	3.0
1.6950	\$/£	1.6935	1.695	23.4	10.9	1.8
3.1561	DM/£	3.1536	3.1569	-19.1	13.1	5.3
1.5223	ECU/£	1.5211	1.5225			
98.9	\$ERI	-	98.9	-29.2	-4.9	-1.3
1.8620	DM/\$	1.8622	1.8625	52.5	-1.9	-3.3
133.50	Yen/\$	133.30	133.4	78.8	15.1	7.1

Oct \$11.30 Nov \$11.45 Dec \$11.57 Spot Brent Oct \$11.45 Nov \$11.60 Dec \$11.72

UK RESERVE TRANSACTIONS (\$million)

(a)	Today	This month so far	Total since 1 Apr 88	(b)	Estimated end-month position *
	20	59	3948	Market intervention	199
	-23	35	-1109	Off-market transactions	935
	-3	94	2839	TOTAL	1134
				Net borrowing	-1716
				Valuation changes (EMCF swap)	102
				TOTAL CHANGE IN RESERVES	-480

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

(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	-	Germany	-	Italy	-
Denmark	-	Holland	-	Japan	-
France	-200\$	Ireland	-	US	-

MARKET COMMENT

The forex markets were extremely quiet with closing rates of most currencies near to last night's rates. The French intervened to help the Franc as it slipped close to the floor of the EMS narrow band. Markets now look towards US (un)employment data out tomorrow (1.30PM). With the US and Japan on holiday on Monday (10th) markets are beginning to look thin in advance of US trade data due out next Thursday (13th).

Rates at 5.45PM: \$1.6940 DM3.1571 DM/\$1.8637 Y/\$133.42

Tan Blum

HONG KONG	Previous	Today	Change
Hong Kong dollar	7.813	7.8155	-0.0025
Hang Seng Index	2417.42	2427.04	9.62
3 month interbank rate	8 3/16%	8 1/16%	DOWN 1/8%

Terry Smeeton

NAME: I.C.Polin
TEL NO: 270-5556

S E C R E T

MONEY MARKETS

Thursday 6th October 1988

INTEREST RATES

	£ Interbank		Eurodollar	
	Today	Change	Today	Change
7 days	12 1/8	1/16	8 3/16	1/16
1 mth	12	1/16	8 1/4	0
3 mth	12	0	8 1/2	0
12 mth	11 3/4	-1/16	8 13/16	0

BILLS

	Today	Change
3 Month Treasury Bills	11 9/16 -	11 3/8
		0

BANK MONEY MARKET OPERATIONS

	Purchases £ m	Rates	Discount Rate on Eligible Bank Bills
Band 1 (0-14 days)	285	11 7/8	11 7/8-13/16
Band 2 (15-31 days)	92	11 13/16	11 49/64-3/4
Band 3 (32-63 days)			11 45/64-43/64
Band 4 (64-91 days)			11 41/64-5/8
TOTAL BILLS	377		
Repurchase			
Lending	140		
TOTAL OPERATIONS	517	against shortage £	500 m

US RATES

	3 month CDs		10 yr Tsy Bond		20 yr Tsy Bond	
Today/Change	8.35	0.00	8.86	0.01	8.95	-0.01

STOCK MARKET

	FT Ind-Ord		FTSE		Gilt index	
Today/Change	1481.5	9.8	1838.9	12.6	88.41	0.35

MARKET COMMENT

GILTS opened unchanged and moved ahead through the day. There was a high level of activity and demand was broad based with significant foreign content. At the close shorts were 1/4 firmer, mediums 3/8 and longs 1/2, each upto 1/8 below their best.

INDEX-LINKED, well bid after hours yesterday, opened 1/4 firmer and met good demand -partly professional- in next century issues. Having traded upto 1/2 better the market closed up 3/8.

EQUITIES opened firm, but lost its way mid-morning and came good again in the afternoon on good institutional support. The Government has confirmed the sale of British Steel in the second half of November.

Carl Davey

NAME: Carl Davey
TEL NO: 270 4613

GILT-EDGED MARKET

Thursday 6th October 1988

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

ISSUE DEPARTMENT: MARKET TRANSACTIONS

	Today	October
Gross sales shorts	7.5	10.5
Gross sales mediums	86.7	157.3
Gross sales Longs and undated	82.2	465.9
Gross sales index-linked	35.7	124.9
Part paid calls		
Buying in non-next maturities shorts	-8.4	-11.5
Buying in non-next maturities mediums	-63.0	-152.9
Buying in non-next maturities longs	-121.5	-642.4
Buying in non-next maturities index-linked		-38.9
CRND: Market transactions		-17.0
TOTAL 'GROSS' SALES	19.2	-104.1
Buying in of next maturities		-51.9
Redemptions	-0.7	-20.1
TOTAL TRANSACTIONS WITH MARKET	18.5	-176.1
		Future calls
Sales required to meet * target of £ m		

PRICES/YIELDS OF GILT-EDGED STOCKS

	Yesterday's close		Change from yesterday's close	
	Par yield (per cent)		Price (£/32)	Yield (%)
Shorts	10.124		4	-0.03
Mediums	9.843		6	-0.03
Longs	9.361		15	-0.05

REPRESENTATIVE STOCKS

	Price (£/32)		Yield (per cent)	
	Today	Change	Today	Change
8% Treasury 1992	93 31	8	10.08	-0.09
8 3/4 Treasury 1997 'C'	94 9	13	9.72	-0.07
11 3/4 Treasury 2003/07	116 18	16	9.59	-0.05
3% Treasury 1992	83 8	-2	8.38	0.03
2 1/2 Index-Linked 2016	99 16	14	3.83	-0.02
2% Index-Linked 1994	94 16	8	3.49	-0.05

GILT FUTURES

		Open	Close	Volume
Long Contract	December	95.30	96.11	32656
Medium Contract	December	94.08	94.17	255

NAME: Carl Davey
TEL NO: 270 4613

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FM WASHINGTON

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INFO SAVING DOI, DEPARTMENT OF ENERGY, DEPARTMENT OF EMPLOYMENT

INFO SAVING MINISTRY OF AGRICULTURE

UNITED STATES MONTHLY ECONOMIC REPORT: SEPTEMBER SUMMARY
SUMMARY

1. INDICATORS FOR AUGUST SHOWED SLOWER GROWTH THAN IN JULY. BUT STRONG SEPTEMBER EMPLOYMENT REPORT SUGGESTS THAT PAUSE IN GROWTH HAVE BEEN TEMPORARY. TREND IN INFLATION STILL, IF ANYTHING, UPWARDS.

REAL GNP AND DOMESTIC DEMAND

2. DESPITE SMALL DOWNWARD REVISION TO SECOND QUARTER GNP (3.0 PERCENT GROWTH) LITTLE EVIDENCE OF SLOWDOWN IN NON-FARM ECONOMY (3.9 PERCENT GROWTH IN SECOND QUARTER, 3.4 IN FIRST.) US WIDELY EXPECTED TO ACHIEVE 4 PERCENT YEAR-ON-YEAR GROWTH THIS YEAR, SLOWING TO AROUND 2.5 PERCENT IN 1989. MAJORITY OF ECONOMISTS NOW EXPECT NO RECESSION IN US ECONOMY UNTIL 1990 OR LATER.

OUTPUT AND CAPACITY

3. IN AUGUST, THE MANUFACTURING SECTOR SAW ONLY A SMALL RISE IN OUTPUT, AND A MARGINAL FALL-BACK IN CAPACITY UTILISATION. BUT THE HEATWAVE LED TO A SURGE IN ELECTRICITY DEMAND, PUSHING TOTAL INDUSTRIAL CAPACITY UTILISATION SLIGHTLY HIGHER.

TRADE AND EXCHANGE RATES

4. THE JULY MERCHANDISE TRADE DEFICIT, AT 0.5 BILLION DOLLARS, WAS THE LOWEST FOR NEARLY FOUR YEARS. THE SECOND QUARTER CURRENT ACCOUNT DEFICIT, AT 33.3 BILLION DOLLARS, WAS THE LOWEST SINCE FIRST QUARTER 1986 WHEN IT WAS 33.04, BUT THE SERVICES BALANCE MOVED INTO THE RED FOR THE FIRST TIME SINCE THE LATE 1950S.

5. THE DOLLAR RECOVERED FROM A GRADUAL SLIDE FOLLOWING PUBLICATION MID MONTH OF THE UNEXPECTEDLY FAVOURABLE JULY TRADE FIGURES, AND ENDED THE MONTH SHOWING LITTLE NET CHANGE AGAINST OTHER MAJOR CURRENCIES.

INFLATION AND THE LABOUR MARKET

6. PRICE INCREASES IN AUGUST REMAINED WITHIN THE DISTURBINGLY HIGH RANGE ESTABLISHED SINCE THE SPRING. A LARGE PART OF THE LATEST INCREASE REPRESENTED HIGHER PRODUCER ENERGY COSTS AND CONSUMER FOOD COSTS, THE LATTER IN PART DUE TO THE DROUGHT.

7. THE SEPTEMBER EMPLOYMENT REPORT SAW THE UNEMPLOYMENT RATE FALL TWO-TENTHS OF A PERCENT TO 5.4 PERCENT, RETURNING TO ITS JULY RATE, AND AGAIN MATCHING A FOURTEEN YEAR LOW. NON-FARM PAYROLL INCREASED BY 255,000 AND WAS FUELED BY A JUMP OF 100,000 IN STATE AND LOCAL GOVERNMENT HIRING FOR THE FALL SCHOOL TERM. FACTORY EMPLOYMENT LEVELS FELL SLIGHTLY BUT WEEKLY OVERTIME RATES INCREASED FROM 3.9 TO 4.0 HOURS.

MONETARY POLICY AND INTEREST RATES

8. THE FED IS WIDELY PERCEIVED TO HAVE CALLED A TEMPORARY HALT TO ITS POLICY TIGHTENING INSTITUTED SINCE MARCH. INDICATORS OF MONETARY CONDITIONS ARE CURRENTLY GIVING CONFUSED SIGNALS (SLOW MONEY GROWTH, SLACK OUTPUT IN AUGUST, AND A STRONG DOLLAR, BUT RISING INFLATION AND CAPACITY UTILISATION). THE PERCEIVED NEED FOR URGENT ACTION APPEARS TO HAVE RECEDED. BUT MANY IN THE FED EXPECT TO TIGHTEN FURTHER, AND THIS CAN BE ANTICIPATED IF THE AUGUST SLOWDOWN IS PROVED TO HAVE BEEN TEMPORARY.

BUDGET

9. THE OFFICE OF MANAGEMENT AND BUDGET (OMB) WILL PUBLISH REVISED PROJECTIONS FOR THE FY 1989 BUDGET DEFICIT ON 15 OCTOBER. THE PROJECTED DEFICIT IS EXPECTED TO FALL MARGINALLY BELOW THE 146 BILLION DOLLAR GRAMM-RUDMAN CEILING, HENCE AVOIDING AN AUTOMATIC EXPENDITURE SEQUESTER.

10. FCO PLEASE ADVANCE TO PS/CHANCELLOR, SIR TERENCE BURNS, EVANS, SEDGWICK AND MATTHEWS (TREASURY), RICHARDSON (ERD), BROADBENT (EA) AND GREEN (BANK).

ACLAND

YYYY

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MR EVANS, TREASURY

MR SEDGWICK, TREASURY

MR MATHEWS, TREASURY

MR GREEN, BANK OF ENGLAND

NNNN



With the compliments of
THE ECONOMIC AND COMMERCIAL COUNSELLOR

Janet Caswood

BRITISH EMBASSY
ATHENS

*opened in error
— not surprising in view of
the address! J.*

prep.

ATHENS.....October 7.....198⁸.....

Ref. No. E-2880

Mr. NIGEL LAWSON
Ambassador of
BRITISH EMBASSY
Commercial Department
1 Ploutarchou Street
Athens 106 75

✓

Dear Mr. Lawson,

I am writing to thank you for your kindness to inform me personally on the U.K. ECU Treasury Bill programme. I think it is indeed a good idea for the development of a private ECU market and I wish you success. I would be particularly interested to know how this would affect overall liquidity and what the implications would be for the conduct of U.K. monetary policy.

Sincerely Yours

P. R.

Panayiotis Rouneliotis

WEEKLY INTEREST/EXCHANGE RATE AND COMMODITY PRICE TABLES

CIRCULATION LIST

DATE: 7th OCTOBER 1988

CHANCELLOR'S OFFICE

MR. S. BROOKS 88/G
MR. J.W. GRICE 89/G
MISS R. MCROBBIE 107/G
MISS M. O'MARA 108/G
MRS C. RYDING 110/G
MR. P. MOUNTFIELD 80/1
MR. J. ODLING-SMEE 45/2
MR. N.J. MONCK 46/2
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MR. M.C. SCHOLAR 87/2
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MR. J. MCLAREN 33/3
SIR J.G. LITTLER 113/2
MR. R. MOLAN 81/1
MR. R.E. DEANE 41/3
MR. T.P. LANKESTER 116/2
SIR T. BURNS 119/2
MR. A.M. DOLPHIN 32/3
MR. M. LYON 34/3
MR. D. OWEN 36/3
Ms. C. TURK 35A/3
MR. P.N. SEDGWICK 39/3
MR. S.W. MATTHEWS 104/3
MR. D. SAVAGE 106/3
MR. H.P. EVANS 107/3
MR. W. HOOD 30A/3
MR. PERETZ 84/G
MR. P. ELWOOD 106/3
MR. D. RAMSDEN 106/3
MR. G. YOUNG 112/G

Please inform Bina Doshi (ext: 5374 - room : 31/3) if there are any changes to be made to this list.

THREE MONTH INTEREST RATES IN THE SIX MAJOR COUNTRIES

	-WORLD BASKETS-											-UNCOVERED DIFFERENTIALS-			
	WORLD RATES					EURO		USA CD		EURODOL		INTER	WORLD	UK-	UK-
	CANADA	FRANCE	GERMANY	ITALY	JAPAN	USA	DOLLAR	RATE	RATE	BANK	BASKET	USA	GERMANY		
	1	2	3	4	5	6	7	8	9	10	11	12	13		
1987 QTR2	8.41	8.13	3.80	10.64	3.92	6.85	7.07	6.27	6.34	9.18	2.91	2.11	5.38		
QTR3	8.99	7.89	3.97	12.00	4.08	6.98	7.15	6.45	6.51	9.81	3.36	2.66	5.84		
QTR4	8.88	8.47	4.13	11.76	4.54	7.76	7.96	6.84	6.91	9.20	2.36	1.23	5.07		
1988 QTR1	8.55	7.94	3.41	11.11	4.36	6.74	6.91	6.18	6.24	9.01	2.83	2.10	5.60		
QTR2	9.05	7.81	3.62	10.91	4.49	7.25	7.41	6.37	6.42	8.34	1.97	0.93	4.72		
QTR3	9.83	7.65	5.10	11.36	4.90	8.20	8.35	7.15	7.18	11.31	4.17	2.96	6.22		
1987 OCT	9.20	8.19	4.79	12.13	4.80	8.21	8.48	7.13	7.22	9.93	2.81	1.45	5.14		
NOV	8.63	8.61	3.95	11.58	4.34	7.39	7.55	6.67	6.73	8.97	2.30	1.42	5.02		
DEC	8.89	8.56	3.70	11.63	4.47	7.76	7.96	6.75	6.82	8.75	2.00	0.79	5.05		
1988 JAN	8.65	8.31	3.44	10.91	4.35	6.96	7.17	6.31	6.38	8.92	2.61	1.75	5.47		
FEB	8.50	7.58	3.37	11.00	4.32	6.63	6.79	6.07	6.12	9.22	3.15	2.43	5.85		
MAR	8.53	8.03	3.42	11.44	4.40	6.65	6.79	6.20	6.25	8.83	2.64	2.04	5.41		
APR	8.83	8.13	3.43	10.88	4.19	6.92	7.11	6.25	6.32	8.32	2.06	1.21	4.89		
MAY	8.98	7.90	3.56	10.78	4.27	7.27	7.44	6.36	6.42	8.03	1.67	0.59	4.47		
JUN	9.34	7.39	3.89	11.13	4.42	7.56	7.67	6.49	6.53	8.74	2.24	1.07	4.85		
JUL	9.34	7.33	4.95	11.28	4.80	7.94	8.23	6.85	6.90	10.53	3.68	2.30	5.58		
AUG	9.80	7.63	5.35	11.28	4.88	8.38	8.50	7.25	7.28	11.25	4.00	2.75	5.90		
SEPT	10.35	7.98	4.99	11.54	5.02	8.28	8.33	7.34	7.35	12.16	4.82	3.83	7.17		
1988 JUL 18	9.39	7.38	5.35	11.25	4.88	8.05	8.31	6.98	7.07	11.03	4.05	2.72	5.68		
JUL 25	9.40	7.38	5.00	11.38	4.78	8.12	8.75	6.94	6.98	10.72	3.78	1.97	5.72		
AUG 1	9.49	7.38	5.35	11.38	4.75	8.15	8.25	7.01	7.04	10.81	3.80	2.56	5.46		
AUG 8	9.66	7.38	5.25	11.25	4.83	8.20	8.37	7.00	7.01	10.91	3.91	2.54	5.66		
AUG 15	9.93	7.69	5.38	11.25	4.92	8.50	8.69	7.39	7.46	11.03	3.64	2.34	5.65		
AUG 22	9.90	7.75	5.40	11.25	4.95	8.55	8.62	7.43	7.45	11.41	3.98	2.79	6.01		
AUG 29	10.00	7.94	5.38	11.25	4.94	8.50	8.56	7.43	7.45	12.09	4.66	3.53	6.71		
SEPT 5	10.14	8.00	5.00	11.38	5.09	8.42	8.37	7.38	7.37	12.34	4.96	3.97	7.34		
SEPT 12	10.32	8.10	5.00	11.63	5.01	8.24	8.37	7.35	7.40	12.13	4.78	3.76	7.13		
SEPT 19	10.52	8.00	4.95	11.63	5.01	8.20	8.25	7.32	7.33	12.13	4.81	3.88	7.18		
SEPT 26	10.41	7.81	5.00	11.50	4.95	8.25	8.31	7.29	7.31	12.03	4.74	3.72	7.03		
OCT 3	10.40	7.75	5.28	11.38	4.89	8.40	8.25	7.36	7.31	11.91	4.55	3.66	6.63		

Column 1. 90 DAY BANKERS ACCEPTANCES
 Column 2. 3 MONTH MONEY MARKET RATE
 Column 3. 3 MONTH INTER BANK
 Column 4. 3 MONTH INTER BANK
 Column 5. 3 MONTH CERTIFICATE OF DEPOSIT
 Column 6. 3 MONTH CERTIFICATE OF DEPOSIT IN NEW YORK
 Column 11. USA CD RATE(COLUMN 8) USED FOR WORLD BASKET
 Column 12. 3 MONTH EURODOLLAR RATE(COLUMN 7) USED FOR USA

QUARTERLY AND MONTHLY FIGURES ARE AVERAGES OF THE WEEKLY DATA
 THE WEEKLY FIGURES REPRESENT THE CLOSING VALUES FOR THAT DATE

USA INTEREST RATES

		----- THREE MONTH RATES -----			10 YEAR	
		TREASURY		EURO	COMMERCIAL	
		BILLS	CD'S	DOLLAR	BOND	
		(RUST)	NEW YORK	(REU)	MOODY AAA	
		(V2626)		(V2627)	(REB)	
		FED FUNDS			(V2625)	
		(OVERNIGHT)				
1987	QTR2	6.60	5.87	6.85	7.07	9.16
	QTR3	6.82	6.08	6.98	7.15	9.72
	QTR4	6.98	5.92	7.76	7.96	10.22
1988	QTR1	6.67	5.86	6.74	6.91	9.57
	QTR2	7.09	6.40	7.25	7.41	9.81
	QTR3	7.94	7.21	8.20	8.31	9.98
1987	SEP	7.12	6.47	7.43	7.56	10.14
	OCT	7.36	6.24	8.21	8.48	10.55
	NOV	6.81	5.74	7.39	7.55	10.05
	DEC	6.82	5.82	7.76	7.96	10.11
1988	JAN	6.82	5.92	6.96	7.17	9.97
	FEB	6.62	5.81	6.63	6.79	9.41
	MAR	6.56	5.87	6.65	6.79	9.39
	APR	6.75	6.04	6.92	7.11	9.65
	MAY	7.04	6.48	7.27	7.44	9.89
	JUN	7.50	6.65	7.56	7.67	9.87
	JUL	7.69	6.91	7.94	8.11	9.94
	AUG	8.05	7.26	8.38	8.50	10.09
	SEPT	8.09	7.46	8.28	8.33	9.91
1988	MAY 23	7.12	6.48	7.35	7.50	9.97
	MAY 30	7.25	6.62	7.50	7.69	10.04
	JUN 6	7.44	6.63	7.48	7.62	9.98
	JUN 13	7.44	6.62	7.50	7.56	9.89
	JUN 20	7.56	6.57	7.62	7.75	9.86
	JUN 27	7.56	6.79	7.65	7.75	9.80
	JUL 4	7.50	6.73	7.70	7.81	9.82
	JUL 11	7.56	6.91	7.90	8.06	9.88
	JUL 18	7.81	6.90	8.05	8.31	10.00
	JUL 25	7.87	7.10	8.12	8.25	10.04
	AUG 1	7.87	7.11	8.15	8.25	10.03
	AUG 8	7.75	7.10	8.20	8.37	10.02
	AUG 15	8.37	7.27	8.50	8.69	10.15
	AUG 22	8.06	7.27	8.55	8.62	10.15
	AUG 29	8.19	7.55	8.50	8.56	10.10
	SEPT 5	8.09	7.42	8.42	8.37	10.08
	SEPT 12	8.00	7.44	8.24	8.37	9.91
	SEPT 19	8.06	7.37	8.20	8.25	9.79
	SEPT 26	8.19	7.60	8.25	8.31	9.85
	OCT 3	8.12	7.45	8.40	8.25	9.65

QUARTLERLY AND MONTHLY FIGURES ARE AVERAGES OF THE AVAILABLE WEEKLY DATA

DOLLAR EXCHANGE RATES WITH FIVE MAJOR OECD COUNTRIES

EFFECTIVE						
	EXCHANGE	FRANCE	GERMANY	ITALY	JAPAN	CANADA
	RATE					
1987 Q1R2	101.1	6.03	1.81	1300	142.6	1.33
QTR3	102.5	6.13	1.84	1331	150.0	1.32
QTR4	97.0	5.75	1.71	1249	135.7	1.31
1988 QTR1	94.2	5.67	1.68	1236	128.1	1.27
QTR2	93.5	5.78	1.71	1268	125.7	1.23
QTR3	99.0	6.31	1.86	1383	133.6	1.22
1987 AUG	103.3	6.20	1.86	1346	147.6	1.33
SEP	100.9	6.05	1.81	1309	143.1	1.32
OCT	100.5	6.02	1.80	1302	143.3	1.31
NOV	96.5	5.71	1.68	1239	135.4	1.32
DEC	93.9	5.54	1.64	1205	128.5	1.31
1988 JAN	93.9	5.59	1.66	1218	127.9	1.29
FEB	95.0	5.73	1.70	1249	129.2	1.27
MAR	93.6	5.69	1.68	1240	127.1	1.25
APR	92.7	5.68	1.67	1241	124.9	1.24
MAY	93.0	5.73	1.69	1259	124.8	1.24
JUN	94.8	5.93	1.76	1304	127.4	1.22
JUL	98.1	6.22	1.85	1366	133.1	1.21
AUG	99.5	6.39	1.89	1394	133.6	1.22
SEPT	99.6	6.33	1.86	1389	134.0	1.23
1988 APR 11	93.4	5.72	1.69	1251	126.5	1.24
APR 18	92.1	5.63	1.66	1232	124.0	1.23
APR 25	92.7	5.70	1.68	1246	124.8	1.23
MAY 2	92.7	5.70	1.68	1248	124.7	1.23
MAY 9	92.8	5.70	1.69	1249	124.7	1.24
MAY 16	92.7	5.73	1.69	1254	124.9	1.24
MAY 23	93.2	5.75	1.70	1263	124.5	1.24
MAY 30	93.7	5.82	1.73	1283	125.1	1.23
JUN 6	94.0	5.80	1.72	1277	126.1	1.23
JUN 13	93.7	5.82	1.72	1282	125.1	1.22
JUN 20	94.4	5.93	1.76	1305	126.2	1.21
JUN 27	97.0	6.14	1.82	1349	130.8	1.21
JUL 4	98.5	6.16	1.83	1358	135.5	1.22
JUL 11	98.1	6.21	1.85	1367	133.0	1.21
JUL 18	99.4	6.34	1.88	1392	134.6	1.21
JUL 25	97.5	6.23	1.85	1362	132.0	1.21
AUG 1	98.7	6.32	1.86	1383	132.7	1.21
AUG 8	99.6	6.41	1.90	1403	133.8	1.21
AUG 15	99.3	6.38	1.88	1395	133.3	1.23
AUG 22	100.4	6.51	1.92	1403	134.0	1.23
AUG 29	99.6	6.32	1.87	1386	134.4	1.24
SEPT 5	99.9	6.28	1.84	1378	133.7	1.24
SEPT 12	98.8	6.28	1.85	1379	133.4	1.24
SEPT 19	99.5	6.37	1.87	1395	134.1	1.22
SEPT 26	100.0	6.41	1.88	1404	134.7	1.22
OCT 3	99.0	6.34	1.86	1387	133.6	1.21

STERLING EXCHANGE RATES WITH FIVE MAJOR OECD COUNTRIES

		EFFECTIVE					
		EXCHANGE	FRANCE	GFRMANY	ITALY	JAPAN	USA
		RATE					
1987	QTR2	72.8	9.89	2.96	2132	234.2	1.64
	QTR3	72.7	9.92	2.97	2152	237.9	1.62
	QTR4	74.7	10.08	2.99	2188	237.8	1.76
1988	QTR1	75.1	10.18	3.01	2217	229.8	1.80
	QTR2	77.8	10.64	3.14	2335	231.7	1.84
	QTR3	75.8	10.68	3.16	2343	226.4	1.69
1987	AUG	72.4	9.89	2.96	2150	235.5	1.60
	SEP	73.0	9.97	2.99	2157	236.3	1.65
	OCT	73.2	9.99	3.00	2162	238.4	1.66
	NOV	75.0	10.12	2.98	2199	240.1	1.78
	DEC	75.8	10.12	2.99	2201	234.2	1.83
1988	JAN	75.3	10.05	2.97	2189	230.2	1.81
	FEB	74.3	10.08	2.98	2196	227.1	1.75
	MAR	75.9	10.43	3.07	2273	232.8	1.84
	APR	77.8	10.65	3.13	2329	234.8	1.88
	MAY	78.5	10.74	3.17	2357	234.0	1.88
	JUN	76.8	10.52	3.11	2314	225.7	1.77
	JUL	75.8	10.55	3.13	2319	226.4	1.69
	AUG	76.3	10.84	3.20	2371	226.7	1.70
	SEPT	75.5	10.66	3.14	2338	226.1	1.69
1988	APR 11	78.1	10.60	3.12	2318	234.9	1.85
	APR 18	78.3	10.72	3.15	2347	236.2	1.90
	APR 25	78.3	10.68	3.14	2337	234.0	1.87
	MAY 2	78.7	10.70	3.15	2341	234.7	1.88
	MAY 9	78.4	10.72	3.16	2349	234.5	1.88
	MAY 16	77.9	10.82	3.19	2369	236.0	1.89
	MAY 23	79.0	10.75	3.18	2362	232.8	1.87
	MAY 30	78.3	10.73	3.19	2364	232.0	1.86
	JUN 6	78.2	10.46	3.09	2302	227.3	1.80
	JUN 13	76.2	10.58	3.13	2329	227.3	1.81
	JUN 20	76.8	10.58	3.14	2329	225.3	1.78
	JUN 27	76.2	10.45	3.10	2297	222.8	1.70
	JUL 4	76.2	10.37	3.08	2285	228.0	1.68
	JUL 11	75.0	10.49	3.12	2311	224.8	1.69
	JUL 18	75.1	10.59	3.14	2325	224.8	1.67
	JUL 25	76.8	10.75	3.19	2353	228.0	1.73
	AUG 1	76.4	10.84	3.21	2371	227.5	1.71
	AUG 8	76.5	10.88	3.23	2381	227.0	1.70
	AUG 15	76.5	10.93	3.22	2390	228.3	1.71
	AUG 22	76.2	10.91	3.22	2381	224.8	1.68
	AUG 29	75.8	10.66	3.14	2334	226.0	1.69
	SEPT 5	75.7	10.65	3.13	2332	229.3	1.69
	SEPT 12	75.7	10.65	3.13	2339	226.3	1.70
	SEPT 19	75.3	10.66	3.14	2340	224.3	1.68
	SEPT 26	75.2	10.68	3.14	2341	224.5	1.67
	OCT 3	75.8	10.76	3.16	2355	227.0	1.70

ECONOMIST COMMODITY PRICE INDICES

1985=100

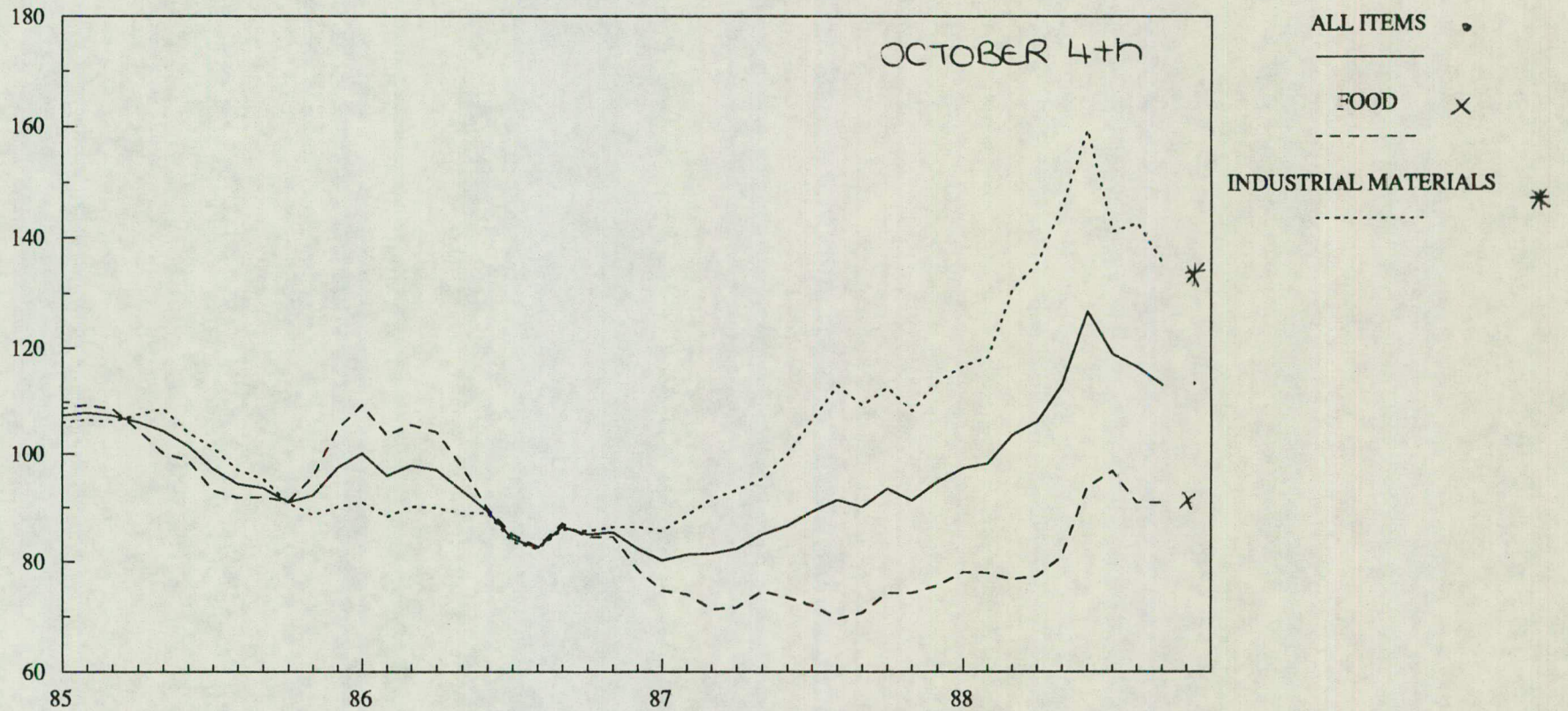
Annual	All items indices				SDR indices		
	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
1980	104.4	133.7	74.0	115.6	96.7	106.2	118.6
1981	99.3	115.2	73.5	105.3	93.7	104.7	106.2
1982	91.8	99.9	73.4	94.3	89.3	96.0	93.8
1983	107.2	112.7	95.7	110.4	102.0	116.6	110.1
1984	110.3	111.5	107.2	113.1	112.3	111.6	106.2
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	89.8	103.7	90.6	86.4	92.4	89.9	85.4
1987	87.4	111.5	87.1	82.2	73.0	103.3	100.6
Quarterly							
1986 Q3	84.6	100.2	86.2	81.8	85.1	85.5	83.1
Q4	84.2	100.1	89.5	80.2	82.2	91.0	82.8
1987 Q1	81.0	100.8	83.5	76.5	73.2	95.2	84.3
Q2	84.9	108.2	84.4	80.7	73.2	102.6	92.1
Q3	90.2	113.4	90.0	84.6	70.7	111.9	108.0
Q4	93.4	123.7	90.3	87.0	74.7	103.3	117.9
1988 Q1	99.8	134.6	95.9	93.9	77.6	105.5	133.4
Q2	115.5	155.7	108.8	109.1	84.0	115.1	169.1
Q3	116.4	148.8	112.4	107.4	92.9	114.0	157.9
Monthly							
August	91.4	114.2	91.8		69.6	115.0	111.7
September	90.1	114.5	89.3		70.7	111.4	107.9
October	93.5	119.3	92.3		74.2	106.8	117.0
November	91.3	121.3	88.1		74.2	101.4	113.3
December	94.8	129.1	90.5		75.6	102.1	122.4
January	97.4	132.2	94.1		78.1	102.7	126.6
February	98.2	131.2	95.6		78.0	106.5	126.7
March	103.8	140.3	98.0		76.8	107.3	157.0
April	106.4	144.9	99.1		77.3	110.5	152.8
May	113.4	153.8	105.7		80.9	114.1	168.2
June	126.7	168.4	121.6		93.9	120.8	186.4
July	119.1	152.9	115.1		96.9	117.7	157.6
August	116.9	148.9	112.5		91.0	113.5	163.1
September	113.3	144.5	109.5		90.9	110.9	152.9
Weekly							
Aug 16	117.2	149.5	111.5		91.4	115.0	162.4
23	118.4	149.8	114.4		90.2	111.6	171.0
30	117.8	150.1	113.8		90.8	111.4	168.1
Sept 6	116.5	148.8	112.0		93.1	112.1	159.2
13	114.9	147.2	111.2		92.1	112.1	155.4
20	112.0	142.9	108.6		89.3	110.0	152.1
27	109.6	139.2	106.3		89.0	109.3	144.8
Oct 4 (prov)	110.3	140.7	106.4		90.0	108.7	145.9
% ch. on one yr	+16.6	+18.0	+13.7		+21.5	-1.3	+23.3

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals.

ECONOMIST SDR COMMODITY PRICE INDICES

1985 = 100



MP

MG EVENING REPORT

FOREIGN EXCHANGE MARKETS

Friday 7 October 1988
Exchange
\$/currency

Previous close		Today opening 8.30am	Today close 4.00pm	since Plaza	since Paris	since 16 October 1987
75.8	£ERI	75.8	75.9	-7.4	9.8	3.1
1.6950	\$/£	1.6935	1.6985	23.6	11.1	2.0
3.1569	DM/£	3.1579	3.1618	-19.0	13.3	5.5
1.5225	ECU/£	1.5231	1.5246			
98.9	\$ERI	-	98.7	-29.3	-5.1	-1.5
1.8625	DM/\$	1.8647	1.8615	52.6	-1.9	-3.3
133.40	Yen/\$	133.45	133.25	79.0	15.2	7.2

Oct \$11.45 Nov \$11.60 Dec \$11.72 Spot Brent Oct \$11.40 Nov \$11.50 Dec \$11.62

UK RESERVE TRANSACTIONS (\$million)

(a)	Today	This month so far	Total since 1 Apr 88	(b)	Estimated end-month position
	7	66	3955	Market intervention	206
	6	41	-1103	Off-market transactions	933
	13	107	2852	TOTAL	1139
				Net borrowing	-1716
				Valuation changes (EMCF swap)	102
				TOTAL CHANGE IN RESERVES	-475

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

(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	-40DM	Germany	-14\$	Italy	+4Ffr
Denmark	-	Holland	-	Japan	-
France	-238\$	Ireland	-	US	-

MARKET COMMENT

After firming on some short covering (mainly by IMM) in New York last night, the dollar eased in the Far East on some profit-taking. Today it was steady prior to worse than expected US (un)employment figures. The September US jobless rate did fall from 5.6% to 5.4% (back to its level of two months ago) but non-farm payroll figures in August were revised substantially downwards from +219,000 to +169,000 and the September figure was +255,000 whereas the market had been expecting around +283,000. The dollar fell following these figures reaching lows of DM1.8575 and Y133.05 but saw a knee jerk reaction so closing above its worst. Bearish feeling still surrounds the dollar. Sterling was on the sidelines in generally dull pre US trade figure markets.

Rates at 6.10PM: \$1.6997 DM3.1623 DM/\$1.8605 Y/\$133.28

Ian Polin

HONG KONG	Previous	Today	Change
Hong Kong dollar	7.8155	7.817	-0.0015
Hang Seng Index	2427.04	2478.87	51.83
3 month interbank rate	8 1/16%	8 1/4%	UP 3/16%

Terry Smeeton

NAME: I.C.Polin
TEL NO: 270-5556

MONEY MARKETS

Friday 7th October 1988

INTEREST RATES

	£ Interbank		Eurodollar	
	Today	Change	Today	Change
7 days	11 13/16	-5/16	8 1/8	-1/16
1 mth	11 7/8	-1/8	8 3/16	-1/16
3 mth	11 7/8	-1/8	8 7/16	-1/16
12 mth	11 5/8	-1/8	8 13/16	0

BILLS

	Today		Change	
3 Month Treasury Bills	11 5/8	-	11 3/8	0

BANK MONEY MARKET OPERATIONS

	Purchases £ m	Rates	Discount Rate on Eligible Bank Bills
Band 1 (0-14 days)	115	11 7/8	11 7/8-5/8
Band 2 (15-31 days)	47	11 13/16	11 3/4-23/32
Band 3 (32-63 days)			11 11/16-21/32
Band 4 (64-91 days)			11 39/64-37/64
TOTAL BILLS	162		
Repurchase			
Lending			
TOTAL OPERATIONS	162	against shortage £ 200 m	

Average rate 11.4603

US RATES

	3 month CDs		10 yr Tsy Bond		20 yr Tsy Bond	
Today/Change	8.35	0.00	8.85	-0.01	8.92	-0.03

STOCK MARKET

	FT Ind-Ord		FTSE		Gilt index	
Today/Change	1490.4	8.9	1844.7	5.8	88.74	0.33

MARKET COMMENT

GILTS opened up to 1/8 better through the list and improved steadily as the morning progressed so that prior to the US employment numbers shorts and mediums were 1/4 better and longs perhaps 3/8. Attention seemed to focus on the smaller than expected rise in the non-farm payroll, particularly the downward revision to the August numbers, and this soon left the US bond a point or more better; gilts responded to the \$'s slide with further gains leaving longs up 3/4 before vertigo set in. The market then subsided to lunchtime levels but then improved to close with longer shorts and mediums up 3/8 and high coupon longs up 5/8 to 3/4

INDEXED LINKED opened unchanged but put on 1/8 to 1/4 during the morning; in the absence of funding the sector went sharply better to close with gains of up to 3/4

EQUITIES opened weak but moved ahead on Wall Street's advance following the fall in US unemployment from 5.6% to 5.4%. Trading levels have been reasonable

Peter Smith

NAME: Peter Smith
TEL NO: 270 4613

GILT-EDGED MARKET

Friday 7th October 1988

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

ISSUE DEPARTMENT: MARKET TRANSACTIONS

	Today	October
Gross sales shorts	2.7	13.2
Gross sales mediums	33.7	191.0
Gross sales longs and undated	50.4	516.3
Gross sales index-linked	1.1	126.0
Part paid calls	ERR	
Buying in non-next maturities shorts	-2.7	-14.2
Buying in non-next maturities mediums	-26.7	-179.6
Buying in non-next maturities longs	-61.9	-704.3
Buying in non-next maturities index-linked	-1.5	-40.4
CRND: Market transactions	0.5	-16.5
TOTAL 'GROSS' SALES	-4.4	
Buying in of next maturities	-21.0	-72.9
Redemptions	-0.2	-20.3
TOTAL TRANSACTIONS WITH MARKET	-25.6	

Future calls

Sales required to meet

*

target of

£

m

=====

PRICES/YIELDS OF GILT-EDGED STOCKS

	Yesterday's close		Change from yesterday's close	
	Par	yield (per cent)	Price (£/32)	Yield (%)
Shorts	10.057		4	-0.03
Mediums	9.774		12	-0.06
Longs	9.299		16	-0.05

REPRESENTATIVE STOCKS

	Price (£/32)		Yield (per cent)	
	Today	Change	Today	Change
8% Treasury 1992	94	4	10.03	-0.05
8 3/4 Treasury 1997 'C'	94	22	9.65	-0.07
11 3/4% Treasury 2003/07	117	8	9.51	-0.08
3% Treasury 1992	83	8	8.39	0.01
2 1/2% Index-Linked 2016	100	6	3.80	-0.03
2% Index-Linked 1994	95		3.40	-0.09

GILT FUTURES

		Open	Close	Volume
Long Contract	December	96.11	96.25	34642
Medium Contract	December	94.20	95.02	447

NAME: Peter Smith
TEL NO: 270 4613

CONFIDENTIAL

FROM: J W GRICE

DATE: 10 October 1988

ECONOMIC SECRETARY

cc Chancellor
Sir P Middleton
Sir T Burns
Sr G Littler
Mr Scholar
Mr H P Evans
Mr Odling-Smee
Mr Peretz o/r
Mr Sedgwick
Miss O'Mara
Mr O'Donnell
Mr Gieve
Mr S Matthews
Mr Bush
Mr Young
Mr N P Williams
File: MAMC D7

BULLETIN ARTICLE ON CHANGES TO THE OFFICIAL EXCHANGE RATE INDEX

As you are aware, the Chancellor has given approval to our changing the official exchange rate index from the 1 January 1989. From that date, the official ERI will be calculated in accordance with the IMF's new exchange rate index for the UK. This will first be announced in the November Bank of England Quarterly Bulletin, published on 10 November. The Bank have now sent over the draft of their short article.

2. We do not think that the draft presents any fundamental difficulties. It is very deadpan in tone. But that is probably appropriate if we are to minimise the chance of commentators' wrongly suspecting our motives in making the change. The Bulletin article will, in any case, be followed by a Treasury one in the December Economic Progress Report and that will give an opportunity for a slightly more enthusiastic piece if necessary. There is, however, one substantive issue which you may like to consider. The Bank are proposing changing the base date for the new index from 1980 to 1985 = 100. That, of course, does not affect the behaviour of the series over time, but it does alter

its level. We see some advantage in making this move, given the opportunity that the new index presents, particularly following the rebasing to 1985 prices of the National Income Accounts overall.

3. The printing deadline means that we need to give the Bank comments by Wednesday 12 October. Accordingly, it would be helpful if you would let us have your views by lunchtime on that date.

4. For the slightly longer term, we will need to decide what Treasury material should accompany the publication of the Bulletin article. One possibility would be a Treasury press release at the same time. Alternatively, we could arrange an inspired PQ. We should be grateful for your guidance.

JWG

J W GRICE

REVISIONS TO CALCULATING EFFECTIVE EXCHANGE RATES

This note describes new statistics recently published by the International Monetary Fund (IMF) and the consequent proposed changes in the way the Bank of England calculates indices of effective exchange rates. The new indices are to be published from 30 December 1988; the old indices will also be published on that day but will then be discontinued.

An effective exchange rate is a measure of the value of a currency against a 'basket' of other currencies, relative to a base date. It is calculated as a weighted geometric average of exchange rates, expressed in the form of an index.

The effective exchange rate indices for sterling and other currencies currently published by the Bank are based on the IMF's Multilateral Exchange Rate Model (MERM)⁽¹⁾. The weights derived from the MERM were designed to measure the impact on the trade balance of changes in a country's nominal exchange rates, such that, for example, any combination of changes in other currencies against sterling, which result in a 1% change in the index would have the same effect on the UK's visible trade balance as a 1% change in sterling against all other currencies. The current weights were introduced in 1981⁽²⁾ and take account of the direction and size of trade flows in 1977.

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- (1) See 'A Multilateral Exchange Rate Model' by J R Artus and R R Rhomberg, IMF Staff Papers, Vol 20, No.3, November 1973, page 591. The model was subsequently developed by the IMF's Research Department; see 'A Revised Version of the Multilateral Exchange Rate Model' by J R Artus and A K McGuirk, IMF Staff Papers, Vol 28, June 1981.
- (2) See 'Revisions to the Calculation of Effective Exchange Rates' Bank of England Quarterly Bulletin, Vol.21, No.1, March 1981, page 69.

Beginning with the July 1988 edition of its publication International Financial Statistics, the IMF has started publishing new monthly nominal effective exchange rate indices for 16 industrialised countries⁽³⁾. Since the MERM model is unlikely to be re-estimated in the near future, and its weights are becoming increasingly outdated, it is intended to make the new published index the United Kingdom's 'official' exchange rate index (ERI). The weights for the new effective exchange rate have been derived from disaggregated trade flows in manufactured goods in 1980, rather than total trade flows in 1977 as in the MERM based index; it is hoped that the IMF will be able to update the new indices further in due course. The weights are designed to measure the impact of real exchange rate changes on the real manufacturing balance and represent the relative importance of each of the other countries as a competitor to the manufacturing sector of, say, the UK. These are derived from three components, measuring the effect of industrialised country competition in (i) the UK domestic market - ie import competitiveness -, (ii) in their own domestic market - ie bilateral export competitiveness - and (iii) in third country markets (ie the markets of the other 15 industrialised countries, and those in other areas of the world). They are weighted together differently for each country, reflecting the degree of competition in each market⁽⁴⁾.

For the United Kingdom manufacturing trade represents over three quarters of all trade and the 16 countries account for a similar proportion of our overseas markets. The most significant change resulting from the introduction of the new index on the sterling ERI is the fall in the weight of the US dollar from approximately 24.6% to 20.4%, and the rise in the weight of the currencies of members of the European Community included in the calculations from 47.5% to 55.6% (within this the weight for the Deutschemark has increased from 14.1% to 20%). This continues a trend made

(3) The countries are the MERM 18 countries excluding Australia and Ireland, although exchange rates against the Irish Punt are included in the calculations.

(4) For details of how these weights are derived see 'Measuring Price Competitiveness for Industrial Country Trade in Manufactures by A K McGuirk, IMF Working Paper, April 1986.

apparent at the time of the last revision in 1981, when the weight for the US dollar declined from 32.8% to 24.6%. Australia, which in the old index had a weight of 2%, is no longer included in the calculation. The matrix of weights is shown in Table 1.

In line with National Income Accounts published by the Central Statistical Office (CSO), the base date for the new effective exchange rate index will be 1985=100. A change in the base date will only influence the scale of the index and not percentage changes between different points. The new effective exchange rate for sterling is shown in Table 2 and Chart A alongside the old index, which for ease of comparison has been rescaled to 1985=100.

TABLE 1: WEIGHTS DERIVED FROM TRADE IN MANUFACTURES

Based on 1980 trade flows

	<u>Austria</u>	<u>Belgium</u>	<u>Canada</u>	<u>Denmark</u>	<u>France</u>	<u>West Germany</u>	<u>Italy</u>	<u>Japan</u>	<u>Netherlands</u>
Austria	-	0.0278	0.0067	0.0106	0.0728	0.4342	0.1090		
Belgium	0.0113	-	0.0082	0.0077	0.2072	0.2755	0.0728	0.0508	0.0309
Canada	0.0033	0.0099	-	0.0020	0.0273	0.0405	0.0163	0.0442	0.0947
Denmark	0.0185	0.0327	0.0069	-	0.0707	0.2466	0.0163	0.0743	0.0092
France	0.0133	0.0931	0.0101	0.0074	-	0.2742	0.0524	0.0510	0.0449
West Germany	0.0500	0.0779	0.0094	0.0164			0.1470	0.0645	0.0501
Italy	0.0282	0.0462	0.0085	0.0078	0.1725	-	0.1227	0.0845	0.0773
Japan	0.0109	0.0233	0.0324	0.0063	0.2077	0.2755	-	0.0639	0.0387
Netherlands	0.0142	0.1072	0.0086	0.0119	0.0758	0.1578	0.0531	-	0.0231
Norway	0.0178	0.0338	0.0141	0.0590	0.1263	0.3096	0.0690	0.0497	-
Sweden	0.0207	0.0325	0.0139	0.0547	0.0666	0.1593	0.0377	0.0747	0.0481
Switzerland	0.0384	0.0457	0.0069	0.0094	0.0829	0.2226	0.0546	0.0707	0.0387
United Kingdom	0.0124	0.0525	0.0190	0.0145	0.1159	0.2874	0.0957	0.0662	0.0304
United States	0.0073	0.0283	0.1873	0.0065	0.1175	0.2001	0.0765	0.0883	0.0500
Finland	0.0311	0.0266	0.0206	0.0374	0.0831	0.1450	0.0560	0.2586	0.0275
Republic of Ireland	0.0087	0.0318	0.0157	0.0108	0.0718	0.1983	0.0481	0.0549	0.0387
Spain	0.0111	0.0375	0.0118	0.0067	0.0752	0.1525	0.0509	0.0391	0.0363
					0.2126	0.1923	0.1256	0.0839	0.0351
	<u>Norway</u>	<u>Sweden</u>	<u>Switzerland</u>	<u>United Kingdom</u>	<u>United States</u>	<u>Finland</u>	<u>Republic of Ireland</u>	<u>Spain</u>	
Austria	0.0085	0.0296	0.0724	0.0582	0.0584	0.0165	0.0026	0.0110	
Belgium	0.0066	0.0190	0.0351	0.1007	0.0924	0.0058	0.0038	0.0152	
Canada	0.0033	0.0098	0.0064	0.0442	0.7400	0.0054	0.0023	0.0058	
Denmark	0.0488	0.1363	0.0309	0.1181	0.0906	0.0345	0.0056	0.0115	
France	0.0058	0.0218	0.0400	0.1012	0.1217	0.0070	0.0041	0.0386	
West Germany	0.0087	0.0368	0.0624	0.1085	0.1336	0.0121	0.0052	0.0220	
Italy	0.0046	0.0203	0.0467	0.0933	0.1159	0.0066	0.0039	0.0322	
Japan	0.0076	0.0218	0.0269	0.0894	0.4449	0.0063	0.0025	0.0179	
Netherlands	0.0106	0.0256	0.0265	0.1086	0.1017	0.0095	0.0049	0.0161	
Norway	-	0.1765	0.0232	0.1300	0.0981	0.0445	0.0034	0.0133	
Sweden	0.0586	-	0.0280	0.1243	0.1148	0.0663	0.0036	0.0130	
Switzerland	0.0058	0.0213	-	0.1368	0.1173	0.0069	0.0027	0.0132	
United Kingdom	0.0131	0.0379	0.0548	-	0.2044	0.0145	0.0242	0.0202	
United States	0.0058	0.0206	0.0276	0.1202	-	0.0054	0.0049	0.0155	
Finland	0.0398	0.1788	0.0245	0.1283	0.0818	-	0.0036	0.0159	
Republic of Ireland	0.0055	0.0175	0.0175	0.3853	0.1339	0.0065	-	0.0128	
Spain	0.0064	0.0188	0.0251	0.0958	0.1251	0.0085	0.0038	-	

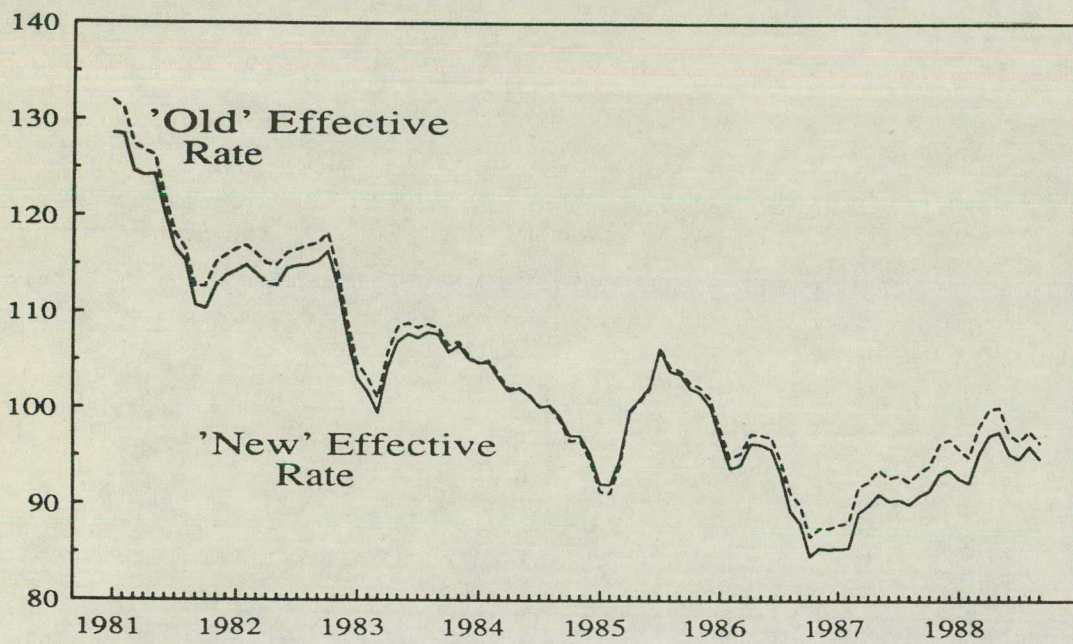
Table 2

'New' and 'Old' Indices of the Sterling Effective Exchange Rate
1985=100

Quarterly	New	Old (a)
1985 Q1	92.9	92.1
Q2	101.0	100.8
Q3	104.5	104.9
Q4	101.3	102.1
1986 Q1	94.9	96.1
Q2	96.1	97.3
Q3	90.1	92.0
Q4	85.1	87.2
1987 Q1	86.7	89.3
Q2	90.5	93.0
Q3	90.5	92.9
Q4	92.7	95.7
1988 Q1	93.4	96.4
Q2	96.7	99.2
Q3	95.3	97.0

(a) For comparison the old index has been rescaled to 1985=100

CHART A
STERLING EFFECTIVE EXCHANGE RATE INDEX
1985 = 100



CONFIDENTIAL

Where is our copy?

EST - The Bank's draft bulletin article on the change to the ERI. Are you content with the base date change? (On the final form, press office would favour a press release or an inspired PR + press release). S:1/10

FROM: J W GRICE
DATE: 10 October 1988

ECONOMIC SECRETARY

- cc Chancellor
- Sir P Middleton
- Sir T Burns
- Sr G Littler
- Mr Scholar
- Mr H P Evans
- Mr Odling-Smee
- Mr Peretz o/r
- Mr Sedgwick
- Miss O'Mara
- Mr O'Donnell
- Mr Gieve
- Mr S Matthews
- Mr Bush
- Mr Young
- Mr N P Williams

I agree to the draft article to be sent to the Chancellor's office for his approval. It is highly likely that the Press will see the implications of EC currency weights and doubts of £ as pricing membership of ERM, but no harm in that.

File: MAMC D7

RJ 11/10

BULLETIN ARTICLE ON CHANGES TO THE OFFICIAL EXCHANGE RATE INDEX

As you are aware, the Chancellor has given approval to our changing the official exchange rate index from the 1 January 1989. From that date, the official ERI will be calculated in accordance with the IMF's new exchange rate index for the UK. This will first be announced in the November Bank of England Quarterly Bulletin, published on 10 November. The Bank have now sent over the draft of their short article.

2. We do not think that the draft presents any fundamental difficulties. It is very deadpan in tone. But that is probably appropriate if we are to minimise the chance of commentators' wrongly suspecting our motives in making the change. The Bulletin article will, in any case, be followed by a Treasury one in the December Economic Progress Report and that will give an opportunity for a slightly more enthusiastic piece if necessary. There is, however, one substantive issue which you may like to consider. The Bank are proposing changing the base date for the new index from 1980 to 1985 = 100. That, of course, does not affect the behaviour of the series over time, but it does alter

its level. We see some advantage in making this move, given the opportunity that the new index presents, particularly following the rebasing to 1985 prices of the National Income Accounts overall.

3. The printing deadline means that we need to give the Bank comments by Wednesday 12 October. Accordingly, it would be helpful if you would let us have your views by lunchtime on that date.

4. For the slightly longer term, we will need to decide what Treasury material should accompany the publication of the Bulletin article. One possibility would be a Treasury press release at the same time. Alternatively, we could arrange an inspired PQ. We should be grateful for your guidance.

JWG

J W GRICE

REVISIONS TO CALCULATING EFFECTIVE EXCHANGE RATES

This note describes new statistics recently published by the International Monetary Fund (IMF) and the consequent proposed changes in the way the Bank of England calculates indices of effective exchange rates. The new indices are to be published from 30 December 1988; the old indices will also be published on that day but will then be discontinued.

An effective exchange rate is a measure of the value of a currency against a 'basket' of other currencies, relative to a base date. It is calculated as a weighted geometric average of exchange rates, expressed in the form of an index.

The effective exchange rate indices for sterling and other currencies currently published by the Bank are based on the IMF's Multilateral Exchange Rate Model (MERM)⁽¹⁾. The weights derived from the MERM were designed to measure the impact on the trade balance of changes in a country's nominal exchange rates, such that, for example, any combination of changes in other currencies against sterling, which result in a 1% change in the index would have the same effect on the UK's visible trade balance as a 1% change in sterling against all other currencies. The current weights were introduced in 1981⁽²⁾ and take account of the direction and size of trade flows in 1977.

(1) See 'A Multilateral Exchange Rate Model' by J R Artus and R R Rhomberg, IMF Staff Papers, Vol 20, No.3, November 1973, page 591. The model was subsequently developed by the IMF's Research Department; see 'A Revised Version of the Multilateral Exchange Rate Model' by J R Artus and A K McGuirk, IMF Staff Papers, Vol 28, June 1981.

(2) See 'Revisions to the Calculation of Effective Exchange Rates' Bank of England Quarterly Bulletin, Vol.21, No.1, March 1981, page 69.

Beginning with the July 1988 edition of its publication International Financial Statistics, the IMF has started publishing new monthly nominal effective exchange rate indices for 16 industrialised countries⁽³⁾. Since the MERM model is unlikely to be re-estimated in the near future, and its weights are becoming increasingly outdated, it is intended to make the new published index the United Kingdom's 'official' exchange rate index (ERI). The weights for the new effective exchange rate have been derived from disaggregated trade flows in manufactured goods in 1980, rather than total trade flows in 1977 as in the MERM based index; it is hoped that the IMF will be able to update the new indices further in due course. The weights are designed to measure the impact of real exchange rate changes on the real manufacturing balance and represent the relative importance of each of the other countries as a competitor to the manufacturing sector of, say, the UK. These are derived from three components, measuring the effect of industrialised country competition in (i) the UK domestic market - ie import competitiveness -, (ii) in their own domestic market - ie bilateral export competitiveness - and (iii) in third country markets (ie the markets of the other 15 industrialised countries, and those in other areas of the world). They are weighted together differently for each country, reflecting the degree of competition in each market⁽⁴⁾.

For the United Kingdom manufacturing trade represents over three quarters of all trade and the 16 countries account for a similar proportion of our overseas markets. The most significant change resulting from the introduction of the new index on the sterling ERI is the fall in the weight of the US dollar from approximately 24.6% to 20.4%, and the rise in the weight of the currencies of members of the European Community included in the calculations from 47.5% to 55.6% (within this the weight for the Deutschmark has increased from 14.1% to 20%). This continues a trend made

(3) The countries are the MERM 18 countries excluding Australia and Ireland, although exchange rates against the Irish Punt are included in the calculations.

(4) For details of how these weights are derived see 'Measuring Price Competitiveness for Industrial Country Trade in Manufactures by A K McGuirk, IMF Working Paper, April 1986.

apparent at the time of the last revision in 1981, when the weight for the US dollar declined from 32.8% to 24.6%. Australia, which in the old index had a weight of 2%, is no longer included in the calculation. The matrix of weights is shown in Table 1.

In line with National Income Accounts published by the Central Statistical Office (CSO), the base date for the new effective exchange rate index will be 1985=100. A change in the base date will only influence the scale of the index and not ^{the calculation used in} percentage changes between different points. The new effective exchange rate for sterling is shown in Table 2 and Chart A alongside the old index, which for ease of comparison has been rescaled to 1985=100.

TABLE 1: WEIGHTS DERIVED FROM TRADE IN MANUFACTURES

Based on 1980 trade flows

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France	0.0133	0.0931	0.0101	0.0074	-	0.2742	0.1470	0.0645	0.0501
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Norway	0.0178	0.0338	0.0141	0.0590	0.0666	0.1593	0.0377	0.0747	0.0481
Sweden	0.0207	0.0325	0.0139	0.0547	0.0829	0.2226	0.0546	0.0707	0.0387
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Sweden	0.0586	-	0.0280	0.1243	0.1148	0.0663	0.0036	0.0130	
Switzerland	0.0058	0.0213	-	0.1368	0.1173	0.0069	0.0027	0.0132	
United Kingdom	0.0131	0.0379	0.0548	-	0.2044	0.0145	0.0242	0.0202	
United States	0.0058	0.0206	0.0276	0.1202	-	0.0054	0.0049	0.0155	
Finland	0.0398	0.1788	0.0245	0.1283	0.0818	-	0.0036	0.0159	
Republic of Ireland	0.0055	0.0175	0.0175	0.3853	0.1339	0.0065	-	0.0128	
Spain	0.0064	0.0188	0.0251	0.0958	0.1251	0.0085	0.0038	-	

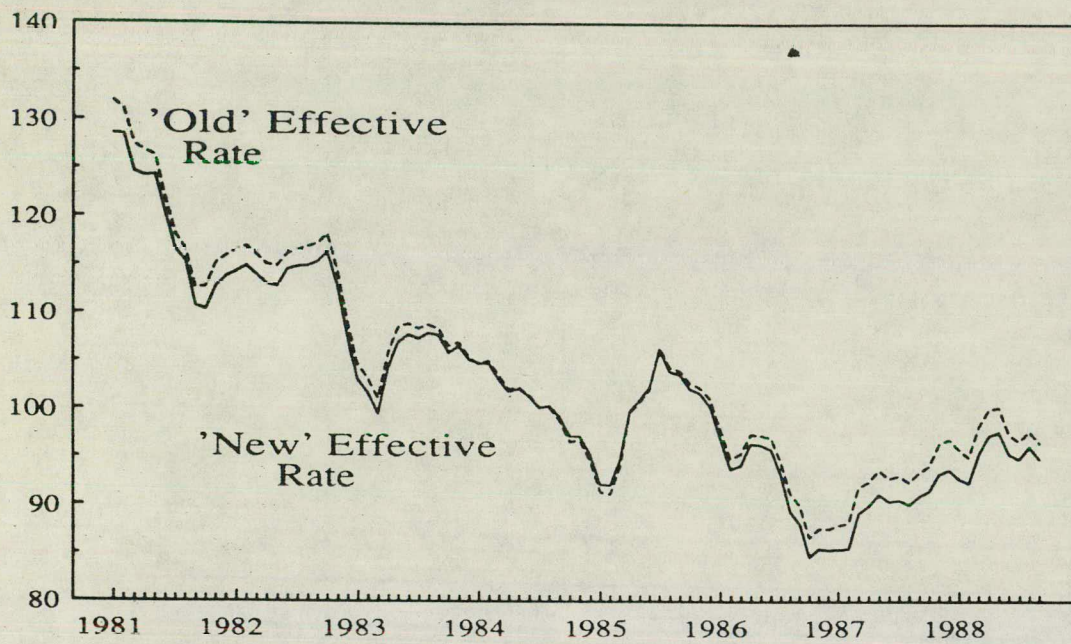
Table 2

'New' and 'Old' Indices of the Sterling Effective Exchange Rate
1985=100

Quarterly	New	Old (a)
1985 Q1	92.9	92.1
Q2	101.0	100.8
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Q4	101.3	102.1
1986 Q1	94.9	96.1
Q2	96.1	97.3
Q3	90.1	92.0
Q4	85.1	87.2
1987 Q1	86.7	89.3
Q2	90.5	93.0
Q3	90.5	92.9
Q4	92.7	95.7
1988 Q1	93.4	96.4
Q2	96.7	99.2
Q3	95.3	97.0

(a) For comparison the old index has been rescaled to 1985=100

CHART A
STERLING EFFECTIVE EXCHANGE RATE INDEX
1985 = 100



MP

MG EVENING REPORT

FOREIGN EXCHANGE MARKETS

Monday 10 October 1988

Previous close		Today		since Plaza	%change \$/currency since Paris	since 16 October 1987
		opening 8.30am	close 4.00pm			
75.9	£ERI	76.1	76.3	-7.0	10.4	3.7
1.6985	\$/£	1.7065	1.7117	24.6	12.0	2.8
3.1618	DM/£	3.1659	3.1761	-18.6	13.8	6.0
1.5246	ECU/£	1.5276	1.5307			
98.7	\$ERI	-	98.3	-29.6	-5.5	-1.9
1.8615	DM/\$	1.8552	1.8555	53.1	-1.6	-3.0
133.25	Yen/\$	133.00	132.25	80.4	16.1	8.0

Oct \$11.40 Nov \$11.50 Dec \$11.62 Spot Brent Nov \$11.87 Dec \$12.02 Jan \$12.12

UK RESERVE TRANSACTIONS (\$million)

(a)	Today	This month so far	Total since 1 Apr 88	(b)	Estimated end-month position
	127	193	4082	Market intervention	333
	-37	4	-1140	Off-market transactions	930
	90	197	2942	TOTAL	1263
				Net borrowing	-1716
(a) Spot and forward transactions on a done date basis.				Valuation changes (EMCF swap)	102
				TOTAL CHANGE IN RESERVES	-351

(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 -	Germany -	Italy -
Denmark -	Holland -	Japan -
France -68\$	Ireland -	US -

MARKET COMMENT

The New York markets were generally quiet on Friday night ahead of the long weekend in the US. The dollar eased in the Far East markets this morning, with Tokyo on holiday, on the back of a hangover following the worse than expected US (un)employment data released on Friday. Today the dollar was generally steady around DM1.855 but with a bearish undertone in advance of the next set of US trade figures on Thursday with New York closed today for Columbus Day. Sterling has seen much commercial demand all day following the Chancellor's comments on interest rates during the Walden interview with the Bank intervening to slow the rise.

Rates at 5.30PM: \$1.7125 DM3.1733 DM/\$1.8530 Y/\$133.20

Tam Polin

HONG KONG	Previous	Today	Change
Hong Kong dollar	7.817	7.8177	-0.0007
Hang Seng Index	2478.87	2566.42	87.55
3 month interbank rate	8 1/4%	8 1/4%	Unchanged

Terry Smeeton

NAME: I.C.Polin
TEL NO: 270-5556

MONEY MARKETS

Monday 8th October 1988

INTEREST RATES

	£ Interbank		Eurodollar	
	Today	Change	Today	Change
7 days	11 1/2	-5/16	8 3/8	1/4
1 mth	11 27/32	-1/32	8 3/8	3/16
3 mth	11 29/32	1/32	8 1/2	1/16
12 mth	11 9/16	-1/16	8 11/16	-1/8

BILLS

	Today		Change	
3 Month Treasury Bills	11 9/16	-	11 3/8	0

BANK MONEY MARKET OPERATIONS

	Purchases £ m	Rates	Discount Rate on Eligible Bank Bills
Band 1 (0-14 days)			11 3/4-1/2
Band 2 (15-31 days)			11 21/32-5/8
Band 3 (32-63 days)			11 21/32-5/8
Band 4 (64-91 days)			11 9/16-17/32
TOTAL BILLS	0		
Repurchase	75	Due 14 Oct at 11 3/8-7/16	
Lending			
TOTAL OPERATIONS	75	against surplus £ 100 m	

US RATES

	3 month CDs		10 yr Tsy Bond		20 yr Tsy Bond	
Today/Change	8.30	-0.05	8.69	-0.16	8.78	-0.14

STOCK MARKET

	FT Ind-Ord		FTSE		Gilt index	
Today/Change	1490.3	-0.1	1844.1	-0.6	88.89	0.15

MARKET COMMENT

GILTS opened slightly easier on Chancellor's weekend comments on interest rates, with prices down 1/8 through the list, but recovered quickly and continued to make progress through the day, finishing near the top. Shorts ended 3/16 up, mediums 1/4 and longs 3/8

INDEXED LINKED saw some demand in the morning but prices came back in the afternoon to finish unchanged

EQUITIES traded steadily at just above Friday's close for much of the day despite sterling's improvement and Wall Street's strong advance late on Friday. Output prices rose by 0.4% in September and by 5% on an annual basis; fuel and raw materials fell by 0.5% last month, with annual rate unchanged at 3.2%

Pete Smith

NAME: Peter Smith
TEL NO: 270 4613

GILT-EDGED MARKET

Monday 8th October 1988

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

ISSUE DEPARTMENT: MARKET TRANSACTIONS

	Today	October
Gross sales shorts	1.6	14.8
Gross sales mediums	36.3	227.3
Gross sales longs and undated	66.1	582.4
Gross sales index-linked	8.7	134.7
Part paid calls		
Buying in non-next maturities shorts	-1.9	-16.1
Buying in non-next maturities mediums	-39.3	-218.9
Buying in non-next maturities longs	-70.2	-774.5
Buying in non-next maturities index-linked		-40.4
CRND: Market transactions		-16.5
TOTAL 'GROSS' SALES	1.3	
Buying in of next maturities	-1.5	-74.4
Redemptions	-0.2	-20.5
TOTAL TRANSACTIONS WITH MARKET	-0.4	

Future calls		
Sales required to meet * target of £ m		

PRICES/YIELDS OF GILT-EDGED STOCKS

	Yesterday's close		Change from yesterday's close	
	Par	yield (per cent)	Price (£/32)	Yield (%)
Shorts	9.977		-1	0.01
Mediums	9.706		8	-0.04
Longs	9.227		15	-0.05

REPRESENTATIVE STOCKS

	Price (£/32)		Yield (per cent)	
	Today	Change	Today	Change
8% Treasury 1992	94	10	6	9.96
8 3/4 Treasury 1997 'C'	95	2	12	9.58
11 3/4 Treasury 2003/07	117	18	10	9.47
3% Treasury 1992	83	10	2	8.37
2 1/2% Index-Linked 2016	100	6	0	3.80
2% Index-Linked 1994	95	6	6	3.36

GILT FUTURES

		Open	Close	Volume
Long Contract	December	96.21	97.05	25330
Medium Contract	December			

NAME: Peter Smith
TEL NO: 270 4613

(No-out can accept status) Y: let me know

FROM: MISS M O'MARA
DATE: 11 October 1988

CHANCELLOR OF THE EXCHEQUER

cc: Economic Secretary
Sir P Middleton OR
Sir T Burns
Sir G Littler OR
Mr Lankester
Mr Scholar
Mr R I G Allen
Mr H P Evans
Mrs Lomax
Mr Grice
Mr Mortimer
Mr L Watts
Mr N P Williams
Mr Cropper
Mr Bostock - UKREP
Mr Arrowsmith - BoE

Handwritten notes:
1. Wd... delete...
2. Wd...
37, 38...
39...
...with 'broad thrust' of this paper?
...
15...
...
11/10

DEVELOPMENT OF THE PRIVATE ECU

As you know, the informal ECOFIN in May asked the Monetary Committee to continue to examine possible technical improvements for strengthening the EMS. Various members are submitting papers and the UK has volunteered one on the development of the private ecu.

2. I attach below the note we have produced with the help of the Bank. You will want to look in particular at the sections on intervention (paragraphs 25 and 33), which we have deliberately kept very short, reserve holdings (paragraphs 19 and 30) and longer term developments (paragraph 37-39). We have inserted this last section in order to rebut any claims that the kind of developments canvassed in the paper would be inconsistent with the ecu's possible long-term future. It does not, of course, commit us to the adoption of the ecu as either a true parallel or a single European currency at any future date.

3. You might also like to be aware that we believe the Commission may shortly propose that their main accounts with Member States should be held in ecu. Their intentions on this are not yet clear (we are trying to discover more at a meeting of the Financial Questions Group in Brussels today) and we have not

*Presumably
this would be
equally difficult
for all
member states.*

referred to the point in the paper. A proposal on these lines could cause us difficulty. At present, any balance on our EC No 1 Account, held by the Paymaster General, is lent back to the Government overnight and so helps to reduce Government borrowing. If the No 1 Account were not held in sterling, this option would no longer be open to us. However, we think we should be able to find a solution to the problem without casting any doubt on our commitment to the greater use of the ecu in the Community Budget.

4. As you will see, the paper poses a series of questions rather than making any firm recommendations. Nevertheless, we should be grateful to know whether you are content with its broad thrust. As it is scheduled for discussion at the Monetary Committee's meeting on 25 October, we need to send it to the Secretariat in the course of Thursday to give time for translation and circulation. Could we therefore have any comments from you by Thursday morning, so that we can incorporate them in the final version?

mom

MISS M O'MARA

THE DEVELOPMENT OF THE PRIVATE ECU

1. This paper describes the current state of the private ecu market and the role national governments, central banks and Community institutions have played in its development to date. Against this background, it then considers what future developments would help expand the private ecu's further use.

Market developments

Banking market

2. The ecu currently ranks fifth after the US dollar, deutschemark, Swiss franc and yen in the foreign currency sector of the international banking market. It ranks sixth after these currencies plus sterling in overall international bank credit activity (ie including domestic currency lending to non-residents). (See Table 1.)

3. The expansion of the ecu banking market has slowed since mid-1986 to a pace roughly in line with the growth of international financial markets overall. In part, this may reflect the fact that ecu investors and borrowers have switched ecu funds out of banks into marketable instruments. There has also been a shift out of the ecu into other currencies. Nevertheless, there has been a sustained expansion of ecu lending to non-banks, although non-bank ecu deposits have fallen steadily.

Short-term market

4. The short-term markets in ecu securities are still in the early stages of development. The only short-term ecu assets (defined as less than one year initial maturity) available to euromarket investors before October 1988 were bank deposits, CDs and some ecu-denominated euro-commercial paper notes issued under multi-currency facilities. The CD market has not developed to any great extent; there is virtually no secondary market and only a modest volume outstanding.

Bond market

5. The ecu bond market opened in 1981 and grew rapidly until 1985 when it ranked fifth in currency denomination of international bond issues. Since then, its development has been more erratic. The ecu lost ground in 1986 against other non-dollar currencies, with the deutschemark benefiting much more than the ecu as investors moved funds out of the dollar. But in 1987 and 1988 ecu-denominated bond issues recovered their market share, to a little over 4 per cent of total international bonds outstanding. (See Table 2.)

6. The development of the ecu bond market has been slow for a number of reasons.

7. First, issues have generally been small (ecu 50-200 million) and around 50-60 per cent of individual issues have tended to be held long-term by investors. This has made it difficult to sell or purchase ecu bonds in the secondary market and liquidity there has been regarded as poor. Second, until recently, the market has lacked a "benchmark" issue and since there is no underlying Government stock issued across the whole maturity structure from which a yield curve can be derived, ecu bonds are difficult to price. Synthetic yield curves can be created with some effort but are not wholly satisfactory, since they are derived from yields paid in different currencies by different borrowers. This too affects the liquidity of the ecu market. The growth of the market has also been hampered by the limited size of the investor base, with investors traditionally being concentrated in Benelux countries.

8. However, these problems are diminishing. Issues are now generally larger and the Commission's ecu 500 million bond launched in June 1988 for the EC/ECSC will act as a benchmark for the market in the relevant maturity, although more benchmark issues will be needed. Investor interest is spreading, with reports that Japanese and UK institutions are now showing greater interest.

9. The eurobond market has been affected by the lack of an ecu money market. The absence of a flexible and liquid market in short-term paper has limited ecu bond investors' ability to switch into short-term ecu instruments when ecu interest rates seem about to rise. To protect themselves, they have therefore had to sell their ecu-denominated bonds and move into other currencies. Investors have also lacked short-term ecu instruments to bridge periods between the redemption of maturing ecu bonds and re-investment in new ones. Similarly, borrowers who have considered long-term rates to be relatively cheap, but who have not needed funds immediately, have had no flexible and liquid market in which to place them, if they issued bonds ahead of their actual requirements.

10. One other factor may have constrained the development of the ecu bond market : the absence of an interest rate futures contract which would permit hedging of ecu bond positions. However, the London International Financial Futures Exchange announced in August that it would re-examine the possibility of introducing a futures contract on ecu deposit rates.

Foreign exchange market

11. The ecu is chiefly traded against the deutschemark, which has the highest weighting in the ecu basket and, to a much lesser extent, against the dollar. Inter-bank trading against local currency is insignificant, except in Italy.

12. The ecu forward market is not well developed, with a newly-created market for ecu currency futures and options remaining almost exclusively US-based and used only by banks and professionals. Indeed, the European Options Exchange has stopped trading the ecu option contract, although some banks in Brussels, London and Paris offer over-the-counter ecu options.

Use of ecu in commercial transactions

13. The use of the ecu for invoicing and settling commercial transactions has grown, particularly in Italy and France, but it still remains very limited. The pattern seems to be that more

use is made of the ecu in the service sector and for transfer payments than in industry. (Ecu travellers' cheques are now available.) The volume of interest payments and receipts in ecu has increased in line with the increased use of the ecu in international financial markets.

Clearing system

14. A new ecu clearing system, for which the BIS acts as agent, came into operation into October 1986 and is described more fully in Annex A.

Links between official and private ecu

15. At present, the only link between the official and the private ecu is their common definition: in all other respects, they are quite separate.

16. The official ecu is created by Community central banks swapping 20 per cent of their gold and dollars with the European Monetary Co-operation Fund against ecu for successive 3 month terms. The volume of official ecu therefore fluctuates in accordance with changes in the gold price and dollar exchange rate and with volume movements in official gold and dollar reserves. Official ecu can be held only by Community central banks and international monetary institutions which are recognised holders. The official ecu is not convertible and so its liquidity depends on its acceptability in transactions between recognised holders.

17. Private ecu, by contrast, are created by commercial banks on demand. They may be held by the authorities and others and are fully convertible.

Official involvement in private ecu's development

Removal of obstacles to greater use of ecu

18. All major specific restrictions on the use of the private ecu in Community countries have now been removed, other than those that remain in some countries as a result of exchange controls. The Bundesbank has allowed German residents to hold ecu accounts

with German banks and to raise ecu bank loans of under 12 months' maturity since June 1987. Since 1 July 1987, the ecu has been quoted on the Madrid foreign exchange market, putting it on an equal footing with other currencies officially quoted there and making it eligible for all balance of payments transactions in Spain.

Use of ecu as a reserve asset

19. The willingness of Community central banks to increase their holdings of private ecu has contributed to the expansion of the ecu market. The UK has held private ecu in its official reserves since domestic legislation was amended in the 1986 Finance Act to permit this.

Short-term market

20. The Italian Government began to issue ecu Treasury Bills in October 1987. However, the maturities have all been of one year and until recently settlement has been solely in lira. Only certain domestic institutions are allowed to bid directly for the Bills and they are unattractive to foreign sovereign investors because of the imposition of a withholding tax. The secondary market is limited, with very wide dealing spreads.

21. The launch of the UK's ecu Treasury Bill programme in October 1988, building up initially to ecu 1-2 billion and offering maturities of one, three and six months, denominated and payable in ecu both on subscription and at maturity, will broaden the range of short-term assets available in ecu and provide a liquid short-term alternative to ecu commercial paper and ecu medium-term notes. Investors will in future be able to move out of ecu bonds and still remain in fully marketable ecu assets, while this first step towards the creation of an ecu money market will also increase flexibility for borrowers.

22. A group of international banks and securities houses from a wide range of countries from inside and outside the Community have undertaken to provide their active support at the initial series

of tenders and to act as market-makers in the Bills after the tenders. The Bank of England has undertaken to make a price to these institutions for any Bills they may offer, at least in relation to those issued in the initial series of tenders, and this will enhance market liquidity still further.

Bond market

23. Community governments and institutions have taken a leading role in the marketing of ecu-denominated financial assets on international capital markets and in investing in ecu assets. For instance, by September this year the cumulative amount of ecu bonds issued by the EIB was ecu 3 billion, representing over 8 per cent of ecu bond issues. The Commission have also taken a number of steps to promote the ecu market, including their latest ecu 500 million bond and an issue of promissory notes in ecu in autumn 1987 which created a new borrowing instrument.

24. National governments have been regular issuers of ecu-denominated bonds but individual issues have been comparatively small. (See Table 3.)

Use of ecu in intervention

25. Central bank intervention in ecu has been modest, reflecting a preference for intervening in currencies with deep and efficient markets and the shortage of opportunities for investing ecu reserves.

Promoting use of ecu in commercial transactions

26. The Community institutions have nurtured the commercial use of the ecu by using it as far as possible themselves and by acting as a catalyst for its development.

27. The Commission have proposed amending the Community's Financial Regulation to encourage the greater use of the ecu in the Community budget, not merely as a unit of account but as the denominator of the Community's financial claims and obligations and as an instrument of settlement. (In 1987, the Commission settled around 5 per cent of the non-agricultural expenditure in

the general budget in ecu.) This proposal has been discussed at working level but has been shelved, at least for the time being. The Commission have now presented proposals extending the full use of the ecu to payments from the Structural Funds.

Linking official and private ecu

28. A number of Member States have advocated a closer link between the official and private ecu. They have suggested this would give the ecu the characteristics of the EMS' own fully-fledged international reserve asset; would ensure the smooth functioning of the private ecu market and would improve the standing of both the private and official ecu. However, other Member States have argued that linking the official and private ecu circuits would open the way to uncontrolled creation of central bank money.

would it? why?

X

Further measures to enhance use of private ecu

29. It may be useful to consider whether there are any further steps that Member States or the Commission could take to assist the development of the private ecu, which go beyond the removal of impediments but do not discriminate artificially in favour of its use. (The Dalgaard Group will shortly embark on its annual review of the ecu markets.) The following paragraphs discuss some possibilities.

Use of ecu as an asset in official reserves

30. Most countries find it helpful to have a range of currencies in their reserves so that they can intervene in different ways according to circumstance. The ecu offers an attractive investment medium in principle and with the issue of short-term ecu Treasury Bills, its liquidity should be enhanced. A number of Member States have already expressed support for a policy of reserves diversification and have increased the proportion of private ecu held in their official reserves. This in itself will serve to enhance the ecu's liquidity. Can this development be taken further?

Short-term market

31. Given the current dearth of top-quality short-term ecu paper, it would be helpful to development of the market if other Community governments could join the UK in setting up ecu paper programmes with maturities of less than a year. Do any have plans to do so?

Bond market

32. The Commission's ecu 500 million bond has helped to give the market a benchmark but further issues of comparable size at different maturities are needed to improve the liquidity of the market and to provide it with a firm base. Do the Commission or other Member States intend to make more use of ecu finance?

Use of ecu in intervention

33. The option of intervening in ecu provides Member States with additional flexibility. Ecu intervention can be particularly useful in periods when central banks are trying to hold down the value of their own currencies, without causing distortions within the EMS, and prefer not to intervene in dollars.

No miss ✓ Shit-u!

Promoting use of ecu in commercial transactions

34. The Commission has made a number of suggestions in this area.

Reweighting the ecu

35. A number of issues will need to be considered before the next revision of the ecu in September 1989. Two questions of principle are whether the weights should be changed at all, and if they are, whether the market should be given advance warning of the extent of the changes. The arguments here concern the desire for stability and certainty and the possibly disruptive effects changes could have on the various ecu markets; the strongest counter-argument is that the markets coped with the previous revision, in 1984, without any obviously adverse effects. The issue of whether to reweight or not will, of course, be settled if the decision is taken to include the peseta and/or escudo. In

that case, beside the more general concern about whether the changes will make the ecu a more or less attractive currency for the market to use, any decisions will have to take into account the extent to which the same economic criteria should be used to determine the new weights.

Linking official and private ecu

36. In practice, as the UK has already demonstrated, it is quite simple for those who wish to intervene in and diversify into ecu to borrow them in the private market. It is therefore not clear what a closer link with the official ecu would achieve in practice, while some Member States see a risk that such a link could lead to uncontrolled monetary expansion.

Longer-term developments

37. Further development of the private ecu market is desirable in its own right, giving benefits to the users of the market. It is also consistent with a range of possible routes to eventual economic and monetary union.

38. For example, if the Community in due course were to move to monetary union, it seems likely that Member States would wish to switch over a period to a single currency, rather than continuing to use national currencies with irrevocably fixed parities. The currency might sensibly be called the ecu and might be based on the ecu basket at the point of transition. Many institutional changes would clearly be required but the inevitable disruption would be reduced if by that stage, industry and individuals within the Community were already familiar with the private ecu, as a result of its widespread use in commercial transactions.

39. Alternatively, there is the possibility that despite the difficulties, the Community might decide to adopt the ecu as a true parallel currency. This too would be a major step, since the ecu would immediately lose its character as a basket of Community currencies and become a currency in its own right. Again the transition would be eased if the private ecu had already become familiar.

Conclusion

40. Despite significant advances in the private ecu market since the early 1980s, it remains relatively undeveloped. The bond market is illiquid and until very recently, there was effectively no market in short-term ecu assets. While the use of the ecu in commercial transactions is growing, it remains very limited. Nevertheless there have been some important developments in recent years, and both private and public sector bodies have begun to use private ecu in a number of different ways.

41. Against this background, it might be useful to consider the following questions:

- i. Do Member States find it helpful to hold private ecu in official reserves and to intervene in private ecu? Are private ecu likely to come to represent a higher proportion of Member States' official reserves?
- ii. Do any Member States have plans to join the UK in issuing short-term ecu paper of less than a year's maturity? Are there other ways in which a more active short-term market will develop of its own accord?
- iii. Can the liquidity of the ecu bond market be improved? Are the Commission or any Member States planning to make large ecu bond issues in the foreseeable future?
- iv. Are there any other important market developments in prospect not mentioned in this note?
- v. What can sensibly be done further to promote the use of the ecu within the Commission itself, in relation to the Community budget and more widely by industry and commerce?

- vi. What problems are raised by the forthcoming reweighting of the ecu? What can be done to minimise the market implications?

- vii. Is there any practical market advantage to be gained from further study of proposals to link the official and private ecu?

\$ billions

Table 1

CURRENCY SHARES OF EXTERNAL LENDING BY BIS-AREA BANKS^(a)

	Flows (% of total change)			
	1985	1986	1987	1988 Q1
US dollar	30.5	58.8	47.5	- 1.2
Deutschemark	16.2	6.9	9.0	-10.0
Yen	24.1	16.4	29.4	33.3
Swiss francs	10.1	2.8	0.4	11.4
Sterling	4.0	4.5	3.4	22.2
ECU	7.7	1.9	2.4	9.8
Other	7.4	8.7	7.9	34.5

Source: Bank for International Settlements' Press Release, Tables 2b and 3a

(a) Excludes the lending of the "offshore" banking centres for which currency detail is not available.

Table 2

INTERNATIONAL BOND ISSUES
(Breakdown by currency of denomination: % share)

Currency	1981	1982	1983	1984	1985	1986	1987	1988 Q1-Q3
US dollars	60.4	62.9	55.5	63.5	60.4	55.0	35.8	36.8
Japanese yen	6.4	5.2	5.5	5.4	7.5	10.2	14.1	9.3
Deutschemarks	5.3	7.5	8.7	6.4	6.9	7.3	8.5	10.0
Swiss franc	17.7	15.5	19.0	12.1	9.1	10.5	13.6	12.5
ECU	0.5	1.3	2.2	2.6	4.5	3.1	4.2	4.1
Canadian dollar	1.4	1.6	1.6	2.1	1.9	2.7	3.4	5.8
Sterling	2.9	2.7	3.9	5.1	4.0	4.9	8.5	11.2
Other	5.4	3.3	3.6	2.8	5.7	6.3	11.9	10.1

Source: Bank of England

Table 3

TOP TEN ISSUERS OF ECU INTERNATIONAL BONDS*

	<u>ECU millions</u> (mns)	<u>As a proportion of total international ECU bonds</u> (%)
EIB	3,010	8.4
EC/ECSC	2,790	7.8
World Bank	1,240	3.5
Kingdom of Denmark	1,200	3.4
Republic of Italy	928	2.6
Credit Foncier	910	2.6
Credit National	725	2.0
Eurofima	718	2.0
Ireland	590	1.7
BFCE	550	1.5
Total	<u>12,661</u>	<u>35.5</u>

* Total as of 24 september 1988: ECU 35,657 millions

Source: Bank of England

THE ECU CLEARING SYSTEM

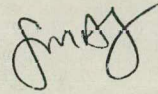
The Ecu Banking Association (EBA) was formed in September 1985 with the aims of furthering the development of the private ecu and establishing an ecu clearing system. Apart from the EIB, the Association's members are commercial banks - originally 49 and now approximately 80. In March 1986 the EBA signed a clearing agreement with the BIS, and the ecu clearing system came into operation on 1 October 1986 (initially on a trial basis), with the BIS acting as clearing agent and banker. Some 30 EBA members are currently ecu clearing banks.

2. The EBA's Ecu Clearing Committee - which includes the BIS and SWIFT as observers alongside the clearers, together with the EIB - monitors the workings of and the entry of new banks to the clearing system. The clearing mechanism involves the clearing banks sending their ecu payment instructions to a netting centre (operated by SWIFT); at the end of each day any net transfers that need to be made between the clearing banks resulting from these payments are debited/credited to ecu accounts held by the banks at the BIS. The clearing banks fund these accounts not directly but by providing the appropriate amounts of the ecu component currencies to accounts held by the BIS at the relevant central banks. (The BIS thus has liabilities in ecu to the clearing banks, and matching assets in the component currencies held at the central banks.) Neither the BIS nor the central banks act as lender of last resort to the system, which has to finance itself (primarily by the deficit clearing banks borrowing or buying ecu from those with surplus).

3. The criteria for clearing status are a minimum balance sheet size of ecu 30 billion, a minimum of 25 accounts denominated in ecu and a minimum of 1,000 ecu transactions a month. A country quota system is also in operation. These criteria are currently under review and one of the issues under discussion is the rate at which the system should be expanded.

C O N F I D E N T I A L

4. The Economic Secretary has not yet decided on the question of what Treasury material should accompany publication of the Bulletin article. I shall let you know his views when he returns to the office on Friday.



S M A JAMES
PRIVATE SECRETARY

FROM: MISS M O'MARA
 DATE: 11 October 1988

ECONOMIC SECRETARY

cc: Chancellor ←
 Sir P Middleton OR
 Sir T Burns
 Sir G Littler OR
 Mr Lankester
 Mr Scholar OR
 Mr Gieve OR
 Mr Grice
 Mr N P Williams

Open

OUTCOME OF FIRST ECU TREASURY BILL TENDER

The Bank have given us details of the first Ecu Treasury Bill tender which took place today. It was a resounding success.

2. At 1 month

200m ecu offered 924.5m ecu bid lowest yield accepted 6.88%
 highest yield accepted 7.00%
 average yield accepted 6.97%
 LIBID 7.19%
 at highest yield, 52% of bid
 allotted

At 3 months

500m ecu offered 1,733.5m ecu bid lowest yield accepted 7.12%
 highest yield accepted 7.20%
 average yield accepted 7.18%
 LIBID 7.44%
 at highest yield, 81% of bid
 allotted

At 6 months

200m ecu offered 743.0m ecu bid lowest yield accepted 7.06%
 highest yield accepted 7.30%
 average yield accepted 7.27%
 LIBID 7.44%
 at highest yield, 35% of bid
 allotted

3. Thus, we have achieved average yields of 22/26/17 basis points below LIBID and stop rates (highest yields) of 19/24/14 below at 1, 3 and 6 months respectively. This pricing is very attractive but not so fine that it is likely to lead to a marked deterioration in terms at subsequent tenders. The "tail" or gap between the highest and average yields is also encouraging, revealing a narrow spread of only 3/2/3 basis points respectively.

4. Given this outcome, the Bank have decided to allot the issue in full. (You may remember that last week, they were contemplating holding some of the bills back to release to the secondary market.) There is no case for cutting the tail on price grounds. The Bank did consider whether they should do so to aid market management but decided against. There was plenty of unsatisfied demand at and around the stop rate which the Bank hope will be reflected subsequently in good two-way trading.

5. Just under half the 1 month bills allotted went to the market makers, two-thirds of 3 month bills and three-quarters of 6 month but some of this may, of course, represent bidding on behalf of clients. Central banks bid directly for only 100-200m ecu but may well have bid for more of the issue through the market makes.

6. All in all, we could not have hoped for a better result.

MOM

MISS M O'MARA

FROM: N P WILLIAMS
DATE: 11 October 1988

1. MISS O'MARA
2. CHANCELLOR

mom
11/10

cc Economic Secretary
Sir G Littler
Mr Scholar
Mr Odling-Smee
Miss Simpson
Mr Nelson

UK ECU TREASURY BILL PROGRAMME

The TCSC have asked for a note on the background to and the reasons for the decision to announce the UK Government Ecu Treasury Bill programme in preparation for the Committee's meeting on 2 November. It would be helpful if we could supply the Committee with the note before their visit to Japan on 15-22 October.

2. The attached note, for which we are seeking your clearance, draws substantially on the press release of 2 August which announced the programme. We propose to attach a copy of the Information Memorandum issued by the Bank.

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OK?

NPW

N P WILLIAMS

AA

OK

UK GOVERNMENT ECU TREASURY BILL PROGRAMME

The Chancellor of the Exchequer announced on 2 August that a new programme of UK Government Ecu Treasury Bills would be launched in the Autumn.

The proceeds of the programme partly refinanced the early repayment on 7 October of the US \$2½ billion floating rate notes issued in September 1985. However, the Ecu Treasury Bill programme also introduces a useful new facility: it widens the options for managing the UK's reserves; it is hoped that the programme will ^{intended to} serve as a constructive and practical contribution to the development of the private ecu; and it will ensure that London plays a full part in the development of the ecu market.

The Treasury Bills (Amendment) Regulations 1988 were laid before Parliament on 19 September to confer on the Treasury the powers to issue Ecu Treasury Bills.

The Bills are similar in form to sterling Treasury Bills, but denominated and payable in Ecu both on subscription and at maturity. The programme takes the form of a series of tenders, initially at monthly intervals. In the first instance it is expected that the programme will build up to a total outstanding of some Ecu 1-2 billion. The attached Information Memorandum issued by the Bank of England on behalf of the Lords Commissioners of Her Majesty's Treasury provides further details on the arrangements for an initial series of six tenders which started in October 1988.

The first tender on 11 October offered Ecu 200 million, Ecu 500 million and Ecu 200 million of 1, 3 and 6 month Bills respectively. The size of the tender was larger than the Ecu 500 million suggested at the time of the announcement on 2 August, reflecting the substantial interest in the Bills since the programme was announced. It does not necessarily imply that the size of the initial programme will exceed Ecu 1-2 billion. The tender was oversubscribed at all three maturities, and the Bills on offer were allotted in full.

FROM: MISS M O'MARA
DATE: 11 October 1988

MR BUSH

cc: PS/Chancellor
PS/Economic Secretary
Mr Lankester
Mr Scholar OR
Mr Grice
Mr N P Williams

ECU TREASURY BILL: SECONDARY MARKET

The Bank rang me to say that the Ecu Treasury Bills are now trading at 18/19 basis points below LIBID at all three maturities.

2. One and three month bills are being bid around the stop rate, with six month bills bid about 8 basis points inside it. The market-makers are endeavouring to sell what they hold to their clients but investors have not rushed forward and as yet, they do not appear to be making much progress. Nevertheless, the market-makers appear quite satisfied.

3. The Bank have not so far dealt in the market at all and do not see any immediate need to do so. If the shorter maturities were to drift outside the stop rate, this might be a sign of a market-maker losing nerve and shedding paper. The Bank might then step in to pick up bills but at present, there is no indication of any such development. The situation is extremely comfortable and the Bank are confident that the tender will secure a good press tomorrow.

mom

MISS M O'MARA

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FOREIGN EXCHANGE MARKETS

MG EVENING REPORT

Tuesday 11 October 1988

Previous close		Today		since Plaza	since Paris	since 16 October 1987
		opening 8.30am	close 4.00pm			
76.3	£ERI	76.4	76.4	-6.8	10.6	3.8
1.7117	\$/£	1.7185	1.719	25.1	12.5	3.3
3.1761	DM/£	3.1804	3.1819	-18.5	14.0	6.2
1.5307	ECU/£	1.5322	1.5328			
98.3	\$ERI	-	98	-29.8	-5.8	-2.2
1.8555	DM/\$	1.8507	1.851	53.5	-1.3	-2.7
132.25	Yen/\$	131.15	130.9	82.3	17.3	9.1

Nov \$11.87 Dec \$12.02 Jan \$12.12 Spot Brent Nov \$12.32 Dec \$12.37 Jan \$12.50

UK RESERVE TRANSACTIONS (\$million)

(a)	Today	This month so far	Total since 1 Apr 88	(b)	Estimated end-month position
	57	250	4139	Market intervention	390
	-4	0	-1144	Off-market transactions	926
	53	250	2995	TOTAL	1316
				Net borrowing	-1616
				Valuation changes (EMCF swap)	102
				TOTAL CHANGE IN RESERVES	-198

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

(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	-	Germany	-	Italy	+100\$
Denmark	-	Holland	-	Japan	-
France	-256DM	Ireland	-	US	-

MARKET COMMENT

The dollar eased overnight (with the US forex markets shut for Columbus Day) on the back of institutional selling in the Far East. The dollar dropped below Y132, a significant chart point. Although the dollar held up well today against the Mark, it continued to lose ground against the Yen. Bearish sentiment surrounds the dollar in advance of this Thursday's US trade figures.

Sterling firmed today on the back of an easier dollar as dealers moved into sterling and Yen, helped by the UK's relatively high base rate level. The Bank intervened noisily and this helped to ease the upward pressure.

The French Franc dropped to the floor of the narrow EMS band which closed 1 11/16% wide.

The Bank received \$1086 million equivalent from the 1st ECU Treasury bill tender today.

Rates at 7.15PM: \$1.7182 DM3.1830 DM/\$1.8525 Y/\$130.95

Ian Polin

HONG KONG	Previous	Today	Change
Hong Kong dollar	7.8177	7.8165	0.0012
Hang seng Index	2566 42	2571.61	5.19
3 month interbank rate	8 1/4%	8 1/4%	UNCHANGED

NAME: I.C. Polin
TEL NO: 270-5556

MONEY MARKETS

Tuesday 11th October 1988

INTEREST RATES

	£ Interbank		Eurodollar	
	Today	Change	Today	Change
7 days	11 1/2	0	8 3/8	0
1 mth	11 13/16	-1/32	8 1/4	-1/8
3 mth	11 27/32	-1/16	8 1/2	0
12 mth	11 15/16	3/8	8 11/16	0

BILLS

	Today		Change	
3 Month Treasury Bills	11 1/2	-	11 3/8	0

BANK MONEY MARKET OPERATIONS

	Purchases £ m	Rates	Discount Rate on Eligible Bank Bills
Band 1 (0-14 days)			11 3/4-1/2
Band 2 (15-31 days)			11 21/32-19/32
Band 3 (32-63 days)			11 5/8-19/32
Band 4 (64-91 days)			11 35/64-17/32
TOTAL BILLS	0		
Repurchase	181	Due 14 Oct at 11 1/8-1/4	
Lending			
TOTAL OPERATIONS	181	against surplus £ 200 m	

US RATES

	3 month CDs		10 yr Tsy Bond		20 yr Tsy Bond	
Today/Change	8.30	0.00	8.69	0.00	8.78	0.00

STOCK MARKET

	FT Ind-Ord		FTSE		Gilt index	
Today/Change	1487.2	-3.1	1838.3	-5.8	88.78	-0.11

MARKET COMMENT

GILTS opened a little firmer, with shorts up 1/8 and scattered gains of 1/8 to 1/16 elsewhere. The market seemed to have lost its enthusiasm however, and seasawed for the rest of the day with shorts finishing unchanged, mediums 1/8 down and longs 3/16

INDEXED LINKED saw some profit taking after recent strength; losses did not exceed 1/2

EQUITIES traded quietly easier despite a firmer following Wall Street's lower opening

Peter Smith

NAME: Peter Smith
TEL NO: 270 4613

GILT-EDGED MARKET

Tuesday 11th October 1988

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

ISSUE DEPARTMENT: MARKET TRANSACTIONS

	Today	October
Gross sales shorts		14.8
Gross sales mediums	36.2	263.5
Gross sales longs and undated	24.3	606.7
Gross sales index-linked		134.7
Part paid calls		
Buying in non-next maturities shorts		16.1
Buying in non-next maturities mediums	-22.5	-241.4
Buying in non-next maturities longs	-63.9	-830.4
Buying in non-next maturities index-linked	-6.9	-47.3
CRND: Market transactions	-4.9	-21.4
TOTAL 'GROSS' SALES	-37.7	
Buying in of next maturities		-74.4
Redemptions	-7.1	-27.6
TOTAL TRANSACTIONS WITH MARKET	-44.8	
		Future calls
Sales required to meet * target of £ m		

PRICES/YIELDS OF GILT-EDGED STOCKS

	Yesterday's close		Change from yesterday's close	
	Par	yield (per cent)	Price (£/32)	Yield (%)
Shorts	9.931		-2	0.02
Mediums	9.646		-1	0.01
Longs	9.188		-6	0.02

REPRESENTATIVE STOCKS

	Price (£/32)		Yield (per cent)	
	Today	Change	Today	Change
8% Treasury 1992	94 8	-2	9.98	0.02
8 3/4 Treasury 1997 'C'	94 30	-4	9.61	0.03
11 3/4% Treasury 2003/07	117 12	-6	9.49	0.02
3% Treasury 1992	83 12	2	8.35	-0.02
2 1/2% Index-Linked 2016	99 28	-10	3.81	0.01
2% Index-Linked 1994	95 6	0	3.36	0.00

GILT FUTURES

		Open	Close	Volume
Long Contract	December	97.08	96.28	26787
Medium Contract	December	95.08	95.10	65

NAME: Peter Smith
TEL NO: 270 4613

MP

IGN EXCHANGE MARKETS

MG EVENING REPORT

Wednesday 12 October 1988

Previous close		Today opening 8.30am	Today close 4.00pm	since Plaza	%change \$/currency since Paris	since 16 October 1987
76.4	£ERI	76.4	76.5	-6.7	10.7	3.9
1.7190	\$/£	1.7255	1.7302	25.9	13.2	3.9
3.1819	DM/£	3.1813	3.183	-18.4	14.0	6.2
1.5328	ECU/£	1.5338	1.5333			
98	\$ERI	-	97.5	-30.2	-6.3	-2.7
1.8510	DM/\$	1.8437	1.8397	54.4	-0.7	-2.1
130.90	Yen/\$	129.65	129.12	84.8	18.9	10.6

Nov \$12.32 Dec \$12.37 Jan \$12.50 Spot Brent Nov \$12.37 Dec \$12.40 Jan \$12.42

UK RESERVE TRANSACTIONS (\$million)

(a)	Today	This month so far	Total since 1 Apr 88	(b)	Estimated end-month position
	77	327	4216	Market intervention	467
	5	5	-1139	Off-market transactions	931
	82	332	3077	TOTAL	1398
				Net borrowing	-1616
				Valuation changes (EMCF swap)	102
				TOTAL CHANGE IN RESERVES	-116

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

(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	-	Germany	-	Italy	+141\$
Denmark	-	Holland	-	Japan	-
France	-500\$	Ireland	-	US	-

MARKET COMMENT

Downward pressure on the dollar continued as institutional investors, especially in Japan and the Far East, took a bearish view of US trade balance prospects. Sterling rose as a consequence of the dollar's weakness and the Bank of England intervened publically mid morning to stem the rise. Afternoon trading saw sterling steady although after London's close sterling resumed its rise. The dollar's fall saw interest in the DM and the EMS band was 1 5/8 with the DM at the top and the Ffr at the bottom. The French sold \$500 against Ffr. Rates at 5.20pm: \$1.7315 DM3.1785 DM/\$1.8357 Yen/\$129.0.

Blach

HONG KONG	Previous	Today	Change
Hong Kong dollar	7.8165	7.8168	-0.0003
Hang Seng Index	2571.61	2551.86	-19.75
3 month interbank rate	8 1/4%	8 7/16%	up 3/16%

NAME: I.C.Polin
TEL NO: 270-5556

MONEY MARKETS

Wednesday 12th October 1988

INTEREST RATES

	£ Interbank		Eurodollar	
	Today	Change	Today	Change
7 days	11 5/8	1/8	8 3/8	0
1 mth	11 27/32	1/32	8 1/4	0
3 mth	11 29/32	1/16	8 1/2	0
12 mth	11 9/16	-3/8	8 11/16	0

BILLS

	Today	Change
3 Month Treasury Bills	11 1/2	-
	11 3/8	0

BANK MONEY MARKET OPERATIONS

	Purchases £ m	Rates	Discount Rate on Eligible Bank Bills
Band 1 (0-14 days)			11 3/4-1/2
Band 2 (15-31 days)			11 21/32-19/32
Band 3 (32-63 days)			11 5/8-39/64
Band 4 (64-91 days)			11 9/16-17/32
TOTAL BILLS	0		
Repurchase			
Lending			
TOTAL OPERATIONS	0	flat	£ m

US RATES

	3 month CDs		10 yr Tsy Bond		20 yr Tsy Bond	
Today/Change	8.35	0.05	8.75	0.06	8.84	0.06

STOCK MARKET

	FT Ind-Ord		FTSE		Gilt index	
Today/Change	1471.9	-15.3	1814.3	-24.0	88.70	-0.08

MARKET COMMENT

GILTS opened slightly easier. Shorts were off 1/16, mediums 1/8, longs 3/16. Although there was some switching going on such trend as the market had was downwards, and by the close shorts were unchanged, mediums down 3/16 and longs 1/4

INDEXED LINKED shed 1/8

EQUITIES have fallen back sharply on profit taking, weakness of international stocks as sterling advanced, worries ahead of tomorrow's US trade figures and amid rumours of a Japanese property company in difficulty. One of the few bright spots was Lonrho, up on stake building by Bond Corporation

Peter Smith

NAME: Peter Smith
TEL NO: 270 4613

GILT-EDGED MARKET

Wednesday 12th October 198

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

ISSUE DEPARTMENT: MARKET TRANSACTIONS

	Today	October
Gross sales shorts	4.7	19.5
Gross sales mediums	82.7	346.2
Gross sales longs and undated	97.9	704.6
Gross sales index-linked		134.7
Part paid calls		
Buying in non-next maturities shorts	-4.9	-21.0
Buying in non-next maturities mediums	-85.2	-326.6
Buying in non next maturities longs	-116.2	-954.6
Buying in non-next maturities index-linked		-47.3
CRND: Market transactions	-0.4	-21.8
TOTAL 'GROSS' SALES	-21.4	-166.3
Buying in of next maturities		-74.4
Redemptions	-0.6	-28.2
TOTAL TRANSACTIONS WITH MARKET	-22.0	-268.9

Future calls

Sales required to meet * target of £ _____ m

PRICES/YIELDS OF GILT-EDGED STOCKS

	Yesterday's close		Change from yesterday's close	
	Par	yield (per cent)	Price (£/32)	Yield (%)
Shorts	9.940		-2	0.02
Mediums	9.671		-3	0.02
Longs	9.210		-7	0.02

REPRESENTATIVE STOCKS

	Price (£/32)		Yield (per cent)	
	Today	Change	Today	Change
8% Treasury 1992	94	6	-2	10.01
8 3/4 Treasury 1997 'C'	94	25	-5	9.63
11 3/4 Treasury 2003/07	117	6	-6	9.51
3% Treasury 1992	83	12	0	8.36
2 1/2% Index-Linked 2016	99	24	-4	3.82
2% Index-Linked 1994	95	6	0	3.37

GILT FUTURES

		Open	Close	Volume
Long Contract	December	96.24	96.21	14733
Medium Contract	December			

NAME: Peter Smith
TEL NO: 270 4613

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mp

THE GOVERNOR'S	MR TOWNEND HO-P	MR McCONNACHIE HO-G
PRIVATE SECRETARY HO-P	MR WARLAND HO-1	MR C M MILES HO-2
THE DEPUTY GOVERNOR'S	MR ARROWSMITH HO-3	MR MILNE HO-G
PRIVATE SECRETARY HO-P	MR BAILEY HO-2	MR MORTIMER-LEE HO-G
MR LOEHNIS HO-P	MISS C M BALFOUR BB-4	MR PAGE HO-2
MR GEORGE HO-P	MR BRIAULT/	MR SAGAR HO-3
MR W A ALLEN HO-P	MR M E F JONES HO-G	MR I D SAVILLE HO-2
MR ALTHAUS HO-G	MR BROOKES HO-4	MRS SERGEANT HO-3
MR A F BUSHELL HO-4	MR CARTER HO-M	MR SHEPPARD HO-4
MR CHARKHAM HO-4	MR CLEWS HO-4	MS STONEFROST HO-M
MR T A CLARK HO-M	MR COLLINS HO-M	MR THORP BB-1
MR COLEBY HO-P	MR DE HOEST HO-4	MR TUCKER HO-G
MR FOOT HO-2	MR DORRINGTON HO-4	MR URWIN HO-2
MR GILL HO-3	MR G I EVANS HO-2	MR R G WARE HO-3
MR GREEN HO-3	MR EXETER HO-2	MR R P WEBSTER HO-3
MR J G HILL HO-G	MISS T A GRAY HO-G	MR P A D WRIGHT HO-4
MR LATTER HO-2	MISS HOPKINSON HO-3	DEALERS GIMLET HO-2
MR KIRBY HO-3	MR ILES HO-3	GROUP 9, ID HO-2
MR PLENDERLEITH HO-P	MR JENKINSON HO-2	GROUP 11, ID HO-2
MR PRICE HO-3	MR M R LEWIS HO-3	GROUP 12, BSD HO-2
MR SMEETON HO-2	MS M V LOWTHER HO-G	LORD RICHARDSON PADS

US FINANCIAL DEVELOPMENTS

The latest weekly summary of developments in monetary policy and the financial markets is attached.

International Division
Group 1, HO-3
12 October 1988

R T Thorne (4385)

RTT

SUMMARY: 3-9 OCTOBER

Following the September employment data, which showed less of a rebound from August than many had expected, it seems very probable that monetary policy will remain unchanged at least until the election. The fall in the oil price will also ease inflationary pressures, but it remains to be seen how much effect that will have on policy.

- Treasury note and bond yields fell by about 15 bp in response to the employment data, but bill rates were little changed over the week, so the yield curve flattened further.
- Bank reserves data continued to be distorted by tax payments and end-quarter pressures and, although the Fed funds rate was above its perceived target, monetary policy seems to have remained stable.
- Considerable uncertainty remains over whether Congress will pass a bill authorising further issuance of Treasury long bonds. If a 30-year bond auction is not authorised for the November refunding, there may well not be one until next May.

POLICY

(a) Domestic policy very likely to remain unchanged

1 September's employment data turned out to show less of a rebound from August than many had expected, and this seems to have removed the possibility of an imminent Fed tightening. Indeed, given that the monthly employment release has come to be seemingly the report carrying the most weight in Fed policy-making, and that it is widely thought that the Fed will want to maintain an even keel up to the Presidential election, it seems very probable that policy will remain unchanged for the next month at least. There are several important indicators this week, however, namely the trade deficit on Thursday and retail sales, industrial production and the PPI on Friday which, if they are extreme enough, could just possibly persuade the Fed to have second thoughts.

2 Although the employment data were weaker than expected, this was by no means as unequivocally clear as in August. The rise in September payroll employment of 255,000, compared with a consensus market forecast of 300,000, and the 50,000 downward revision in the August figure conveyed the overall picture of weakness. Although these figures are substantially below the rate of growth in the first half of the year, they still indicate robust growth, and the 0.2% point fall in the unemployment rate (albeit a more volatile series) was greater than many expected. Bearing in mind the solid rises in the average workweek and hourly wages as well, speculation by one or two in the market that the Fed might even be ready to ease seems unfounded, even though the new lower oil price should, if it persists, ease inflationary pressures.

3 At least until the employment data announcement, there were still reports that some regional Fed Presidents wanted a tighter policy, and last week New York Fed President Gerald Corrigan was said to be in that camp. Although they may be pressing that view a little less forcibly in future, they will presumably provide strong resistance should any Fed Governors be beginning to favour easing instead.

4 It is yet to be seen what weight the fall in the oil price will have in Fed policy. In 1986, the collapse in the oil price provided the Fed with some relief against pressure to tighten as the dollar's fall increased inflationary pressures. As yet, though, the recent decline is much smaller and could, like the rise in agricultural prices as a result of the drought, be argued to be a temporary factor which should not be allowed to influence policy too much. Chairman of the Council of Economic Advisers Beryl Sprinkel (admittedly not a major influence on monetary policy) implied last week that he took that view.

(b) International policy co-ordination

5 Fed Chairman Greenspan is scheduled to meet top Japanese monetary officials in Tokyo on Thursday, but the visit is not thought to have any real policy significance. He is said to be seeing Bank of Japan Governor Satoshi Sumita and Finance Minister Kiichi Miyazawa.

(c) Long bond authorisation

6 Last week saw an upsurge in speculation that additional authorisation for issuance of Treasury long bonds might be passed by Congress before it adjourns this week for the November elections. Passage of such a measure would enable a 30-year bond auction to take place as part of the November quarterly refunding, but failure to pass the measure might well mean that there would be no 30-year auction until May, since Congress will not reassemble until January, leaving little time for Congress to act in time for the February auction. The measure is contained within the tax technical corrections bill, which has unrelated controversial components, and it remains very uncertain whether a bill will be passed.

7 Treasury Undersecretary George Gould said that, if authorisation were not received, the November refunding would be similar to that in August, when the three-year and 10-year note auctions were slightly increased in size and an extra cash management bill was issued. Gould also claimed that if authorisation were received it would have little effect on 30-year

bond yields. Although the spread between 30-year bonds and 10-year notes has narrowed to about 10 bp from 20 bp early in the year, before the authorisation limit was reached, there may be some truth in Gould's remark, since the yield curve as a whole has flattened. At end-February, for instance, the spread between 10-year and 4-year notes was 65 bp, but it is now just 30 bp.

MONEY AND CREDIT

8 M2 and M3 both fell by between 0.1% and 0.2% in the week ending 26 September, despite consensus forecasts of modest rises for both aggregates. This continued a pattern of weakness in both aggregates, but particularly M2, in recent months. M1 rose very slightly in the same week.

9 Consumer instalment credit rose 10.1% (saar) in August, up from a revised 6.7% increase in July, as automobile credit accelerated sharply in the latest month. The total series now stands 9.2% above a year earlier.

RESERVES AND POLICY IMPLEMENTATION

10 Average adjustment and seasonal borrowing from the Fed's discount window rose \$358 mn to \$914 mn in the week ending 5 October, bringing the average for the fortnightly maintenance period to \$735 mn, down \$161 mn from the previous fortnight. Reserves data for the latest week continued to be very heavily distorted both by end-quarter pressures and by the surge in Treasury balances caused by the 15 September tax date. These influences peaked and began to unwind sharply during the course of the week, as Treasury balances at the Fed fell from \$19 bn to \$4 bn over the weekend. Despite this easing of overall reserves pressures, imbalances between banks continued to cause heavy borrowing. The payment of government funds, for social security and other purposes, out of Treasury accounts and into personal accounts tended to deplete reserves at money centre banks and increase them at small banks.

11 Distortions of reserves were accentuated by a large underestimate by the Fed of reserves availability on Monday of the latest week, as Treasury balances fell more quickly than it

expected, and by an apparent overestimate on Wednesday, the final day of the maintenance period, when the Fed drained reserves despite heavy eventual borrowing. Bearing in mind all these technical factors, and despite an average Fed funds rate of 8.38% for the week, analysts believed that the underlying Fed monetary policy remained unchanged, with targets of \$600 mn for discount window borrowing and 8 1/8% for the Fed funds rate.

MARKET DEVELOPMENTS (3-7 October)

12 Treasury note and bond rates fell by about 15 bp on Friday last week, in reaction to the September payroll employment data. The market seemed to focus very much on the payroll element of the data, rather than the more bullish elements described earlier. What little movement there had been in interest rates earlier in the week was largely caused by oil price movements. Bill rates were little changed over the week as a whole, with the net result being that the yield curve flattened for the second consecutive week. The spread between 30-year bonds and 3-month bills was 128 bp at the end of the week, compared with close to 300 bp in mid-May.

13 The dollar was little changed over the week, even though it weakened very slightly in response to the reduced prospects for higher US interest rates implied by the employment data. At the start of this week, though, the dollar declined much more sharply against the yen, in an apparent delayed further reaction to Friday's news.

TREASURY AUCTIONS

Tuesday	11 October	Auction of \$14.0 bn of three- and six-month bills, raising \$775 mn of new cash.
Wednesday	12 October	Auction of \$6.75 bn of seven-year notes, raising \$3.55 bn of new cash
Thursday	20 October	One-year bill auction
Wednesday	26 October	Two-year note auction

ECONOMIC INDICATORS

Thursday	13 October	Merchandise trade; August
Friday	14 October	Producer price index; September Industrial production; September Retail sales; September
Monday	17 October	Capacity utilisation; September Business inventories; August
Wednesday	19 October	Housing starts; September
Friday	21 October	Consumer price index; September Real earnings; September
Tuesday	25 October	Durable goods orders; September
Wednesday	26 October	GNP; Q3 (advance)
Thursday	27 October	Personal income and consumption; September

OTHER DATES

Monday	10 October	Columbus Day holiday
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US: MONEY AND BANKING STATISTICS

1 MONETARY AGGREGATES	Level (\$ bn)	Change in level (\$ bn)		% change (ar)		target base	target range (1988)	
		Latest week/ month	Previous week/month	Latest 4 weeks	weekly average over: 13 weeks ago		% growth	\$ bn
M1 (26. 9.88)	784.9	+ 0.1	+ 2.4	+ 2.9	+ 4.2	+ 4.9		
M2 (26. 9.88)	3,032.5	- 4.9	- 0.3	+ 2.0	+ 2.5	+ 5.7	4-8	3013.2-3129.1
M3 (26. 9.88)	3,851.3	- 5.6	+ 2.5	+ 5.8	+ 5.7	+ 6.5	4-8	3802.3-3948.6
Credit Aggregate (July)	8,700.9	+54.9	+57.1	+ 7.9	+ 8.3	+ 8.5	7-11	8814.9-9144.4

2 FINANCIAL STATISTICS	Level (\$ bn)	Change in level (\$ bn)		% Change (ar)	
		Latest week	Previous week	Latest 4 weeks	weekly average over: 13 weeks ago
Business loans# (28. 9.88)	296.6	- 0.7	+ 0.7	- 4.9	- 4.6
Commercial Paper (28. 9.88)	420.8	- 0.1	+ 2.6	- 3.5	+ 5.3
Money Market					
Mutual Funds (5.10.88)	267.2	+ 0.2	- 0.3	- 3.1	+ 2.7

3 RESERVES	TWO WEEK PERIOD TO 5 OCTOBER		LATEST WEEK TO 5 OCTOBER	
	Level (\$ mn)	Change in level (\$ mn) Latest accounting period	Level (\$ mn)	Changes in Level Latest Week
Discount window borrowing of which adjustment and seasonal borrowing	2,439	- 532	2,621	+ 364
extended credit	735	- 161	914	+ 358
Net free (borrowed) reserves	1,704	- 371	1,707	+ 6
	575	+ 692		

Target bases (1987 Q4 averages)

M2 2897.3

M3 3656.1

Credit aggregate 8238.2

Major commercial banks

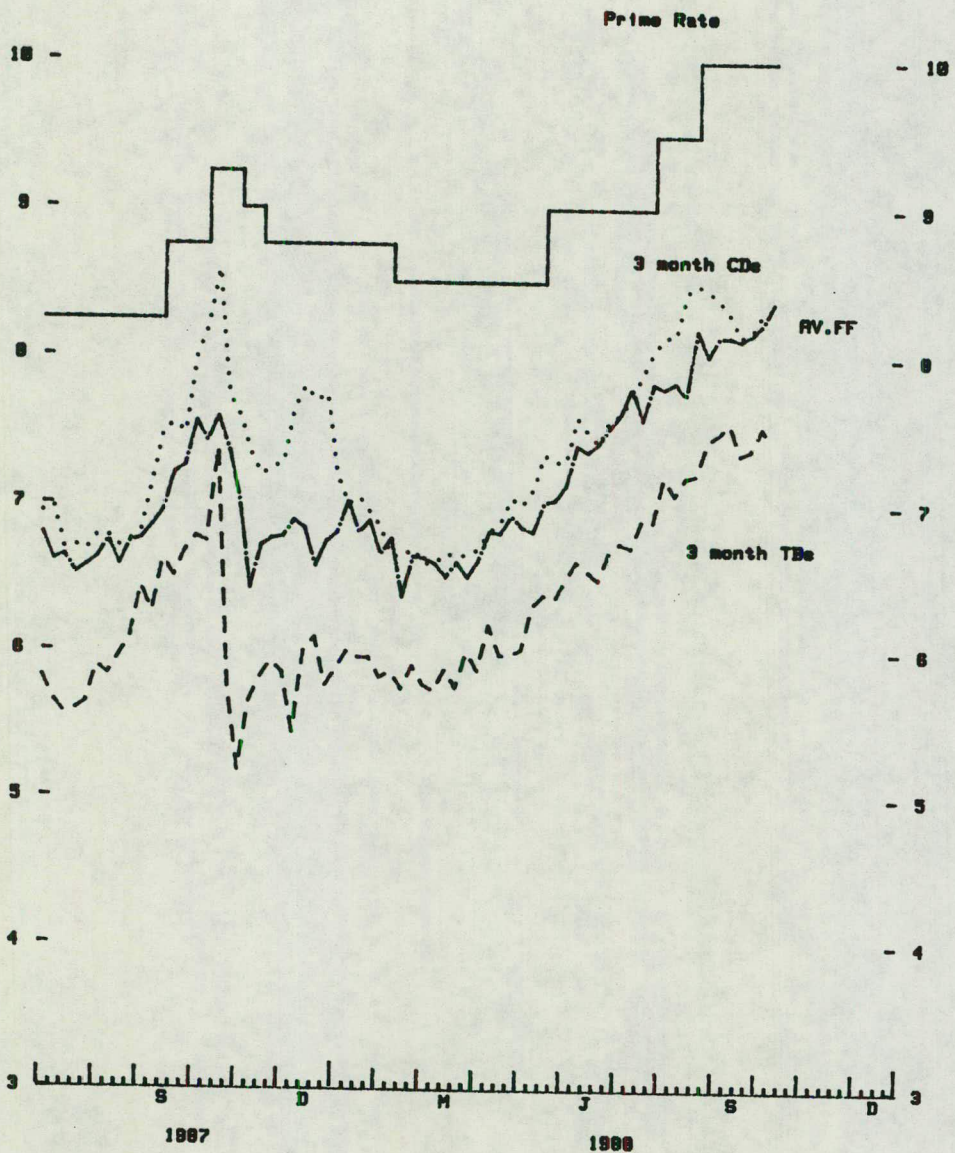
US MONEY MARKET RATES *

Per cent per annum

11 -

Chart 1

- 11



* Wednesday Close Except RV.FF

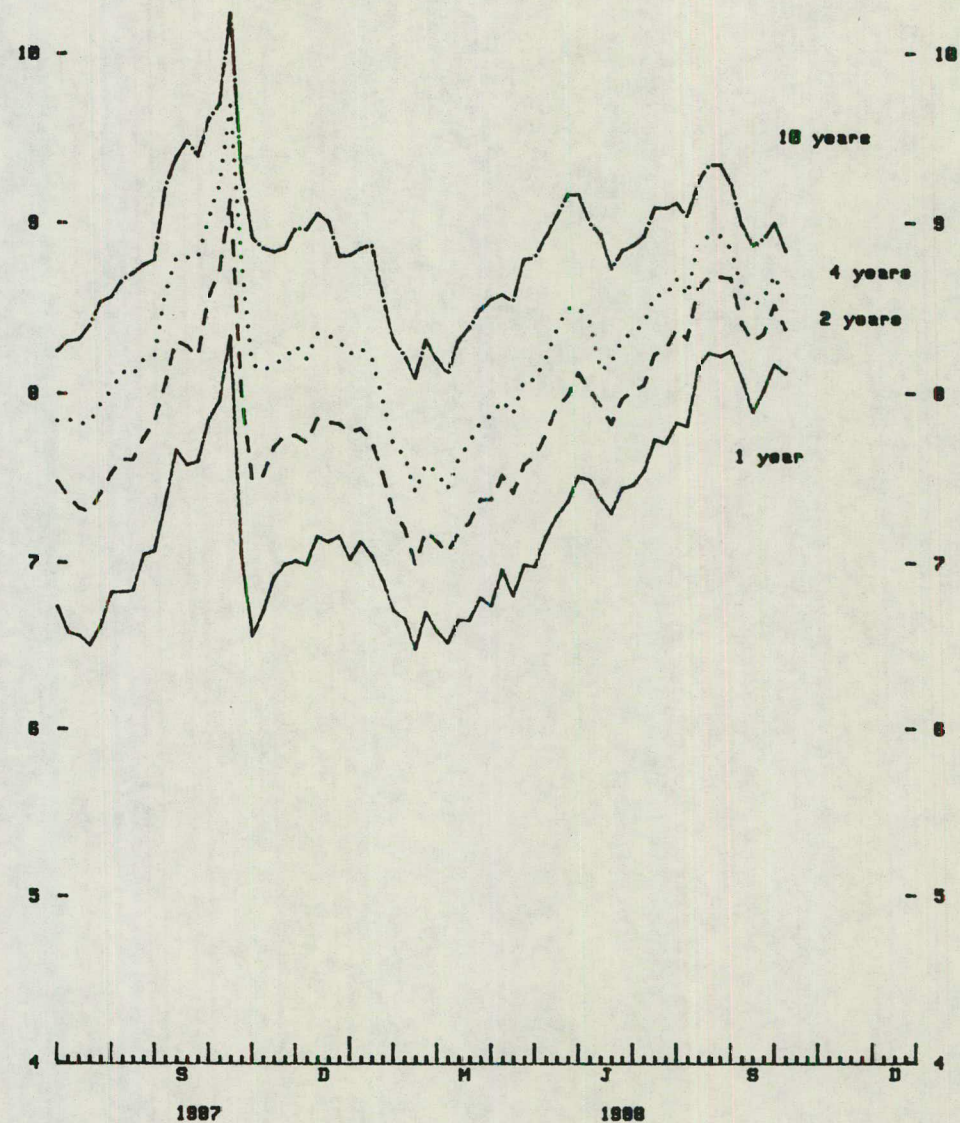
US TREASURY NOTE/BOND YIELDS *

Per cent per annum

11 -

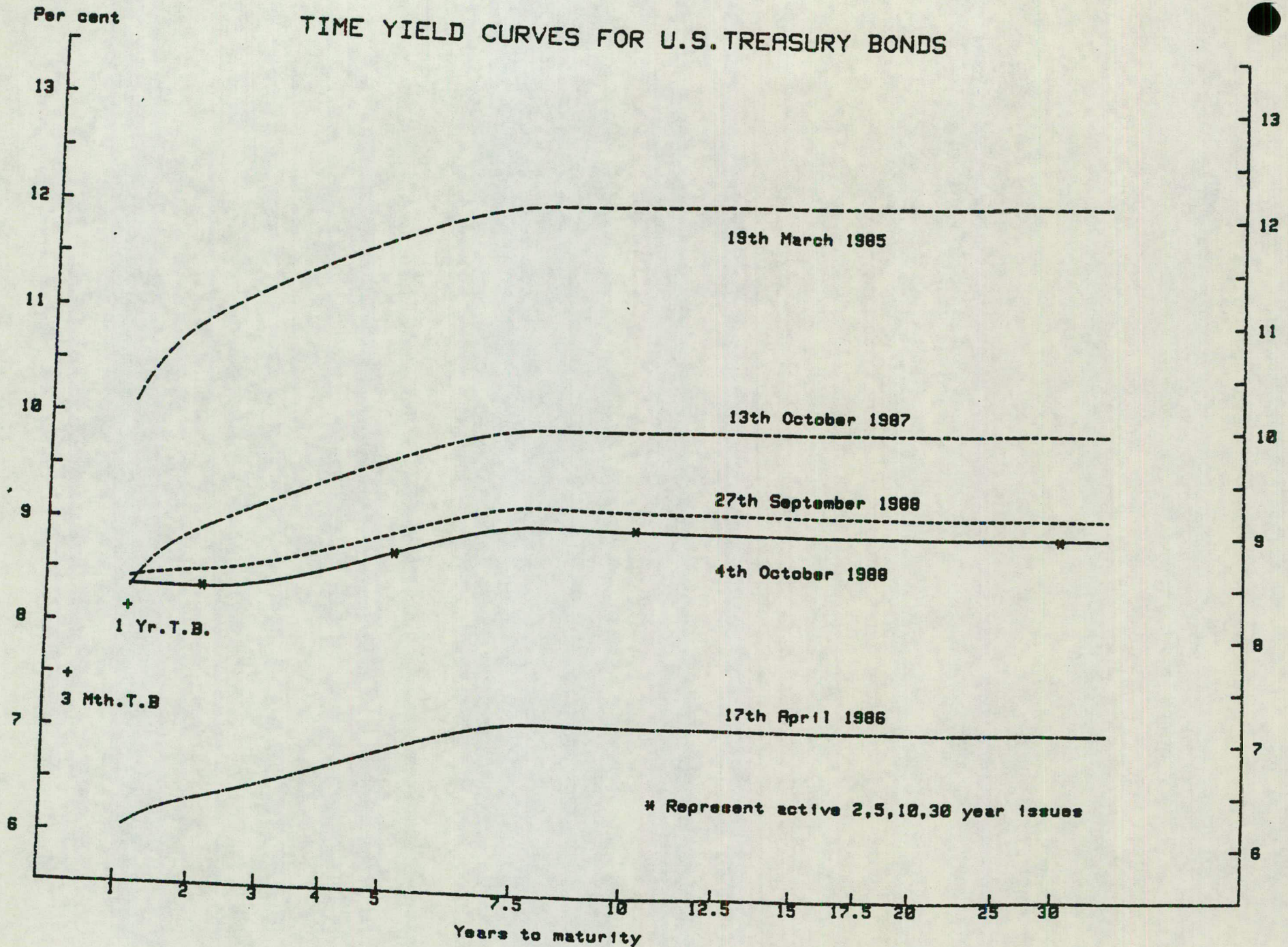
Chart 2

11



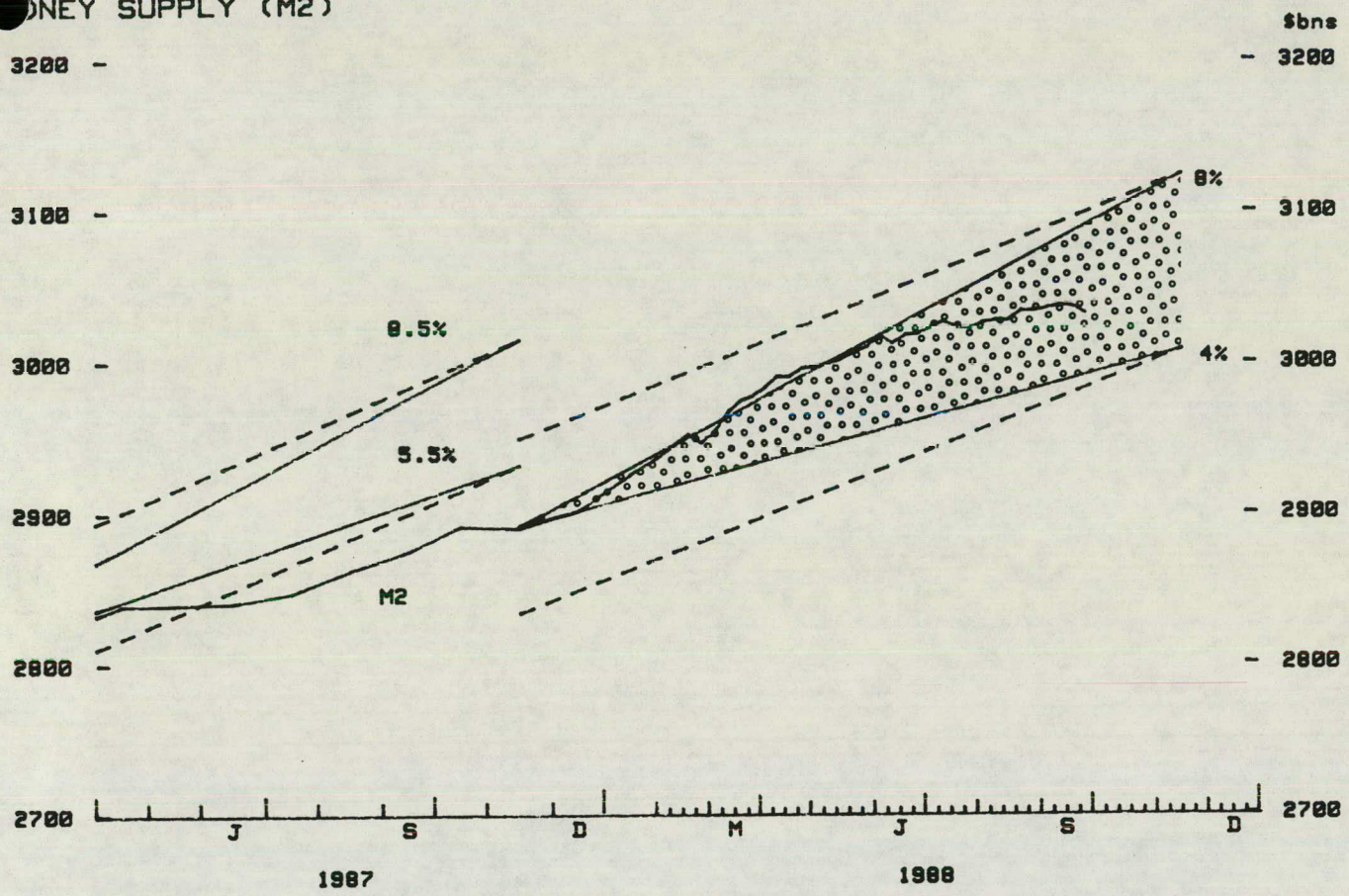
* Wednesday Close

TIME YIELD CURVES FOR U.S. TREASURY BONDS



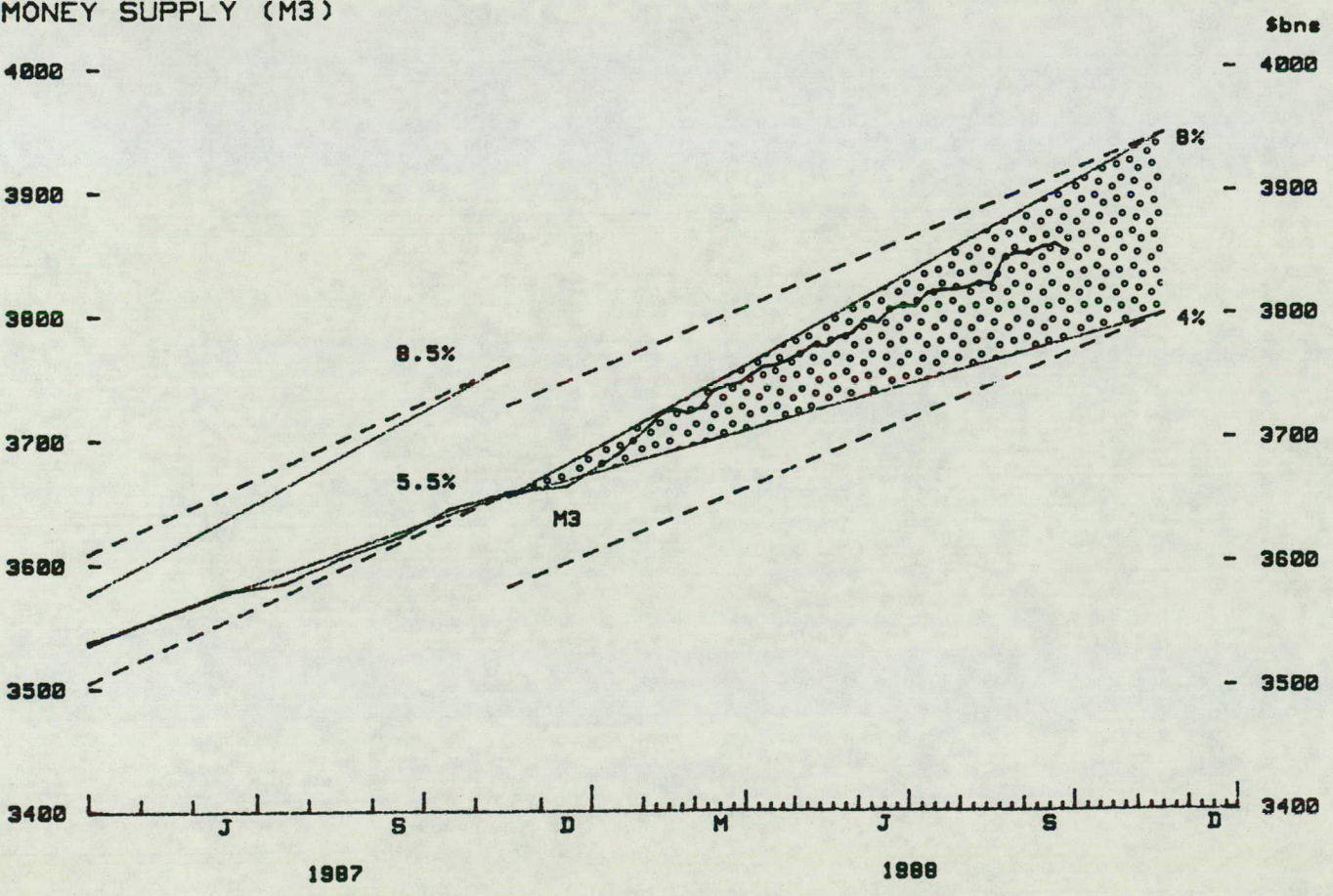
MONEY SUPPLY (M2)

Chart 3



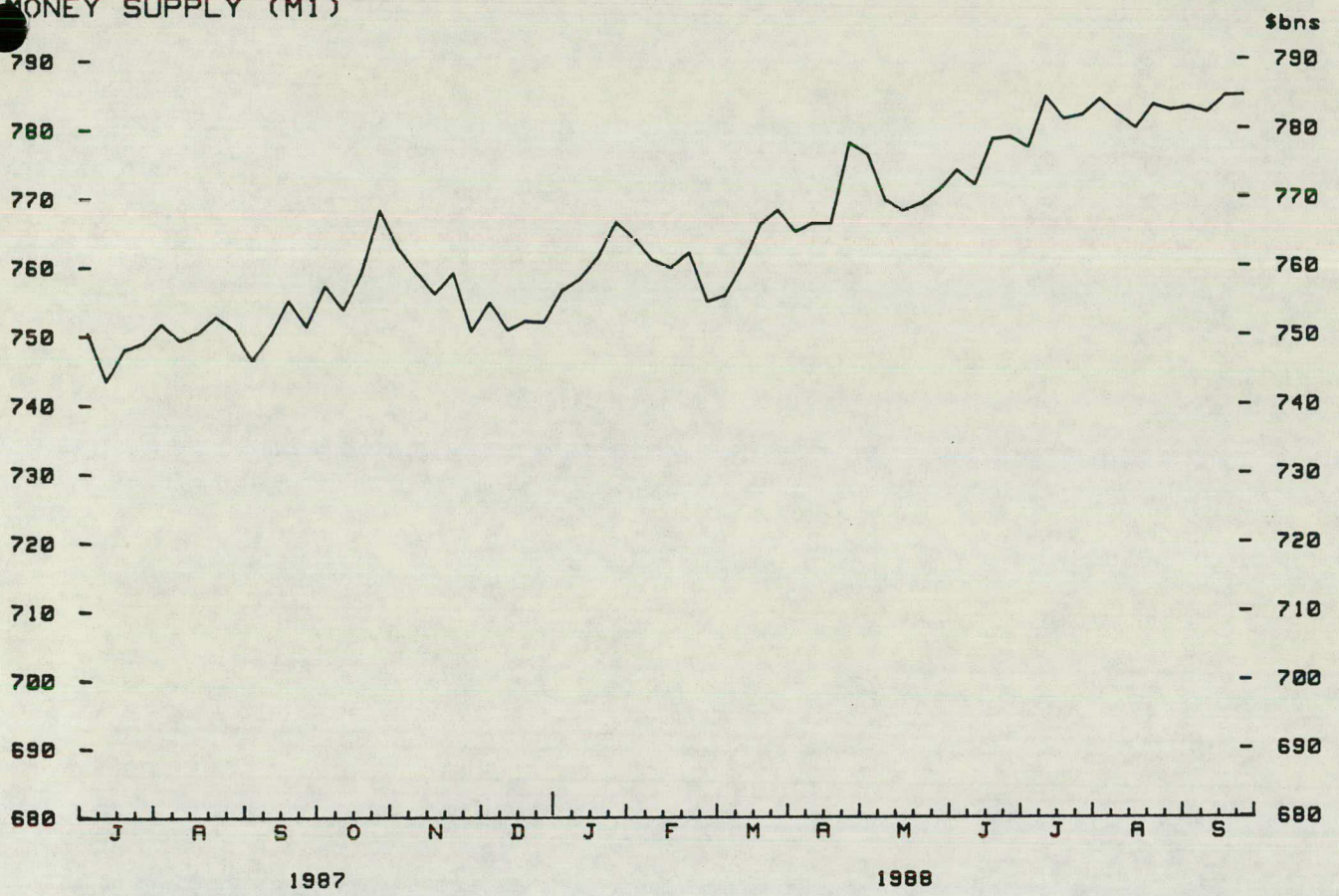
MONEY SUPPLY (M3)

Chart 4



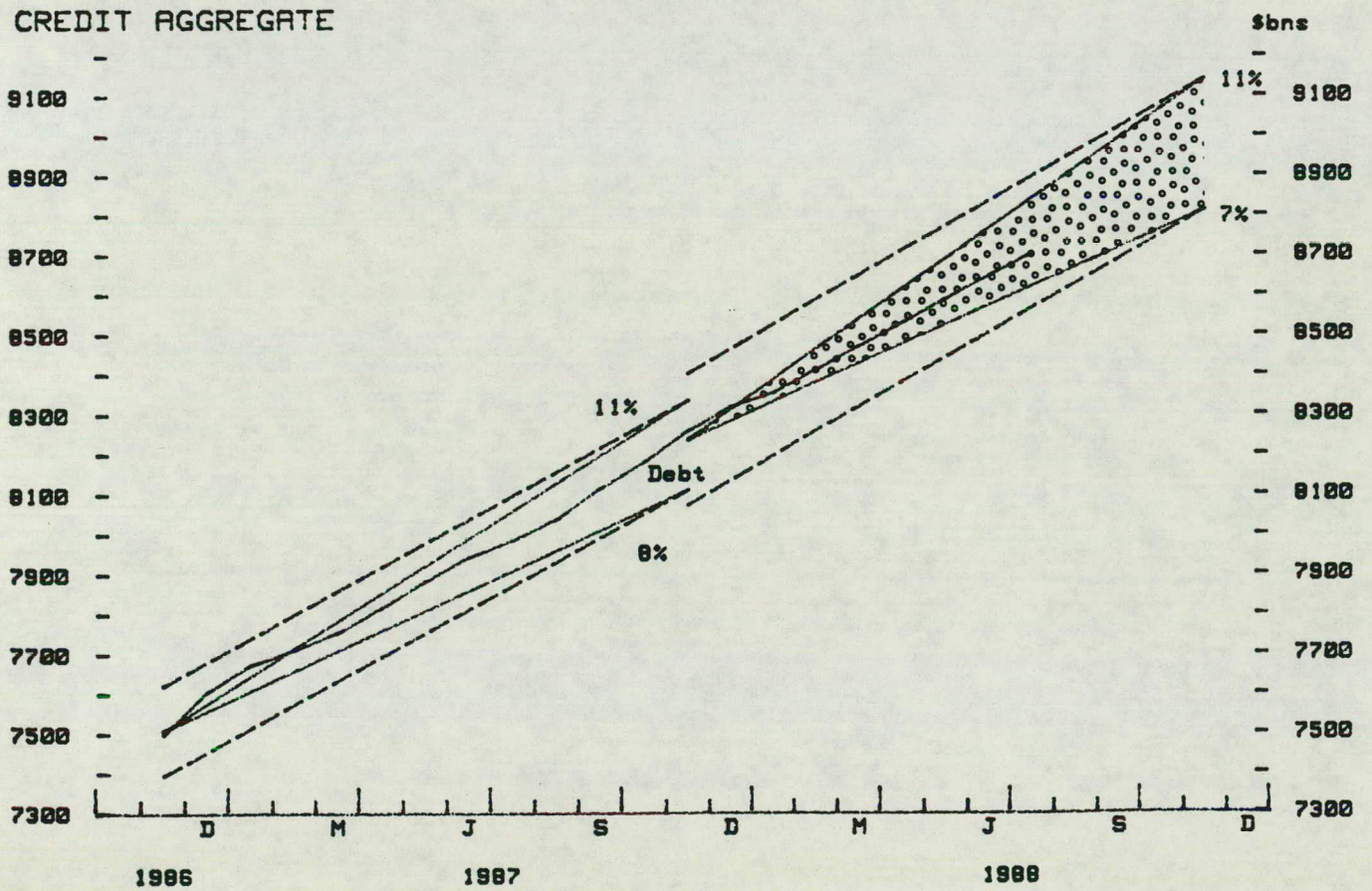
MONEY SUPPLY (M1)

CHART 5



CREDIT AGGREGATE

Chart 6





CH/EXCHEQUER	
REC.	17 OCT 1988
ACTION	Miss O'Mara
COPIES TO	POST, Sir P Middleton Mr Schobor Mr Culpin

OIFIG AN AIRE AIRGEADAIS
(OFFICE OF THE MINISTER FOR FINANCE)
BAILE ATHA CLIATH 2.
(DUBLIN 2)

12 October 1988

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
London

Dear Nigel

Thank you for the information memorandum on a new UK ECU Treasury Bill programme, which I found most interesting.

You may be interested in the attached material concerning an IR£ Government stock indexed to the ECU that was issued last year in Ireland.

Yours sincerely

Ray MacSharry T.D.
Minister for Finance

ON BEHALF OF	THAR CEANN
Department of Finance, Dublin 2 Tel. (01) 767571.	An Koinn Airgeadais, Baile Átha Cliath 2 Tel. (01) 767571.

Creation of new Government Stock

The Minister for Finance, Mr. Ray MacSharry, T.D., announced that, on 25 September, 1987, he will create and issue a new stock : £ Irish - ECU floating rate stock, 1993.

Allied Irish Banks plc have agreed to subscribe for the issue of ECU 100 million and to sell and buy the stock during trading hours of the Irish Stock Exchange.

The brokers to the issue are Allied Irish Securities and Butler & Briscoe, Government Stockbrokers. The stock will be listed on the Irish Stock Exchange and be quoted thereon in IR£ per 100 ECU.

The issue price of the stock is 100 per cent. Allied Irish Banks plc will pay for the stock issue in IR£ (at the conversion rate between the ECU and IR£ on 23 September, 1987).

Interest on the stock is payable semi-annually in arrears on 31 March and 30 September. The rate of interest shall be the six-month interbank rate for ECU deposits plus 1/8 per cent. For the first six month interest period to 31 March, 1988, the total rate of interest payable is 7½ per cent p.a.

The stock will be redeemed at its principal amount on 31 March, 1993.

Payments of interest and repayment of principal will be made in IRE at the rate of exchange between the IRE and ECU quoted by the Central Bank on the ex-dividend dates.

The normal tax reliefs applicable to Government stocks shall apply.

For exchange control purposes, the stock shall rank as a domestic security.

Full details of the issue may be obtained from the Department of Finance, Government Buildings, Dublin 2, Government Loans Department of the Central Bank of Ireland, Dame Street, Dublin, Messrs Butler & Briscoe, Government Stockbrokers and Allied Irish Securities, 3 College Green, Dublin 2, or at the Stock Exchange, Anglesea Street, Dublin 2.

Mr. MacSharry said that the issue of the stock represented a further innovation in the domestic market, that it would help to reduce the Government's debt-servicing costs and to encourage the trend towards lower interest rates. Given the Government's firm commitment to maintaining the stability of the Irish pound in the EMS, Mr. MacSharry added, he was happy to see this new stock based on the ECU -the official unit of the EMS - introduced into the domestic market.

Department of Finance
23 September 1987

INFORMATION MEMORANDUM

IRISH £ - ECU FLOATING RATE STOCK, 1993
ISSUE OF ECU 100 million
FULLY SUBSCRIBED FOR BY ALLIED IRISH BANKS plc
PRICE OF ISSUE 100 PER CENT

1. For the purpose of this Memorandum, Allied Irish Banks plc shall hereinafter be described as "The Bank".

2. Rate of Interest: The rate of interest payable on the stock shall be determined as follows:-

(i) On the Interest Determination Date, that is, two business days prior to each interest payment date described in paragraph 4, below ("Interest Payment Dates"), but subject to the proviso hereunder, The Bank will request the specified offices of each of the Reference Banks referred to in paragraph 3 below (the "Reference Banks") to provide The Bank with its offered quotations to leading banks in the international market for ECU deposits for the relevant Interest Period described in paragraph 4 below ("Interest Payment Dates and Interest Period") as at 10.00 am (Dublin time) on the Interest Determination Date in question, provided that in the case of the first Interest Period commencing 25 September, 1987, the Interest Determination Date for the purpose of this paragraph shall be 23 September, 1987. The Rate of Interest for such Interest Period shall be equal to $1/8$ per cent per annum above the arithmetic mean (rounded upwards if necessary to the nearest $1/16$ per cent) of such offered quotations as determined by The Bank.

As used in this paragraph, or in any paragraph below, "business day" means a day on which banks and foreign exchange markets are open for business in the principal financial centres for component currencies of the ECU, described in paragraph 9(a) below.

(ii) If on any Interest Determination Date two only of the Reference Banks provide such offered quotations, the Rate of Interest for the next Interest Period shall be determined on the basis of the offered quotations of those Reference Banks providing such quotations and in the manner prescribed at (i) above.

(iii) If on any Interest Determination Date fewer than two of the Reference Banks provide such offered quotations, The Bank will request each of the Reference Banks to provide The Bank with the quotations offered to them by leading banks in each relevant interbank market for deposits in each of the then component currencies of the ECU specified in paragraph 9(a) below and hereinafter described as the "Relevant Currencies" for the Interest Period concerned as

at 10.00 am (Dublin time) on the Interest Determination Date in question (provided that, if the EC ECU is then neither used in the European Monetary System nor for the settlement of transactions by the public institutions of or within the EC, the component currencies of the ECU shall be those provided for in paragraph 9(b).) The Rate of Interest for such Interest Period shall be equal to 1/8 per cent. per annum above the arithmetic mean as determined by The Bank (rounded upwards if necessary to the nearest 1/16 per cent) of the respective offered rates so communicated by the Reference Banks or any two or more of them (if only such provide quotations), weighted in the manner provided below, provided that, if on any Interest Determination Date the Reference Banks or any two or more of them (if only such provide quotations) do not provide offered quotations for all the Relevant Currencies but do provide such quotations for relevant currencies representing in aggregate 95 per cent or more of one ECU on such Interest Determination Date, then the Rate of Interest for such Interest Period shall nevertheless be calculated pursuant to this sub-paragraph (iii) on the basis of the quotations so provided and ignoring the Relevant Currencies for which such quotations are not provided.

- (iv) If The Bank is unable to determine the Rate of Interest for an Interest Period in accordance with sub-paragraph (i), (ii) or (iii) above, the Rate of Interest for such Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i), (ii) or (iii) above shall have applied.
- (v) The interest rate so determined will be announced by the Minister for Finance on the business day immediately preceding the commencement of each Interest Period.

For the purposes (iii) of this paragraph, the weighting to be given to a Relevant Currency or the percentage which it bears to one ECU shall be determined by The Bank by reference to the proportion that the amount of such Relevant Currency included in one ECU bears to one ECU and calculated on the basis of the US dollar equivalent of each of the Relevant Currencies as at the Interest Determination Date in question.

Interest will be calculated on the actual number of days elapsed in a year of 360 days.

3. Reference Banks: The Reference Banks shall be Allied Irish Banks plc, Bankcentre, Ballsbridge, Dublin 4; Banca Commerciale Italiana S.P.A., Piazza Della Scala 6, 20121 Milan; Kredietbank N.V., Arenbergstraat 7, B-1000 Brussels; Generale Bank (Generale de Banque), Rue Montagne du Parc 3, B-1000 Brussels and Banque Generale du Luxembourg S.A, 14 Rue Aldringen/27 Avenue Monterey, 2951 Luxembourg.

4. Interest Payment Dates and Interest Period: Interest on the stock will be payable half-yearly in arrear on 31 March and 30 September ("Interest Payment Date"). If any Interest Payment Date would otherwise fall on a day which is not a business day, the Interest Payment Date in question shall be postponed to the next business day.
- The period beginning 25 September, 1987, and ending 31 March, 1988, and each successive period beginning on an Interest Payment Date and ending on the next Interest Payment Date following is herein referred to as an "Interest Period".
5. Payment in IR£: Payments of interest and repayment of principal will be made in IR£ at the rate of exchange between the IR£ and ECU (as described at paragraph 9 below) and quoted by the Central Bank of Ireland (which will be the official market rate for ECU against IR£), for the twenty-eighth day (the "Quotation Date") preceeding the due payment date of interest or principal, as the case may be. The Quotation Date shall constitute the ex-dividend date for the purpose of calculating interest due.
6. Principal repayment: The stock will be redeemed at its principal amount on 31 March, 1993.
7. Purchase of Stock: The Bank shall pay in IR£ to the account of the Minister for Finance at the Central Bank of Ireland before the close of business on 25 September, 1987, an amount which shall be determined by converting the ECU 100m stock subscribed for by Allied Irish Banks from ECU to IR£ at the conversion rate between the ECU and IR£ quoted by the Central Bank of Ireland on 23 September, 1987, which will be the official market rate for ECU against IR£.
8. Market-making: The Bank shall during trading hours of the Irish Stock Exchange offer to sell and to buy the stock of this issue.
9. Value of the ECU:
- (a) Subject to the provisions hereof, the value of the ECU in which the Bonds are denominated ("ECU") is equal to the value of the ECU that is from time to time used in the European Monetary System (the "EC ECU") and which is at the date of issue hereof valued on the basis of specified amounts of the currencies of the member countries of the European Communities ("EC") as shown below.

4.

Pursuant to Council Regulation (EEC) No. 3180/78 of 18th December, 1978, as amended by Council Regulation (EEC) No. 2626/84 of 15 September, 1984, the EC ECU is at the date of issue hereof defined as the sum of the following components:-

0.719	German mark	3.71	Belgian francs
0.0878	Pound sterling	0.14	Luxembourg franc
1.31	French francs	0.219	Danish krone
140.00	Italian lire	0.00871	Irish pound
0.256	Dutch guilder	1.15	Greek drachmas

This basis may be changed by the EC, including changes in the components, in which event the basis of valuation of the ECU will change accordingly.

- (b) For the purpose of paying interest or repaying principal hereunder if the EC ECU is used neither in the European Monetary System nor for the settlement of transactions by the public institutions of or within the EC, the equivalent of the ECU as of any date (the "day of valuation") shall be chosen as set out hereunder.

The component currencies of the ECU for this purpose shall be the currency amounts which were components of the EC ECU when the EC ECU was most recently used in the European Monetary System or for the settlement of transactions by public institutions of or within the EC. The equivalent of the ECU in IR£ shall be on the valuation day the sum of each component currency converted into IR£. The conversion rate in IR£ of each component currency shall be the official quotation of such currency as recorded by the Central Bank of Ireland. In the event that such official quotation of one or more component currencies is not available for any reason on the valuation day, the most recent official quotation of such currency or currencies recorded by the Central Bank of Ireland shall be used to calculate the value of the ECU in IR£.

10. Authority: The principal and interest of the stock, which is issued under the authority of the Finance Act, 1970, and other statutes, will be a charge on the Central Fund.

11. Purpose of Issue: The proceeds of the issue will be used for general financing purposes of the Exchequer.

12. Trustee Status: The stock is an authorised trustee investment and trustees may invest therein even if the price at the time of investment exceeds the redemption value of 100 per cent.

13. Tax Privileges: Interest on the stock will be paid without deduction of income tax but will be assessable to income tax in the hands of recipient(s). Gains arising on the disposal of the stock are exempt from Capital Gains Tax.

The stock and the interest payable thereon will be exempt from all Irish taxation, present or future, if the beneficial ownership of the stock at the relevant time by a person not ordinarily resident in the State is established in the manner prescribed by the Minister for Finance, provided that where the stock is the subject of a gift or inheritance, the donee or successor is on the relevant date neither domiciled nor ordinarily resident in the State.

14. Registration: The Register of the issue will be kept at the Department of Finance.

15. Transfers: The stock will be transferable in any sums which are multiples of an ECU. Instruments for the transfer of the stock will be free of stamp duty.

16. Stock Exchange Quotation: The stock will be listed on The Irish Stock Exchange and be quoted thereon in IRE per 100 ECU.

17. Exchange Control: For exchange control purposes the stock shall rank as a domestic security.

18. Brokers: Allied Irish Securities and Butler and Briscoe, Government Stockbroker, are the brokers to the issue.

DEPARTMENT OF FINANCE,
DUBLIN 2.

23 September 1987

Ch/ 'X' seems sensible. Contact?

25
12/10

MR TAYLOR

ECU TREASURY BILLS

Stephen Bell of Morgan Grenfell has alighted on the idea that we are swapping the proceeds of our ECU Treasury Bill tender into dollars to finance the prepayment of the \$2½ billion FRN earlier this month. This is not, of course, the case. We shall hold the proceeds as ECU in the reserves for the time being at least and finance the prepayment from our dollar holdings. But we believe Mr Bell may be drawing an X from the Notes to Editors in the 2 August announcement below.

However, we suspect that γ in the draft note for the TCSC which we submitted last night could give rise to similar stories of swaps for dollars, particularly as it is couched in the past tense. Much the simplest solution would be to delete the passage entirely, as indicated. — the point could be covered in the blanket expression "managing the UK's reserves", if we were questioned.

Mason
12/10



MP

FROM: S M A JAMES
DATE: 12 October 1988

MISS O'MARA

cc: PS/Chancellor
Sir P Middleton o/r
Sir T Burns
Sir G Littler o/r
Mr Lankester
Mr Scholar o/r
Mr Gieve o/r
Mr Grice
Mr N P Williams

OUTCOME OF FIRST ECU TREASURY BILL TENDER

The Economic Secretary has seen and was grateful for your minute of 11 October. He has commented that this is good news.

James

S M A JAMES
PRIVATE SECRETARY

MG EVENING REPORT

FOREIGN EXCHANGE MARKETS

Thursday 13 October 1988

Previous close		Today		since Plaza	%change \$/currency	since Paris	since 16 October 1987
		opening 8.30am	close 4.00pm				
76.5	£ERI	76.6	76.7	-6.5		11.0	4.2
1.7302	\$/£	1.7365	1.7485	27.3		14.4	5.0
3.1830	DM/£	3.1842	3.1779	-18.6		13.8	6.0
1.5333	ECU/£	1.5320	1.5319				
97.5	\$ERI	-	96.5	-30.9		-7.2	-3.7
1.8397	DM/\$	1.8337	1.8175	56.3		0.5	-0.9
129.12	Yen/\$	127.95	127.77	86.7		20.2	11.8

Nov \$12.37 Dec \$12.40 Jan \$12.42 Spot Brent Nov \$12.55 Dec \$12.60 Jan \$12.70

UK RESERVE TRANSACTIONS (\$million)

(a)	Today	This month so far	Total since 1 Apr 88	(b)	Estimated end-month position
	22	349	4238	Market intervention	489
	-7	-2	-1146	Off-market transactions	923
	15	347	3092	TOTAL	1412
				Net borrowing	-1616
				Valuation changes (EMCF swap)	102
				TOTAL CHANGE IN RESERVES	-102

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

(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	-	Germany	-	Italy	-
Denmark	-	Holland	-	Japan	-
France	-830DM	Ireland	-	US	-

MARKET COMMENT

The dollar continued its fall overnight in New York reaching lows of DM1.8310 and Y128.55 but it firmed towards the close on some short covering. The dollar fell again in the Far East as investors sold off the dollar prior to the US Trade data. The BOJ telephoned for quotes and the dollar then steadied. It began in London off its lows and by mid morning it had reached highs of DM1.8302 and Y128.60 but following worse than expected US trade figure for August of -\$12.18BN (as against an expected deficit of -\$10BN) the dollar fell quickly to its lows of DM1.8105 and Y126.40. Later a Japanese News Agency report that the BOJ would act if the Yen continued to rise rapidly caused the dollar to close well off its lows. Markets now look for any evidence of Japanese support for dollar. Sterling was on the sidelines (but fairly steady against the Mark).
 Rates nat 7.25PM: \$1.7495 DM3.1771 DM/\$1.8160 Y/\$127.75

Tan Polin

HONG KONG	Previous	Today	Change
Hong Kong dollar	7.8168	7.8147	0.0021
Hang Seng Index	2551.86	2561.76	9.9
3 month interbank rate	8 7/16%	8 1/4%	DOWN 3/16%

Chris Bailey

NAME: I.C. Polin
 TEL NO: 270-5556

MONEY MARKETS

Thursday 13th October 1988

INTEREST RATES

	£ Interbank		Eurodollar	
	Today	Change	Today	Change
7 days	11 3/4	1/8	8 3/16	-3/16
1 mth	11 7/8	1/32	8 1/4	0
3 mth	11 15/16	1/32	8 5/8	1/8
12 mth	11 5/8	1/16	8 3/4	1/16

BILLS

	Today		Change	
3 Month Treasury Bills	11 9/16	-	11 7/16	1/16

BANK MONEY MARKET OPERATIONS

	Purchases £ m	Rates	Discount Rate on Eligible Bank Bills
Band 1 (0-14 days)	161	11 7/8	11 7/8-5/8
Band 2 (15-31 days)			11 21/32-41/64
Band 3 (32-63 days)			11 11/16-21/32
Band 4 (64-91 days)			11 19/32-9/16
TOTAL BILLS	161		
Repurchase			
Lending			
TOTAL OPERATIONS	161	against shortage	£ 200 m

US RATES

	3 month CDs		10 yr Tsy Bond		20 yr Tsy Bond	
Today/Change	8.35	0.00	8.81	0.06	8.90	0.06

STOCK MARKET

	FT Ind-Ord		FTSE		Gilt index	
Today/Change	1487.9	16.0	1830.7	16.4	88.62	-0.08

MARKET COMMENT

GILTS opened easier, with losses of 1/16 in shorts and mediums and 1/8 in Longs. Prices edged down before the Earnings figures, and dropped further after them, but then recovered some losses. The market was unmoved by the US trade figures and recovered further before edging off again near the close. Shorts closed off 3/16, mediums 3/8 and longs 1/4.

INDEX-LINKED lost 1/16.

EQUITIES opened firm with sterling and changed little in the morning despite the increase in average earnings of 9.25%. The larger than expected US trade deficit of \$12.18bn provided a temporary setback but prices advanced well prior to the close.

Carl Davey

NAME: Carl Davey
TEL NO: 270 4613



FROM: J M G TAYLOR
DATE: 13 October 1988

JMG

MISS O'MARA

cc PS/Economic Secretary
Sir P Middleton o/r
Sir T Burns
Sir G Littler o/r
Mr Lankester
Mr Scholar
Mr R I C Allen
Mr H P Evans
Mrs Lomax
Mr Grice
Mr Mortimer
Mr L Watts
Mr N P Williams
Mr Cropper
Mr Bostock - UKREP
Mr Arrowsmith - BoE

DEVELOPMENT OF THE PRIVATE ECU

The Chancellor was grateful for your minute of 11 October, and the enclosed draft paper.

2. He would prefer to delete altogether paragraphs 37, 38 and 39, which deal with longer term developments. He has commented that no one can seriously argue that the kind of developments canvassed in the paper would be inconsistent with the ecu's possible long-term future: let them try. He is otherwise content with the draft.

3. He has commented that we ought, however, to have a view about whether it is true or not that linking the official and private ecu circuits would open the way to uncontrolled central bank money (paragraph 28). He would be grateful for a note on this.

A handwritten signature in dark ink, appearing to be 'JMG'.

J M G TAYLOR

MG EVENING REPORT

FOREIGN EXCHANGE MARKETS

Friday 14 October 1988
Xchange \$/currency

Previous close		Today opening 8.30am	Today close 4.00pm	since Plaza	since Paris	since 16 October 1987
76.7	£ERI	76.5	76.9	-6.2	11.3	4.5
1.7485	\$/£	1.7405	1.7565	27.8	14.9	5.5
3.1779	DM/£	3.1712	3.1898	-18.3	14.3	6.4
1.5319	ECU/£	1.5292	1.5355			
96.5	\$ERI	-	96.4	-30.9	-7.3	-3.8
1.8175	DM/\$	1.8220	1.816	56.4	0.6	-0.9
127.77	Yen/\$	128.25	127.4	87.3	20.5	12.1

Nov \$12.55 Dec \$12.60 Jan \$12.70 Spot Brent Nov \$12.85 Dec \$12.95 Jan \$13.05

UK RESERVE TRANSACTIONS (\$million)

(a)	Today	This month so far	Total since 1 Apr 88	(b)	Estimated end-month position
	120	469	4358	Market intervention	609
	1	-1	-1145	Off-market transactions	930
	121	468	3213	TOTAL	1539
				Net borrowing	-1616
				Valuation changes (EMCF swap)	102
				TOTAL CHANGE IN RESERVES	25

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

(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	-87DM	Germany	-	Italy	+108Ffr, +86\$
Denmark	-	Holland	-	Japan	-
France	-	Ireland	-	US	-

MARKET COMMENT

The dollar continued its downward path in New York last night with Bergsten comment that the dollar would have to fall to Y100 to correct US trade deficit adding to the bearish sentiment surrounding the currency. In the Far East the dollar firmed as dealers squared their books prior to the weekend and on Miyazawa comment referring to Japan's intention to smoothing intervention and warning against acting on one day swings in exchange rates. The dollar firmed this morning to highs of DM1.8245 and Y128.30 but an official of BOJ said Japan would not intervene at present caused the Yen to rise. This afternoon the dollar drifted downwards.

Sterling mainly on the sidelines but saw some demand this afternoon after the Prime Minister's speech endorsing the Chancellors line on interest rates and inflation.

Rates at 6PM: \$1.7600 DM3.1759 DM/\$1.8045 Y/\$126.80

Tan Polin

HONG KONG	Previous	Today	Change
Hong Kong dollar	7.8147	7.815	-0.0003
Hany Seng Index	2561.76	2593	31.24
3 month interbank rate	8 1/4%	8 3/16%	DOWN 1/16%

Terry Smeeton

NAME: I.C. Polin
TEL NO: 270-5556

AM
W/S spoke. NOV
clear how 2 relatin
150 M \$ 2 1/2 bn
FRN repayment
ch

\$1 bn financed by drawing down fund book - included in Y
FRN - \$2.5bn
ECSC - \$0.2bn
ECU + \$1.1 bn
-\$1.6bn net
Marks

MONEY MARKETS

Friday 14th October 1988

INTEREST RATES

	£ Interbank		Eurodollar	
	Today	Change	Today	Change
7 days	11 7/8	1/8	8 3/16	0
1 mth	11 7/8	0	8 1/4	0
3 mth	11 31/32	1/32	8 9/16	-1/16
12 mth	11 5/8	0	8 3/4	0

BILLS

	Today	Change
3 Month Treasury Bills	11 5/8	3/32

BANK MONEY MARKET OPERATIONS

	Purchases £ m	Rates	Discount Rate on Eligible Bank Bills
Band 1 (0-14 days)			11 13/16-5/8
Band 2 (15-31 days)			11 3/4-21/32
Band 3 (32-63 days)			11 11/16-21/32
Band 4 (64-91 days)			11 5/8-19/32
TOTAL BILLS	0		
Repurchase			
Lending			
TOTAL OPERATIONS	0	flat position	£ m

Average rate of Discount 11.5483

US RATES

	3 month CDs		10 yr Tsy Bond		20 yr Tsy Bond	
Today/Change	8.35	0.00	8.81	0.00	8.92	0.02

STOCK MARKET

	FT Ind-Ord		FTSE	Gilt index	
Today/Change	1494.0	6.1	1840.6	9.9	88.62

MARKET COMMENT

GILTS had a quiet day; shorts opened 1/16 down and the rest of the market unchanged. There was little to move the market during the day, but prices ended a little better with shorts up 1/16, mediums (weak yesterday) 1/8 and longs 1/16

INDEXED LINKED saw some interest from the outset, following the Chancellor's early leak on the figures. The 2% 1994 tap was reactivated at its old price of 95.20 about the time of the figures, and longs closed firm in the absence of official funding; gains here ranged to 1 point

EQUITIES opened steadily and were little changed on the news that the RPI rose to 5.9% and manufacturing output increased by 1.3% in August; progress was made during the afternoon encouraged by Wall Street's firmer start. Oils were firm on calls from Iran for Arab cooperation to shore up oil prices

Peter Smith

NAME: Peter Smith
TEL NO: 270 4613

GILT-EDGED MARKET

Friday 14th October 1988

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

ISSUE DEPARTMENT: MARKET TRANSACTIONS

	Today	October
Gross sales shorts		19.5
Gross sales mediums	84.2	492.9
Gross sales longs and undated	41.3	782.2
Gross sales index-linked	63.9	198.6
Part paid calls		
Buying in non-next maturities shorts		-21.0
Buying in non-next maturities mediums	-110.8	-512.9
Buying in non-next maturities longs	-53.7	-1061.1
Buying in non-next maturities index-linked	-8.6	-55.9
CRND: Market transactions		-21.8
TOTAL 'GROSS' SALES	16.3	-179.5
Buying in of next maturities		-74.4
Redemptions	-0.2	-28.9
TOTAL TRANSACTIONS WITH MARKET	16.1	-282.8

		Future calls
Sales required to meet	* target of	£ m

PRICES/YIELDS OF GILT-EDGED STOCKS

	Yesterday's close		Change from yesterday's close	
	Par	yield (per cent)	Price (£/32)	Yield (%)
Shorts	10.005		-1	0.01
Mediums	9.745			
Longs	9.264			

REPRESENTATIVE STOCKS

	Price (£/32)		Yield (per cent)	
	Today	Change	Today	Change
8% Treasury 1992	94	2	10.06	0.01
8 3/4 Treasury 1997 'C'	94	20	9.66	-0.04
11 3/4 Treasury 2003/07	117		9.53	-0.01
3% Treasury 1992	83	10	8.40	0.04
2 1/2% Index-Linked 2016	100	24	3.77	-0.06
2% Index-Linked 1994	95	24	3.28	-0.11

GILT FUTURES

		Open	Close	Volume
Long Contract	December	96.17	96.18	12693
Medium Contract	December	94.27	94.27	454

NAME: Peter Smith
TEL NO: 270 4613



FROM: J M G TAYLOR
DATE: 14 October 1988

A handwritten signature in dark ink, appearing to be "JMG".

MR N P WILLIAMS

cc PS/Economic Secretary
Sir G Littler
Mr Scholar
Mr Odling-Smee
Miss O'Mara
Miss J C Simpson
Mr Nelson

UK ECU TREASURY BILL PROGRAMME

The Chancellor has seen your minute of 11 October, enclosing a draft note for the TCSC. He is content with the note (and with Miss O'Mara's subsequent amendment to it).

A handwritten signature in dark ink, appearing to be "JMG".

J M G TAYLOR

WEEKLY INTEREST/EXCHANGE RATE AND COMMODITY PRICE TABLES

CIRCULATION LIST

DATE: 14th OCTOBER 1988

CHANCELLOR'S OFFICE

MR. S. BROOKS 88/G
MR. J.W. GRICE 89/G
MISS R. MCROBBIE 107/G
MISS M. O'MARA 108/G
MRS C. RYDING 110/G
MR. P. MOUNTFIELD 80/1
MR. J. ODLING-SMEE 45/2
MR. N.J. MONCK 46/2
SIR P.E. MIDDLETON 78A/2
MR. H. WALSH 108/3
Ms. V.F. LIFE 109/3
MR. M.C. SCHOLAR 87/2
MR. S. PICKFORD 97/2
MR. R. LIND 98/2
MR. J. MCLAREN 33/3
SIR J.G. LITTLER 113/2
MR. R. MOLAN 81/1
MR. R.E. DEANE 41/3
MR. T.P. LANKESTER 116/2
SIR T. BURNS 119/2
MR. A.M. DOLPHIN 32/3
MR. M. LYON 34/3
MR. D. OWEN 36/3
Ms. C. TURK 35A/3
MR. P.N. SEDGWICK 39/3
MR. S.W. MATTHEWS 104/3
MR. D. SAVAGE 106/3
MR. H.P. EVANS 107/3
MR. W. HOOD 30A/3
MR. PERETZ 84/G
MR. P. ELWOOD 106/3
MR. D. RAMSDEN 106/3
MR. G. YOUNG 112/G

Please inform Bina Doshi (ext: 5374 - room : 31/3) if there are any changes to be made to this list.

THREE MONTH INTEREST RATES IN THE SIX MAJOR COUNTRIES

		-WORLD BASKETS- USING										-UNCOVERED DIFFERENTIALS-		
		-----WORLD RATES-----						EURO	USA CD	EURODOL	INTER	UK RATE	UK-	UK-
		CANADA	FRANCE	GERMANY	ITALY	JAPAN	USA	DOLLAR	RATE	RATE	BANK	WORLD	UK-	UK-
		1	2	3	4	5	6	7	8	9	10	11	12	13
1987	QTR2	8.41	8.13	3.80	10.64	3.92	6.85	7.07	6.27	6.34	9.18	2.91	2.11	5.38
	QTR3	8.99	7.89	3.97	12.00	4.08	6.98	7.15	6.45	6.51	9.81	3.36	2.66	5.84
	QTR4	8.88	8.47	4.13	11.76	4.54	7.76	7.96	6.84	6.91	9.20	2.36	1.23	5.07
1988	QTR1	8.55	7.94	3.41	11.11	4.36	6.74	6.91	6.18	6.24	9.01	2.83	2.10	5.60
	QTR2	9.05	7.81	3.62	10.91	4.49	7.25	7.41	6.37	6.42	8.34	1.97	0.93	4.72
	QTR3	9.83	7.65	5.10	11.36	4.90	8.20	8.35	7.15	7.18	11.31	4.17	2.96	6.22
1987	OCT	9.20	8.19	4.79	12.13	4.80	8.21	8.48	7.13	7.22	9.93	2.81	1.45	5.14
	NOV	8.63	8.61	3.95	11.58	4.34	7.39	7.55	6.67	6.73	8.97	2.30	1.42	5.02
	DEC	8.89	8.56	3.70	11.63	4.47	7.76	7.96	6.75	6.82	8.75	2.00	0.79	5.05
1988	JAN	8.65	8.31	3.44	10.91	4.35	6.96	7.17	6.31	6.38	8.92	2.61	1.75	5.47
	FEB	8.50	7.58	3.37	11.00	4.32	6.63	6.79	6.07	6.12	9.22	3.15	2.43	5.85
	MAR	8.53	8.03	3.42	11.44	4.40	6.65	6.79	6.20	6.25	8.83	2.64	2.04	5.41
	APR	8.83	8.13	3.43	10.88	4.19	6.92	7.11	6.25	6.32	8.32	2.06	1.21	4.89
	MAY	8.98	7.90	3.56	10.78	4.27	7.27	7.44	6.36	6.42	8.03	1.67	0.59	4.47
	JUN	9.34	7.39	3.89	11.13	4.42	7.56	7.67	6.49	6.53	8.74	2.24	1.07	4.85
	JUL	9.34	7.33	4.95	11.28	4.80	7.94	8.23	6.85	6.90	10.53	3.68	2.30	5.58
	AUG	9.80	7.63	5.35	11.28	4.88	8.38	8.50	7.25	7.28	11.25	4.00	2.75	5.90
	SEP	10.35	7.98	4.99	11.54	5.02	8.28	8.33	7.34	7.35	12.16	4.82	3.83	7.17
1988	JUL 25	9.40	7.38	5.00	11.38	4.78	8.12	8.75	6.94	6.98	10.72	3.78	1.97	5.72
	AUG 1	9.49	7.38	5.35	11.38	4.75	8.15	8.25	7.01	7.04	10.81	3.80	2.56	5.46
	AUG 8	9.66	7.38	5.25	11.25	4.83	8.20	8.37	7.00	7.01	10.91	3.91	2.54	5.66
	AUG 15	9.93	7.69	5.38	11.25	4.92	8.50	8.69	7.39	7.46	11.03	3.64	2.34	5.65
	AUG 22	9.90	7.75	5.40	11.25	4.95	8.55	8.62	7.43	7.45	11.41	3.98	2.79	6.01
	AUG 29	10.00	7.94	5.38	11.25	4.94	8.50	8.56	7.43	7.45	12.09	4.66	3.53	6.71
	SEP 5	10.14	8.00	5.00	11.38	5.09	8.42	8.37	7.38	7.37	12.34	4.96	3.97	7.34
	SEP 12	10.32	8.10	5.00	11.63	5.01	8.24	8.37	7.35	7.40	12.13	4.78	3.76	7.13
	SEP 19	10.52	8.00	4.95	11.63	5.01	8.20	8.25	7.32	7.33	12.13	4.81	3.88	7.18
	SEP 26	10.41	7.81	5.00	11.50	4.95	8.25	8.31	7.29	7.31	12.03	4.74	3.72	7.03
	OCT 3	10.40	7.75	5.28	11.38	4.89	8.40	8.25	7.36	7.31	11.91	4.55	3.66	6.63
	OCT 10	10.38	7.69	5.15	11.50	4.80	8.30	8.69	7.29	7.42	11.91	4.62	3.22	6.76

Column 1. 90 DAY BANKERS ACCEPTANCES
 Column 2. 3 MONTH MONEY MARKET RATE
 Column 3. 3 MONTH INTER BANK
 Column 4. 3 MONTH INTER BANK
 Column 5. 3 MONTH CERTIFICATE OF DEPOSIT
 Column 6. 3 MONTH CERTIFICATE OF DEPOSIT IN NEW YORK
 Column 11. USA CD RATE(COLUMN 8) USED FOR WORLD BASKET
 Column 12. 3 MONTH EURODOLLAR RATE(COLUMN 7) USED FOR USA

QUARTERLY AND MONTHLY FIGURES ARE AVERAGES OF THE WEEKLY DATA
 THE WEEKLY FIGURES REPRESENT THE CLOSING VALUES FOR THAT DATE

USA INTEREST RATES

		----- THREE MONTH RATES -----			10 YEAR
		TREASURY		EURO	COMMERCIAL
		BILLS	CD'S	DOLLAR	BOND
		(RUST)	NEW YORK	(REU)	MOODY AAA
		(V2626)		(V2627)	(REB)
		FED FUNDS			(V2625)
		(OVERNIGHT)			
1987	QTR2	6.60	6.85	7.07	9.16
	QTR3	6.82	6.98	7.15	9.72
	QTR4	6.98	7.76	7.96	10.22
1988	QTR1	6.67	6.74	6.91	9.57
	QTR2	7.09	7.25	7.41	9.81
	QTR3	7.94	8.20	8.31	9.98
1987	SEP	7.12	7.43	7.56	10.14
	OCT	7.36	8.21	8.48	10.55
	NOV	6.81	7.39	7.55	10.05
	DEC	6.82	7.76	7.96	10.11
1988	JAN	6.82	6.96	7.17	9.97
	FEB	6.62	6.63	6.79	9.41
	MAR	6.56	6.65	6.79	9.39
	APR	6.75	6.92	7.11	9.65
	MAY	7.04	7.27	7.44	9.89
	JUN	7.50	7.56	7.67	9.87
	JUL	7.69	7.94	8.11	9.94
	AUG	8.05	8.38	8.50	10.09
	SEP	8.09	8.28	8.33	9.91
1988	MAY 30	7.25	7.50	7.69	10.04
	JUN 6	7.44	7.48	7.62	9.98
	JUN 13	7.44	7.50	7.56	9.89
	JUN 20	7.56	7.62	7.75	9.86
	JUN 27	7.56	7.65	7.75	9.80
	JUL 4	7.50	7.70	7.81	9.82
	JUL 11	7.56	7.90	8.06	9.88
	JUL 18	7.81	8.05	8.31	10.00
	JUL 25	7.87	8.12	8.25	10.04
	AUG 1	7.87	8.15	8.25	10.03
	AUG 8	7.75	8.20	8.37	10.02
	AUG 15	8.37	8.50	8.69	10.15
	AUG 22	8.06	8.55	8.62	10.15
	AUG 29	8.19	8.50	8.56	10.10
	SEP 5	8.09	8.42	8.37	10.08
	SEP 12	8.00	8.24	8.37	9.91
	SEP 19	8.06	8.20	8.25	9.79
	SEP 26	8.19	8.25	8.31	9.85
	OCT 3	8.12	8.40	8.25	9.65
	OCT 10	8.25	8.30	8.69	9.56

QUARTLERLY AND MONTHLY FIGURES ARE AVERAGES OF THE AVAILABLE WEEKLY DATA

DOLLAR EXCHANGE RATES WITH FIVE MAJOR OECD COUNTRIES

EFFECTIVE						
	EXCHANGE RATE	FRANCE	GERMANY	ITALY	JAPAN	CANADA
1987 QTR2	101.1	6.03	1.81	1300	142.6	1.33
QTR3	102.5	6.13	1.84	1331	150.0	1.32
QTR4	97.0	5.75	1.71	1249	135.7	1.31
1988 QTR1	94.2	5.67	1.68	1236	128.1	1.27
QTR2	93.5	5.78	1.71	1268	125.7	1.23
QTR3	99.0	6.31	1.86	1383	133.6	1.22
1987 AUG	103.3	6.20	1.86	1346	147.6	1.33
SEP	100.9	6.05	1.81	1309	143.1	1.32
OCT	100.5	6.02	1.80	1302	143.3	1.31
NOV	96.5	5.71	1.68	1239	135.4	1.32
DEC	93.9	5.54	1.64	1205	128.5	1.31
1988 JAN	93.9	5.59	1.66	1218	127.9	1.29
FEB	95.0	5.73	1.70	1249	129.2	1.27
MAR	93.6	5.69	1.68	1240	127.1	1.25
APR	92.7	5.68	1.67	1241	124.9	1.24
MAY	93.0	5.73	1.69	1259	124.8	1.24
JUN	94.8	5.93	1.76	1304	127.4	1.22
JUL	98.1	6.22	1.85	1366	133.1	1.21
AUG	99.5	6.39	1.89	1394	133.6	1.22
SEP	99.6	6.33	1.86	1389	134.0	1.23
1988 APR 18	92.1	5.63	1.66	1232	124.0	1.23
APR 25	92.7	5.70	1.68	1246	124.8	1.23
MAY 2	92.7	5.70	1.68	1248	124.7	1.23
MAY 9	92.8	5.70	1.69	1249	124.7	1.24
MAY 16	92.7	5.73	1.69	1254	124.9	1.24
MAY 23	93.2	5.75	1.70	1263	124.5	1.24
MAY 30	93.7	5.82	1.73	1283	125.1	1.23
JUN 6	94.0	5.80	1.72	1277	126.1	1.23
JUN 13	93.7	5.82	1.72	1282	125.1	1.22
JUN 20	94.4	5.93	1.76	1305	126.2	1.21
JUN 27	97.0	6.14	1.82	1349	130.8	1.21
JUL 4	98.5	6.16	1.83	1358	135.5	1.22
JUL 11	98.1	6.21	1.85	1367	133.0	1.21
JUL 18	99.4	6.34	1.88	1392	134.6	1.21
JUL 25	97.5	6.23	1.85	1362	132.0	1.21
AUG 1	98.7	6.32	1.86	1383	132.7	1.21
AUG 8	99.6	6.41	1.90	1403	133.8	1.21
AUG 15	99.3	6.38	1.88	1395	133.3	1.23
AUG 22	100.4	6.51	1.92	1403	134.0	1.23
AUG 29	99.6	6.32	1.87	1386	134.4	1.24
SEP 5	99.9	6.28	1.84	1378	133.7	1.24
SEP 12	98.8	6.28	1.85	1379	133.4	1.24
SEP 19	99.5	6.37	1.87	1395	134.1	1.22
SEP 26	100.0	6.41	1.88	1404	134.7	1.22
OCT 3	99.0	6.34	1.86	1387	133.6	1.21
OCT 10	98.3	6.31	1.85	1379	131.0	1.21

STERLING EXCHANGE RATES WITH FIVE MAJOR OECD COUNTRIES

EFFECTIVE						
	EXCHANGE	FRANCE	GERMANY	ITALY	JAPAN	USA
	RATE					
1987 QTR2	72.8	9.89	2.96	2132	234.2	1.64
QTR3	72.7	9.92	2.97	2152	237.9	1.62
QTR4	74.7	10.08	2.99	2188	237.8	1.76
1988 QTR1	75.1	10.18	3.01	2217	229.8	1.80
QTR2	77.8	10.64	3.14	2335	231.7	1.84
QTR3	75.8	10.68	3.16	2343	226.4	1.69
1987 AUG	72.4	9.89	2.96	2150	235.5	1.60
SEP	73.0	9.97	2.99	2157	236.3	1.65
OCT	73.2	9.99	3.00	2162	238.4	1.66
NOV	75.0	10.12	2.98	2199	240.1	1.78
DEC	75.8	10.12	2.99	2201	234.2	1.83
1988 JAN	75.3	10.05	2.97	2189	230.2	1.81
FEB	74.3	10.08	2.98	2196	227.1	1.75
MAR	75.9	10.43	3.07	2273	232.8	1.84
APR	77.8	10.65	3.13	2329	234.8	1.88
MAY	78.5	10.74	3.17	2357	234.0	1.88
JUN	76.8	10.52	3.11	2314	225.7	1.77
JUL	75.8	10.55	3.13	2319	226.4	1.69
AUG	76.3	10.84	3.20	2371	226.7	1.70
SEP	75.5	10.66	3.14	2338	226.1	1.69
1988 APR 18	78.3	10.72	3.15	2347	236.2	1.90
APR 25	78.3	10.68	3.14	2337	234.0	1.87
MAY 2	78.7	10.70	3.15	2341	234.7	1.88
MAY 9	78.4	10.72	3.16	2349	234.5	1.88
MAY 16	77.9	10.82	3.19	2369	236.0	1.89
MAY 23	79.0	10.75	3.18	2362	232.8	1.87
MAY 30	78.3	10.73	3.19	2364	232.0	1.86
JUN 6	78.2	10.46	3.09	2302	227.3	1.80
JUN 13	76.2	10.58	3.13	2329	227.3	1.81
JUN 20	76.8	10.58	3.14	2329	225.3	1.78
JUN 27	76.2	10.45	3.10	2297	222.8	1.70
JUL 4	76.2	10.37	3.08	2285	228.0	1.68
JUL 11	75.0	10.49	3.12	2311	224.8	1.69
JUL 18	75.1	10.59	3.14	2325	224.8	1.67
JUL 25	76.8	10.75	3.19	2353	228.0	1.73
AUG 1	76.4	10.84	3.21	2371	227.5	1.71
AUG 8	76.5	10.88	3.23	2381	227.0	1.70
AUG 15	76.5	10.93	3.22	2390	228.3	1.71
AUG 22	76.2	10.91	3.22	2381	224.8	1.68
AUG 29	75.8	10.66	3.14	2334	226.0	1.69
SEP 5	75.7	10.65	3.13	2332	229.3	1.69
SEP 12	75.7	10.65	3.13	2339	226.3	1.70
SEP 19	75.3	10.66	3.14	2340	224.3	1.68
SEP 26	75.2	10.68	3.14	2341	224.5	1.67
OCT 3	75.9	10.76	3.16	2355	227.0	1.70
OCT 10	76.3	10.83	3.18	2368	226.5	1.71

ECONOMIST COMMODITY PRICE INDICES

1985=100

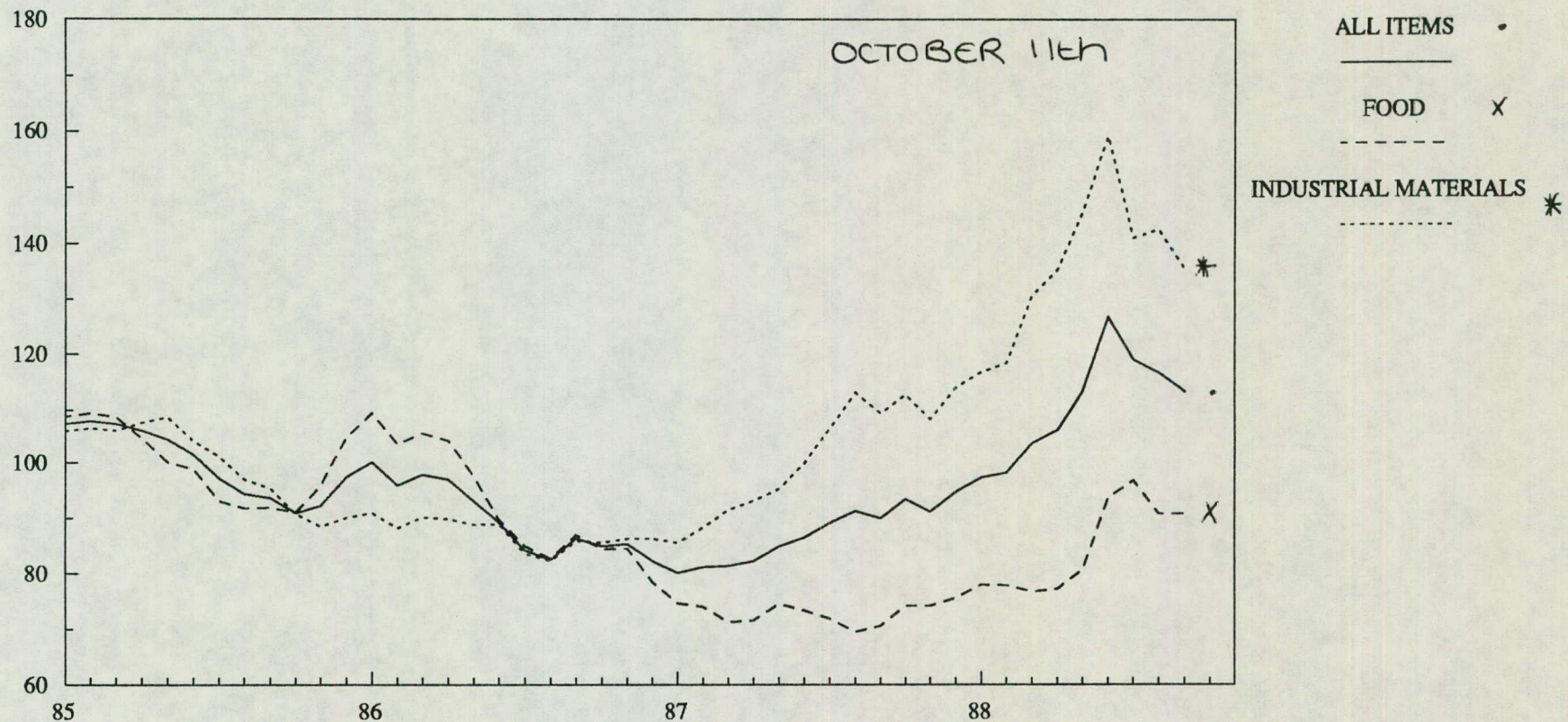
Annual	All items indices				SDR indices		
	SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
1980	104.4	133.7	74.0	115.6	96.7	106.2	118.6
1981	99.3	115.2	73.5	105.3	93.7	104.7	106.2
1982	91.8	99.9	73.4	94.3	89.3	96.0	93.8
1983	107.2	112.7	95.7	110.4	102.0	116.6	110.1
1984	110.3	111.5	107.2	113.1	112.3	111.6	106.2
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	89.8	103.7	90.6	86.4	92.4	89.9	85.4
1987	87.4	111.5	87.1	82.2	73.0	103.3	100.6
Quarterly							
1986 Q3	84.6	100.2	86.2	81.8	85.1	85.5	83.1
Q4	84.2	100.1	89.5	80.2	82.2	91.0	82.8
1987 Q1	81.0	100.8	83.5	76.5	73.2	95.2	84.3
Q2	84.9	108.2	84.4	80.7	73.2	102.6	92.1
Q3	90.2	113.4	90.0	84.6	70.7	111.9	108.0
Q4	93.4	123.7	90.3	87.0	74.7	103.3	117.9
1988 Q1	99.8	134.6	95.9	93.9	77.6	105.5	133.4
Q2	115.5	155.7	108.8	109.1	84.0	115.1	169.1
Q3	116.4	148.8	112.4	107.4	92.9	114.0	157.9
Monthly							
August	91.4	114.2	91.8		69.6	115.0	111.7
September	90.1	114.5	89.3		70.7	111.4	107.9
October	93.5	119.3	92.3		74.2	106.8	117.0
November	91.3	121.3	88.1		74.2	101.4	113.3
December	94.8	129.1	90.5		75.6	102.1	122.4
January	97.4	132.2	94.1		78.1	102.7	126.6
February	98.2	131.2	95.6		78.0	106.5	126.7
March	103.8	140.3	98.0		76.8	107.3	157.0
April	106.4	144.9	99.1		77.3	110.5	152.8
May	113.4	153.8	105.7		80.9	114.1	168.2
June	126.7	168.4	121.6		93.9	120.8	186.4
July	119.1	152.9	115.1		96.9	117.7	157.6
August	116.9	148.9	112.5		91.0	113.5	163.1
September	113.3	144.5	109.5		90.9	110.9	152.9
Weekly							
Aug 23	118.4	149.8	114.4		90.2	111.6	171.0
30	117.8	150.1	113.8		90.8	111.4	168.1
Sep 6	116.5	148.8	112.0		93.1	112.1	159.2
13	114.9	147.2	111.2		92.1	112.1	155.4
20	112.0	142.9	108.6		89.3	110.0	152.1
27	109.6	139.2	106.3		89.0	109.3	144.8
Oct 4	110.6	141.1	106.8		90.0	110.2	145.9
11(prov)	111.8	143.9	107.5		88.4	109.4	153.2
% ch. on one yr	+17.3	+18.7	+13.8		+19.1	+1.7	+25.2

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals.

ECONOMIST SDR COMMODITY PRICE INDICES

1985 = 100



PPS 12/2

FROM: I POLIN
DATE: 14th October 1988

TO ALL RECIPIENTS OF EXCHANGE RATE INDICATORS

We would like to point out that certain figures for average exchange rates covering earlier years in the attached version of the indicators have been amended and updated. (Especially Tables 1, 2 and 3). This was due to our database being updated so as it is now wholly consistent with the official figures published by the Bank of England. Most of the figures covering 1987 were found to be accurate as in the published data.

2. Please ensure that if you use or have used any of the figures in Table 1-3, they are now amended to take account of the figures now published below.

I POLIN

61ND1

FROM: MISS R J McROBBIE
DATE: 14 OCTOBER 1988

cc: PPS
PS/EST
PS/Sir P Middleton
Sir G Littler
Sir T Burns
Mr Lankester
Mr Monck
Mr Scholar
Mr H Evans
Mrs Lomax
Mr Peretz
Mr Sedgwick
Mr Gieve
Mr Grice
Mr Matthews
Miss O Mara
Mr Pickford
Mrs Imber
Miss C Turk
Mr Patterson
Mr S Brooks
Mr S G Price
Ms Symes
Mr N Williams
Mr G Young
Mr W Hood
Mr A Dolphin
Mr P J Davis
Mr Nelson
Mr Ramsden
Mr Segal
Mr Hennebry
Mr Polin
Mr Call
Mr P Allum - Washington
Mr J Haywood - IMF/IBRD
Mr Fisher - Bank
Mr D Pearson - CSO
Mr M Stock - CSO
Mrs Kinnear -IDS
Mr Elliott - MOD Economics Division
Mr Nuttall)
Mr Goate)
Mr Higham)DTI
Mr Jones)
Mr Miner)
Mr Fowler)

EXCHANGE RATE INDICATORS - SEPTEMBER 1988

I attach the latest edition of MG 1's monthly note on exchange rate indicators.

MISS R J McROBBIE
MG 1 DIVISION

IND2

MAIN FEATURES OF MARKETS IN SEPTEMBER

	1 Sept (cob)*	Month's High		Month's Low		30 Sept (cob)*
£ ERI	75.5	76.0	(7th)	75.0	(23rd)	75.9
£/\$	1.6735	1.7110	(7th)	1.6595	(26th)	1.6860
£/DM	3.1445	3.1735	(29th)	3.1170	(2nd)	3.1692
\$ ERI	100.3	100.3	(1st)	98.8	(12th)	99.6
\$/DM	1.8790	1.8910	(26th)	1.8395	(7th)	1.8797
\$/Yen	136.67	137.20	(2nd)	132.90	(9th)	134.57

* = Close of business

Sterling quickly recovered from a nervous start to the month and enjoyed a period of stability until close of publication of UK trade figures. Having opened on 1 September at \$1.6825, DM3.1570 and ERI 75.8, it dipped on a rumour that Goldman Sachs had forecast a fall to DM3.08 but then staged a recovery, reaching its highs for the month of \$1.7110 and ERI 76.0 on 7 September, although remaining slightly easier against continental currencies. It subsequently fell against the dollar in the wake of the US trade figures for July on 14 September but was relatively stable against continental currencies. It rose on better figures for bank and building society lending but became vulnerable closer to publication of the UK trade figures for August and fell to a low for the month against the effective on 23 September and against the dollar a little later. Following improved trade figures for August, sterling rose particularly against the deutschmark reaching the month's high on 29 September.

Having opened in London on 1 September at DM1.8765 and Y136.70, the dollar rose to the month's high against the yen when the Bank of Japan stated that it would not be raising its discount rate. However, the announcement of an unexpected rise in US unemployment dampened expectations of further increases in US interest rates and, the dollar fell sharply. It reached the month's lows in the first full week of September, as Mulford stated the US were aware of the dangers of a destabilising rise in the dollar, but better-than-expected US trade figures for July (\$9.5 billion from a revised \$13.7 billion in June) led to a sharp rise. Although restrained by reports of intervention by the Bundesbank and the Federal Reserve, the dollar reached the month's high against the deutschmark on 26 September. It traded a narrow range for the remainder of the month.

UK AND US ECONOMIC INDICATORS - OCTOBER 1988
 =====

UK	Mon	3	Retail sales (aug-final)
	Tues	4	UK official reserves (sept)/Housing starts & completions (aug)
	Thur	6	Unemployment - Employment
	Mon	10	PPI (sept-prov)
	Fri	14	Retail price index (sept)
	Mon	17	Retail sales (sept-prov)
	Tues	18	PSBR (sept)
	Thur	20	Cyclical indicators for the UK economy (sept)
	Thur	27	UK balance of payments current account & overseas trade figures (sept)
US	Mon	3	Construction spending (aug)/factory orders
	Fri	7	Unemployment/employment (sept)
	Thur	13	Merchandise trade (aug)(adv report)
	Fri	14	Producer price index (sept)/Adv Retail sales
	Mon	17	Business inventories (aug)
	Wed	19	Housing starts & building permits (sept)
	Fri	21	Consumer price index (sept)/Real earnings
	Mon	24	US Budget statement (sept)
	Tues	25	Durable goods orders (sept)
	Wed	26	3rd Qtr (Preliminary)GNP
	Thur	27	Personal Income (sept)

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TABLE 1 -STERLING

Average daily rates (at London close)

		£ ERI	£ EMS	\$/£	DM/£	YEN/£	FFr/£	LIRA/£	DF/£	BFR/£	ECU/£*
	Weight in sterling ERI			24.63	14.08	13.67	10.39	7.18	4.80	4.04	
1973		111.8	-	2.4526	6.540	664.56	10.899	1426	6.8370	95.30	-
1974		108.3	-	2.3402	6.049	682.66	11.246	1522	6.2830	91.03	-
1975		99.8	100.0	2.2200	5.447	658.08	9.500	1447	5.5990	81.40	-
1976		85.6	89.9	1.8049	4.552	535.43	8.608	1497	4.7780	69.74	-
1977		81.2	85.1	1.7455	4.050	467.65	8.573	1540	4.2810	62.51	-
1978		81.5	84.2	1.9197	3.851	402.73	8.645	1628	4.1480	60.34	-
1979		87.3	87.1	2.1225	3.887	465.55	9.025	1762	4.2558	62.20	-
1980		96.1	95.6	2.3281	4.227	525.59	9.825	1992	4.6211	67.97	1.6739
1981		94.9	106.0	2.0254	4.556	444.63	10.936	2287	5.0289	74.81	1.8096
1982		90.5	104.7	1.7489	4.243	435.20	11.485	2364	4.6675	79.84	1.7854
1983		83.2	100.0	1.5158	3.870	359.93	11.547	2302	4.3251	77.47	1.7046
1984		78.6	99.9	1.3364	3.791	316.80	11.635	2339	4.2738	76.96	1.6930
1985		78.3	100.7	1.2976	3.784	307.08	11.549	2463	4.2678	76.34	1.6996
1986		72.8	86.4	1.4672	3.183	246.80	10.160	2186	3.5901	65.47	1.4946
1987		72.7	82.2	1.6393	2.941	236.50	9.837	2123	3.3141	61.12	1.4198
1986	Q1	75.2	90.4	1.439	3.382	270.79	10.383	2303	3.816	69.18	1.5613
	Q2	76.1	91.4	1.509	3.387	256.40	10.771	2322	3.815	69.12	1.5736
	Q3	72.0	84.9	1.489	3.109	232.27	10.101	2140	3.506	64.23	1.4721
	Q4	68.2	79.0	1.430	2.868	229.22	9.393	1986	3.240	59.60	1.3763
1987	JAN	68.8	77.8	1.507	2.797	232.9	9.33	1982	3.156	58.1	1.355
	FEB	69.0	77.4	1.527	2.785	234.3	9.28	1981	3.144	57.7	1.351
	MAR	71.9	81.2	1.592	2.921	241.1	9.72	2078	3.299	60.5	1.406
	APR	72.3	82.1	1.630	2.952	232.9	9.83	2106	3.330	61.2	1.421
	MAY	73.3	83.1	1.666	2.980	234.1	9.96	2152	3.358	61.8	1.436
	JUN	72.6	82.6	1.629	2.962	235.3	9.89	2143	3.336	61.4	1.428
	JUL	72.8	82.9	1.610	2.974	241.8	9.90	2153	3.348	61.7	1.432
	AUG	72.3	82.8	1.598	2.967	235.7	9.90	2149	3.342	61.6	1.431
	SEP	73.1	83.2	1.646	2.982	235.6	9.96	2155	3.356	61.9	1.437
	OCT	73.6	83.5	1.662	2.992	238.1	10.00	2164	3.367	62.4	1.442
	NOV	75.4	83.9	1.775	2.986	240.3	10.13	2200	3.360	62.5	1.447
	DEC	75.8	84.4	1.827	2.987	234.7	10.12	2201	3.361	62.5	1.447
1988	JAN	75.0	83.5	1.798	2.977	229.9	10.05	2189	3.345	62.2	1.441
	FEB	74.3	83.7	1.758	2.983	227.0	10.08	2196	3.349	62.4	1.444
	MAR	76.8	86.4	1.832	3.073	232.9	10.43	2272	3.451	64.3	1.483
	APR	78.2	88.3	1.877	3.138	234.4	10.65	2329	3.520	65.7	1.511
	MAY	78.4	89.0	1.869	3.166	233.2	10.72	2353	3.548	66.1	1.522
	JUN	76.2	87.8	1.779	3.124	226.5	10.55	2320	3.512	65.3	1.502
	JUL	75.6	88.2	1.704	3.144	226.9	10.59	2328	3.545	65.8	1.505
	AUG	76.5	90.1	1.698	3.207	227.1	10.86	2373	3.621	67.2	1.540
	SEP	75.6	88.6	1.683	3.143	226.3	10.69	2338	3.546	65.9	1.516
	OCT										
	NOV										
	DEC										

*Since Sep 1984 sterling's notional central rate against the 1.7065

*Since Jul 1985 sterling's notional central rate against the 1.8008

*Since Apr 1986 sterling's notional central rate against the 1.5865

*Since Aug 1986 sterling's notional central rate against the 1.4722

*Since Jan 1987 sterling's notional central rate against the ECU has been 1.3521

TABLE 2 - DOLLAR

Average daily rates (at London close)

		\$ Effective	YEN/\$	CS/\$	DM/\$	FFr/\$	LIRA/\$	DF/\$	SK/\$	BFr/\$	SFr/\$	IP/\$
Weight in Dollar Effective			21.25	20.28	13.02	10.11	7.47	3.24	2.73	2.44	1.69	0.58
1973		-	270.96	1.0001	2.6666	4.4439	581	2.7877	4.3521	38.86	3.1682	-
1974		-	291.71	0.9778	2.5848	4.8056	650	2.6848	4.4330	38.90	2.9762	-
1975		99.4	296.75	0.9831	2.4615	4.2642	653	2.5299	4.1546	36.85	2.8430	-
1976		105.7	296.40	1.0145	2.5174	4.7823	832	2.6334	4.3393	38.58	2.4966	-
1977		104.6	266.24	1.0639	2.3223	4.9131	882	2.4542	4.4830	35.83	2.4036	-
1978		95.6	210.04	1.1404	2.0080	4.5064	848	2.1624	4.5174	31.45	1.7867	-
1979		93.6	219.05	1.1718	1.8329	4.2547	831	2.0059	4.2840	29.32	1.6630	0.4886
1980		93.7	226.15	1.1686	1.8157	4.2206	856	1.9852	5.2865	29.20	1.6740	0.4863
1981		105.6	220.46	1.1987	2.2607	5.4356	1138	2.4963	4.2274	37.15	1.9633	0.6219
1982		118.1	249.19	1.2339	2.4299	6.5862	1355	2.6718	5.0678	45.78	2.0331	0.7052
1983		124.8	237.43	1.2317	2.5551	7.5862	1520	2.8558	6.2927	51.16	2.1012	0.8065
1984		134.7	237.50	1.2953	2.8478	8.7399	1757	3.2103	7.6658	57.78	2.3507	0.9231
1985		140.7	238.30	1.3643	2.9407	8.9758	1907	3.3171	8.2733	59.31	2.4543	0.9445
1986		114.8	168.33	1.3894	2.1694	6.9222	1490	2.4470	7.1188	44.63	1.7963	0.7459
1987		101.2	144.67	1.3257	1.7977	6.0107	1297	2.0257	6.3407	37.35	1.4917	0.6729
1986	Q1	121.4	188.29	1.4039	2.3510	7.2184	1601	2.6529	7.416	48.10	1.9806	0.7753
	Q2	116.1	169.99	1.3844	2.2452	7.1406	1539	2.5290	7.194	45.83	1.8651	0.7392
	Q3	111.5	155.95	1.3851	2.0872	6.7819	1437	2.3535	6.971	43.13	1.6881	0.7343
	Q4	110.5	160.26	1.3847	2.0051	6.5675	1389	2.2652	6.913	41.67	1.6628	0.7363
1987	JAN	105.5	154.6	1.360	1.857	6.192	1315	2.095	6.606	38.55	1.559	0.6946
	FEB	103.9	153.4	1.334	1.824	6.075	1297	2.059	6.495	37.76	1.540	0.6852
	MAR	103.3	151.5	1.320	1.835	6.108	1305	2.073	6.414	38.00	1.539	0.6870
	APR	101.0	142.9	1.319	1.811	6.031	1292	2.043	6.312	37.53	1.496	0.6779
	MAY	100.4	140.5	1.341	1.789	5.976	1292	2.016	6.256	37.09	1.471	0.6687
	JUN	101.8	144.4	1.339	1.818	6.071	1315	2.048	6.339	37.69	1.508	0.6788
	JUL	103.3	150.2	1.326	1.847	6.150	1337	2.080	6.437	38.31	1.536	0.6893
	AUG	103.3	147.6	1.326	1.858	6.201	1346	2.093	6.487	38.59	1.539	0.6946
	SEP	100.9	143.1	1.315	1.811	6.047	1309	2.038	6.372	37.61	1.501	0.6771
	OCT	100.5	143.3	1.309	1.801	6.016	1302	2.026	6.350	37.56	1.494	0.6725
	NOV	96.5	135.4	1.316	1.682	5.707	1239	1.893	6.069	35.19	1.382	0.6328
	DEC	93.9	128.5	1.307	1.635	5.541	1205	1.840	5.943	34.21	1.332	0.6154
1988	JAN	93.9	127.9	1.285	1.656	5.588	1218	1.861	5.975	34.62	1.349	0.6231
	FEB	95.0	129.1	1.268	1.697	5.732	1249	1.905	8.044	35.48	1.392	0.6375
	MAR	93.6	127.1	1.249	1.677	5.690	1240	1.883	5.943	35.07	1.387	0.6276
	APR	92.7	124.9	1.235	1.672	5.676	1241	1.876	5.883	34.99	1.384	0.6261
	MAY	93.0	124.8	1.237	1.694	5.734	1259	1.898	5.901	35.37	1.411	0.6338
	JUN	94.8	127.4	1.217	1.757	5.934	1305	1.975	6.097	36.75	1.462	0.6552
	JUL	98.1	133.1	1.208	1.845	6.217	1366	2.081	6.343	38.62	1.533	0.6867
	AUG	99.5	133.7	1.223	1.889	6.393	1398	2.132	6.474	39.56	1.584	0.7033
	SEP	99.5	134.5	1.227	1.866	6.352	1389	2.106	6.439	39.15	1.577	0.6963
	OCT											
	NOV											
	DEC											

NOTE: Sterling's weight in Dollar effective is 5.06

TABLE 3 - OTHER COUNTRIES EFFECTIVE EXCHANGE RATES

Average daily rates (at London close)

		DM	YEN	Ffr	LIRA	Bfr	DF	Sfr
1975		100.1	99.9	99.4	100.0	100.3	100.0	100.0
1976		105.2	104.3	95.2	82.5	101.8	102.5	108.8
1977		113.3	115.3	90.8	75.6	107.6	109.4	111.7
1978		120.4	141.8	90.9	71.1	111.6	114.5	138.9
1979		127.8	131.5	92.9	69.5	114.2	118.5	144.6
1980		129.1	126.7	93.9	67.3	114.5	119.8	144.3
1981		119.6	142.9	83.9	58.3	106.7	111.6	139.4
1982		124.6	134.7	76.2	53.9	96.2	116.1	148.1
1983		127.5	148.4	69.6	51.2	92.4	117.1	151.2
1984		124.0	156.8	65.5	47.9	89.5	113.5	144.6
1985		123.8	160.7	66.1	45.1	90.1	114.0	143.2
1986		137.3	203.6	70.1	46.9	95.7	126.6	161.3
1987		147.6	219.6	71.8	47.6	100.2	135.6	173.7
1986	Q1	133.1	186.3	71.0	45.9	93.8	122.5	153.4
	Q2	134.6	202.7	69.0	46.1	95.2	124.5	157.5
	Q3	138.7	216.3	69.5	47.2	96.2	128.3	166.8
	Q4	142.6	208.1	70.8	48.2	97.5	130.8	167.0
1987	JAN	147.5	209.4	71.8	48.5	100.0	135.0	171.1
	FEB	148.4	209.3	72.3	48.6	100.7	135.5	171.2
	MAR	147.1	211.7	71.8	48.2	100.2	134.6	171.1
	APR	146.6	222.7	71.6	47.9	99.9	134.6	173.2
	MAY	147.2	225.3	71.7	47.4	100.2	135.4	174.9
	JUN	146.8	220.8	71.5	47.2	100.0	135.0	172.7
	JUL	146.6	213.7	71.6	47.1	99.8	134.6	171.9
	AUG	146.0	218.1	71.1	46.9	99.4	134.2	171.7
	SEP	146.7	222.2	71.4	47.2	99.8	134.9	172.7
	OCT	147.1	221.5	71.5	47.3	99.6	135.3	173.1
	NOV	150.9	228.4	72.3	47.5	101.2	138.8	180.0
	DEC	151.4	237.2	72.7	47.6	101.5	139.4	182.4
1988	JAN	150.3	239.6	72.5	47.4	101.1	138.8	181.0
	FEB	149.1	239.5	71.8	47.0	100.4	137.8	177.7
	MAR	149.3	241.6	71.5	46.8	100.6	137.9	176.7
	APR	148.9	245.0	71.3	46.5	100.4	137.8	176.1
	MAY	147.9	246.2	71.1	46.1	100.1	137.1	173.6
	JUN	146.2	244.8	70.4	45.7	99.0	132.5	171.0
	JUL	144.2	239.2	69.5	45.2	98.0	132.7	168.4
	AUG	143.1	240.6	68.6	44.9	97.4	131.6	165.3
	SEP	144.4	238.8	68.8	44.9	97.6	132.8	165.6
	OCT							
	NOV							
	DEC							

NOTE: Effective rates for 1973 and 1974 are not available in the 1975=100 index

TABLE 4 - THREE MONTH INTEREST RATES

|---- UNCOVERED DIFFERENTIALS ----|

		1	2	3	4	5	6	7	8	9	10	11
		UK	USA	USA-CD	GERMANY	JAPAN	FRANCE	ITALY	UK-WORLD BASKET	UK-USA	UK-GERMANY	UK-USA CD
1973		11.47	9.42	6.87	12.14	13.60	9.13	6.92	1.06	2.05	-0.67	4.60
1974		13.43	11.26	7.78	9.90	14.80	13.02	14.57	1.21	2.17	3.53	5.65
1975		10.67	6.96	5.85	4.96	9.80	7.84	10.64	3.04	3.71	5.71	4.82
1976		11.39	5.64	5.03	4.25	7.60	8.69	15.68	4.12	5.75	7.14	6.36
1977		8.12	6.16	5.58	4.37	6.06	9.22	14.04	1.06	1.96	3.75	2.54
1978		9.25	8.85	8.25	3.70	4.86	8.16	11.50	2.01	0.40	5.55	1.00
1979		13.67	12.09	11.26	6.69	8.13	9.48	11.68	3.82	1.58	6.98	2.41
1980		16.59	14.19	13.16	9.54	9.90	12.20	17.64	4.10	2.40	7.05	3.43
1981		13.93	16.78	15.86	12.11	6.75	15.26	20.18	-0.35	-2.85	1.82	-1.93
1982		12.25	13.16	12.25	8.88	6.96	14.73	20.26	0.26	-0.91	3.37	0.00
1983		10.11	9.03	9.06	5.77	6.45	12.63	18.25	0.60	1.08	4.34	1.05
1984		9.93	10.81	10.41	5.99	6.33	11.74	17.37	2.54	-0.88	3.94	-0.48
1985		12.26	8.35	8.08	5.46	6.49	9.72	15.28	3.88	3.91	6.80	4.18
1986		10.95	6.81	6.57	4.62	5.02	7.77	12.91	4.11	4.14	6.34	4.38
1987		9.71	7.14	6.44	4.03	3.88	8.19	11.47	3.27	2.58	5.68	3.27
1986	Q1	12.37	7.88	7.59	4.58	6.00	8.73	15.73	4.61	4.49	7.79	4.78
	Q2	10.15	6.91	6.68	4.58	4.67	7.41	12.80	3.49	3.23	5.56	3.47
	Q3	10.04	6.21	6.01	4.57	4.67	7.17	11.48	3.79	3.82	5.46	4.03
	Q4	11.20	6.13	5.86	4.73	4.50	7.72	11.33	4.94	5.07	6.47	5.34
1987	JAN	11.02	6.16	5.84	4.57	4.23	8.46	11.75	4.71	4.86	6.45	5.18
	FEB	10.89	6.37	6.10	4.02	3.99	8.44	11.57	4.69	4.52	6.87	4.79
	MAR	10.04	6.45	6.17	3.99	4.01	7.97	11.18	3.93	3.59	6.05	3.87
	APR	9.80	6.78	6.52	3.89	3.92	7.94	10.41	3.67	3.02	5.91	3.28
	MAY	8.84	7.26	7.03	3.81	3.79	8.19	10.44	2.52	1.58	5.03	1.81
	JUN	8.96	7.14	6.96	3.71	3.72	8.23	10.99	2.62	1.82	5.25	2.00
	JUL	9.18	6.90	6.73	3.90	3.74	7.87	11.13	2.93	2.27	5.28	2.45
	AUG	10.06	7.02	6.81	3.98	4.04	7.91	12.25	3.65	3.04	6.09	3.25
	SEP	10.12	7.56	7.43	4.03	4.15	7.88	12.56	3.44	2.56	6.09	2.69
	OCT	9.93	8.48	8.21	4.79	4.80	8.19	12.13	2.81	1.45	5.14	1.72
	NOV	8.97	7.55	7.39	3.95	4.34	8.61	11.58	2.30	1.42	5.02	1.58
	DEC	8.75	7.96	7.76	3.70	4.47	8.56	11.63	2.00	0.79	5.05	0.99
1988	JAN	8.92	7.17	6.96	3.44	4.35	8.31	10.91	2.61	1.75	5.47	1.96
	FEB	9.22	6.79	6.63	3.37	4.32	7.58	11.00	3.15	2.43	5.85	2.59
	MAR	8.83	6.79	6.65	3.42	4.40	8.03	11.44	2.64	2.04	5.41	2.18
	APR	8.32	7.11	6.92	3.43	4.19	8.13	10.88	2.06	1.21	4.89	1.40
	MAY	8.03	7.44	7.27	3.56	4.27	7.90	10.78	1.67	0.59	4.47	0.76
	JUN	8.74	7.67	7.56	3.89	4.42	7.39	11.13	2.24	1.07	4.85	1.18
	JUL	10.53	8.23	7.94	4.95	4.80	7.33	11.28	3.68	2.30	5.58	2.59
	AUG	11.25	8.50	8.38	5.35	4.88	7.63	11.28	4.00	2.75	5.90	2.87
	SEP	12.16	8.33	8.28	4.99	5.02	7.98	11.54	4.82	3.83	7.17	3.88
	OCT											
	NOV											
	DEC											

NOTE: Column 1 3 Month Interbank
 2 3 Month Eurodollar
 3 3 Month Certificate of Deposit in NY
 4 3 Month Interbank
 5 3 Month Gensaki rate
 6 3 Month Interbank
 7 3 Month Interbank
 8 World basket consists of weighted average of above countries and Canada
 Column 9 Column 1 - Column 2
 Column 10 Column 1 - Column 4
 Column 11 Column 1 - Column 3

TABLE 5: MOVEMENTS IN STERLING AGAINST OTHER MAJOR CURRENCIES

% change to 30 September 1988 close since

	% change March 1974- May 1979	Level at close 30.09.88	26.2.85 (Recent low point)	20.09.85 (Plaza Agreement)	20.02.87 (Louvre Agreement)	19.10.87 (Black Monday)	23.09.88 (Berlin G7 Meeting)	31.08.88 (End previo month)	
ERI	-21	75.9	-12.9 87.1 *	8.1 70.2 *	-7.4 82.0 *	9.8 69.1 *	2.8 73.8 *	0.9 75.2 *	0.1 75.8 *
£/EMS Index	N/A	89.3	1.8 87.7 *	-1.3 90.5 *	-13.9 103.7 *	15.1 77.6 *	7.1 83.4 *	1.1 88.3 *	0.4 88.9 *
\$/£	-13	1.6860	-18.8 2.0759 *	62.8 1.0357 *	23.3 1.3675 *	10.3 1.5283 *	-0.0 1.6865 *	0.9 1.6715 *	0.3 1.6810 *
DM/£	-36	3.1692	-19.7 3.9450 *	-12.3 3.6121 *	-18.9 3.9063 *	13.5 2.7914 *	6.1 2.9881 *	1.1 3.1332 *	0.4 3.1572 *
Yen/£	32	226.89	-51.4 466.50 *	-16.6 272.12 *	-31.1 329.36 *	-3.3 234.67 *	-4.8 238.30 *	1.0 224.73 *	-1.2 229.66 *
SwFr/£	50 1/2	2.6816	-25.0 3.5750 *	-12.1 3.0520 *	-16.5 3.2102 *	13.7 2.3589 *	8.3 2.4766 *	1.2 2.6493 *	0.6 2.6652 *
FrFr/£	-	10.7820	18.9 9.07 *	-2.5 11.06 *	-9.5 11.9143 *	16.0 9.2966 *	7.9 9.9891 *	1.0 10.6700 *	0.6 10.7197 *
Lira/£	-	2359.98	34.2 1758.40 *	4.5 2257.49 *	-10.2 2628.3 *	19.0 1983.0 *	9.2 2162.1 *	0.9 2339.7 *	0.6 2346.7 *

(1) Figures marked with '*' show level of closing exchange rate on which per cent changes is based

Recent Trading lows for sterling against other major currencies Recent Trading highs for sterling against other major currencies

\$/£	1.6567	18.07.88	\$/£	1.9065	18.04.88
DM/£	3.0768	04.07.88	DM/£	3.2425	10.08.88
Yen/£	223.25	27.06.88	Yen/£	229.65	31.08.88
SwFr/£	2.5630	04.07.88	SwFr/£	2.7195	17.08.88
FrFr/£	10.3742	04.07.88	FrFr/£	10.9650	11.08.88
Lira/£	2284.32	04.07.88	Lira/£	2398.42	11.08.88
ERI	74.6	15.07.88	ERI	79.2	16.05.88

TABLE 6: MOVEMENTS IN THE DOLLAR AGAINST OTHER MAJOR CURRENCIES

% change to 30 September 1988 close since

	Level at close 30.09.88	3.5.1979 (Election)	26.2.85 (Recent high point)	20.9.85 (G5 Agreement)	20.02.87 (Louvre Agreement)	23.09.88 (Berlin G7 Meeting)	19.10.87 (Black Monday)	31.08.88 (End previ month)
EFFECTIVE	99.6	4.7 95.1 *	-36.6 157.2 *	-28.7 139.6 *	-4.2 104.0 *	-0.1 99.7 *	0.5 99.1 *	-0.6 100.2 *
£/\$	0.5931	-11.5 0.6705 *	-38.2 0.9597 *	-18.9 0.7313 *	-9.4 0.6543 *	-0.9 0.5983 *	0.0 0.5929 *	-0.3 0.5949 *
DM/\$	1.8797	-1.1 1.9004 *	-45.8 3.4665 *	-34.2 2.8565 *	2.9 1.8265 *	0.3 1.8745 *	6.1 1.7718 *	0.1 1.8782 *
Yen/\$	134.57	-40.1 224.70 *	-48.5 261.15 *	-44.1 240.85 *	-12.4 153.55 *	0.1 134.45 *	-4.8 141.30 *	-1.5 136.62 *
FrFr/\$	6.3950	46.4 4.3685 *	-39.7 10.6100 *	-26.6 8.7125 *	5.1 6.083 *	0.2 6.3835 *	8.0 5.9230 *	0.3 6.3770 *
Lira/\$	1399.75	65.3 847.00 *	-35.4 2166.50 *	-27.2 1922.00 *	7.9 1297.5 *	0.0 1399.75 *	9.2 1282.00 *	0.3 1396.00 *
SwFr/\$	1.5905	-7.6 1.7217 *	-45.7 2.9290 *	-32.2 2.3475 *	3.0 1.5435 *	0.3 1.5850 *	8.3 1.4685 *	0.3 1.5855 *

(1) Figures marked with '*' show level of closing exchange rate on which per cent change is based

Recent Trading lows for dollar against other major currencies

Recent Trading highs for dollar against other major currencies

EFFECTIVE	90.5	31.12.87
£/\$	1.9065	18.04.88
DM/\$	1.5620	04.01.88
Yen/\$	120.25	04.01.88
FrFr/\$	5.3000	04.01.88
Lira/\$	1159.00	31.12.87
SwFr/\$	1.2625	04.01.88

EFFECTIVE	100.6	10.08.88
£/\$	1.6567	18.07.88
DM/\$	1.9250	10.08.88
Yen/\$	137.20	02.09.88
FrFr/\$	6.5150	22.08.88
Lira/\$	1421.25	22.08.88
SwFr/\$	1.6145	22.08.88

TABLE 7: EXCHANGE RATE FORECASTS/FORWARD MARKET RATES

Period		\$/£	DM/£	DM/\$

SEPTEMBER 1988 end month (spot)		1.69	3.17	1.88

3 month forward	Henley Centre	1.67	3.09	1.85
	Lloyds Bank	1.76	3.08	1.75
	London Business School	1.70	3.16	1.86
	Phillips and Drew	1.69	3.15	1.87
	Forward Market Rates	1.6833	3.1287	1.8587

6 month forward	Henly Centre	1.65	3.05	1.85
	Lloyds Bank	1.84	3.04	1.65
	London Business School	1.69	3.12	1.85
	Phillips and Drew	1.68	3.10	1.85
	Forward Market rates	1.6717	3.0826	1.8440

9 month forward	Henly Centre	1.64	3.03	1.85
	Lloyds Bank	1.88	3.00	1.60
	Phillips and Drew	1.68	3.05	1.75
	Forward market rates	1.6620	3.0401	1.8292

12 month forward	Henley Centre	1.62	3.01	1.86
	Lloyds Bank	-	-	-
	London Business School	1.67	3.03	1.82
	Phillips and Drew	1.74	3.00	1.60
	Forward Market Rates	1.6536	3.0001	1.8143

SOURCES

Henley Centre	"Currency Profiles" (September 1988)
Lloyds Bank	"International Financial Outlook" (Sept 1988)
London Business School	"Exchange Rate Outlook" (September 1988)
Phillips and Drew	"Economic Forecasts" (September 1988)
Forward Market Rates	(as of 3 October 1988)

IND5

INDEX TO CHARTS

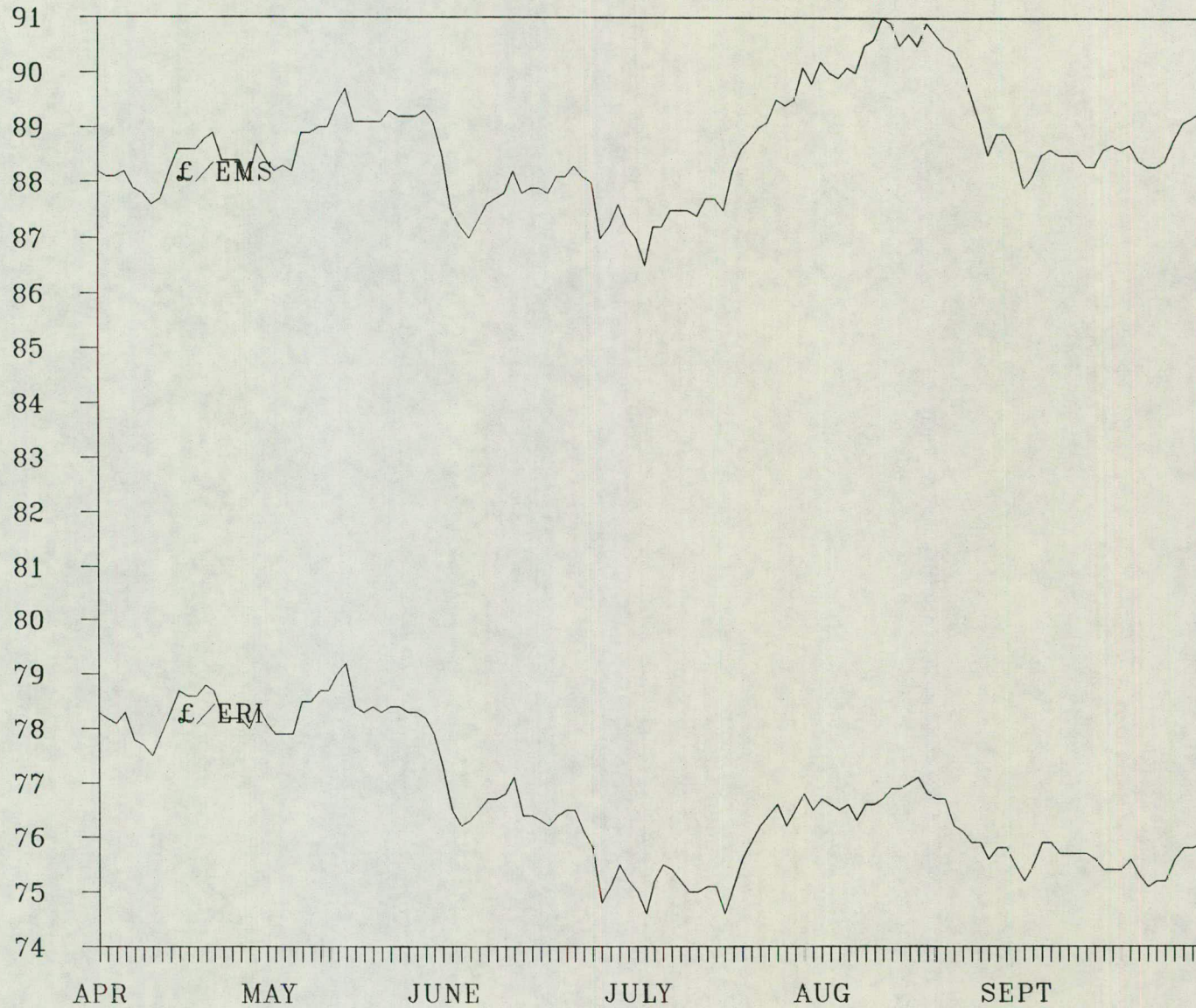
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- Chart 1 Movements in sterling exchange rate indices
- Chart 2 Movements in sterling (ERI, \$/£, DM/£)
- Chart 3 Movements in sterling (\$/£, DM/£) and related
3 month interest rate differentials
- Chart 4 Movements in the dollar (\$ERI, DM/\$, Yen/\$)
- *Chart 5 Movements in sterling exchange rate indices
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and real
- Chart 11 Movements in sterling's notional central rate
- Chart 12 Movements in sterling and the oil price

* Long term data (since 1973)

CHART 1 MOVEMENTS IN STERLING

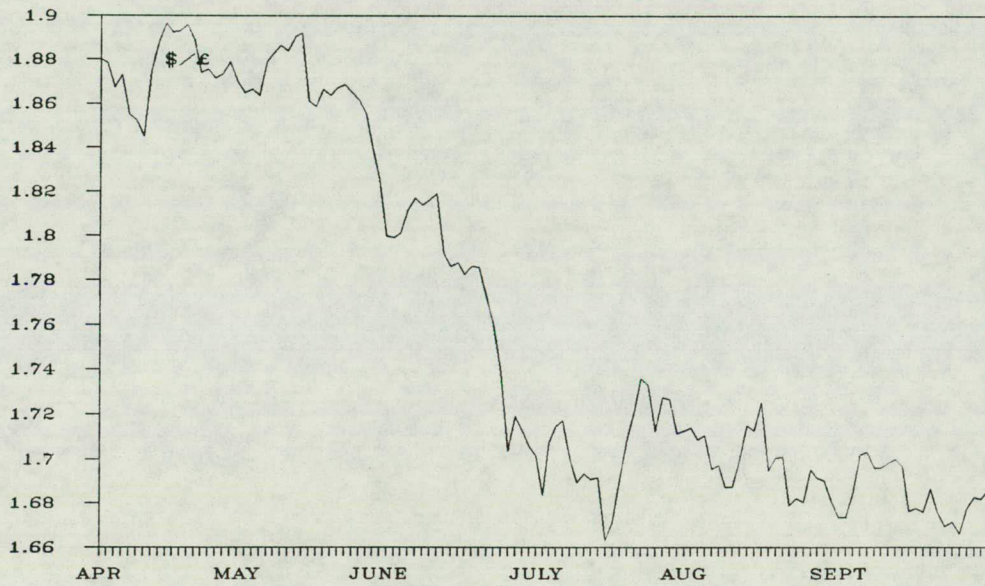
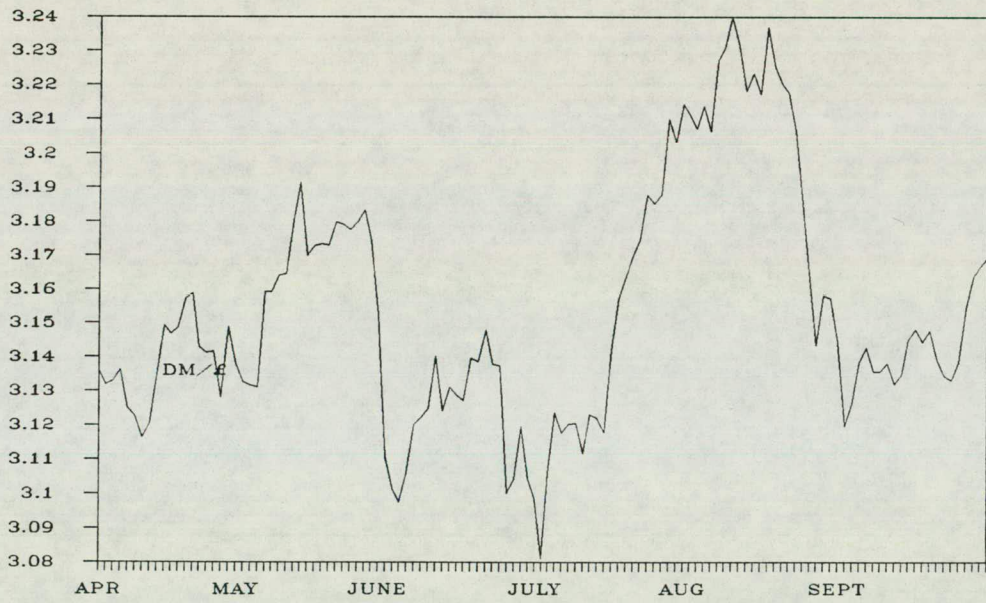
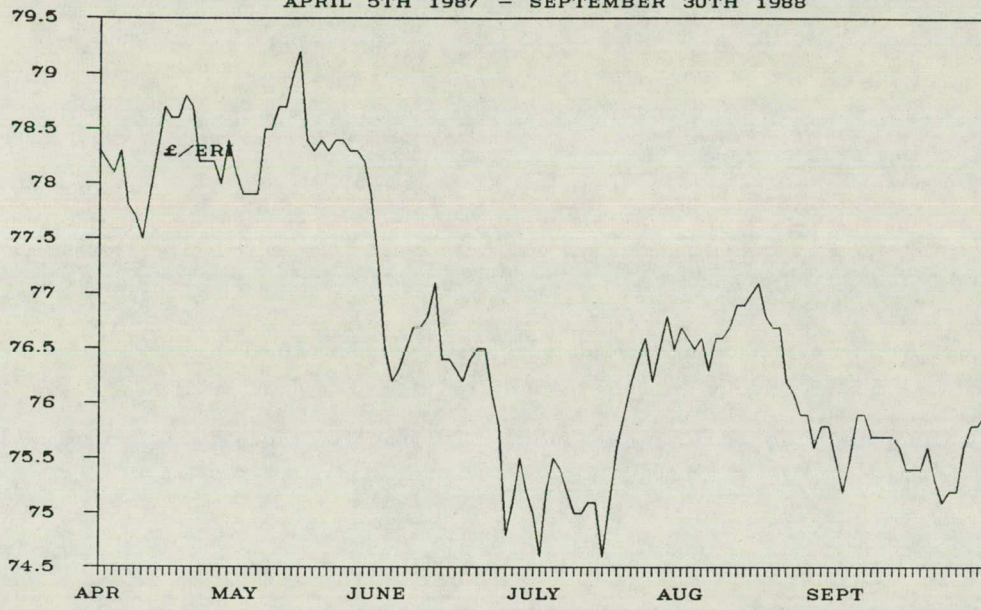
APRIL 5TH 1988 - SEPTEMBER 30TH 1988



(Daily Data)

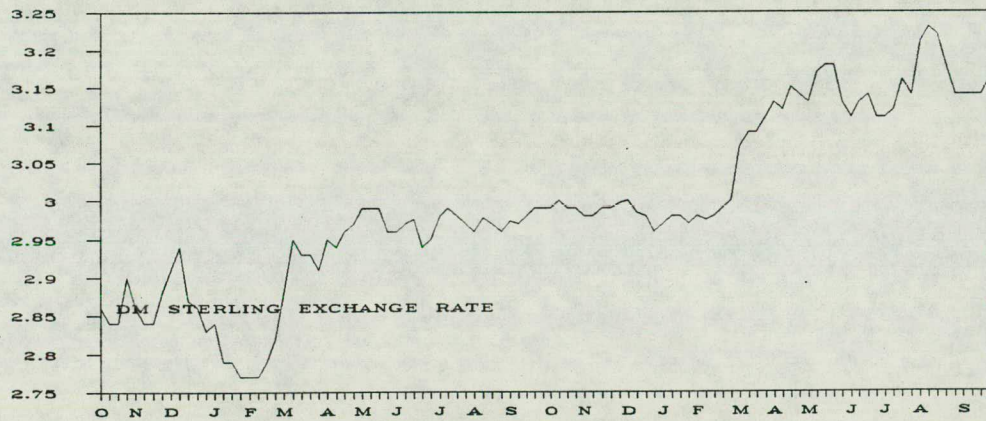
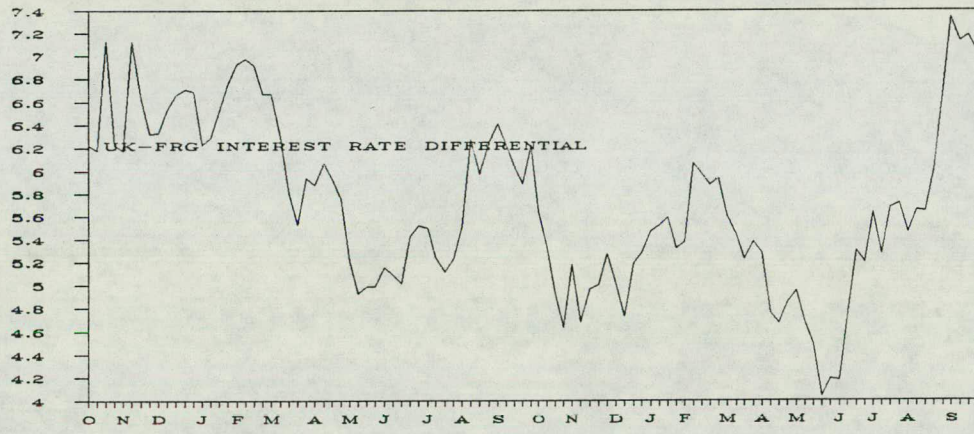
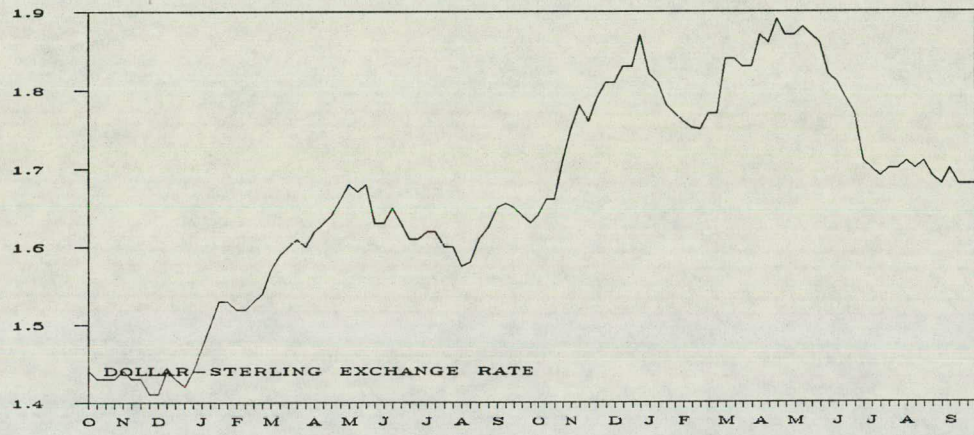
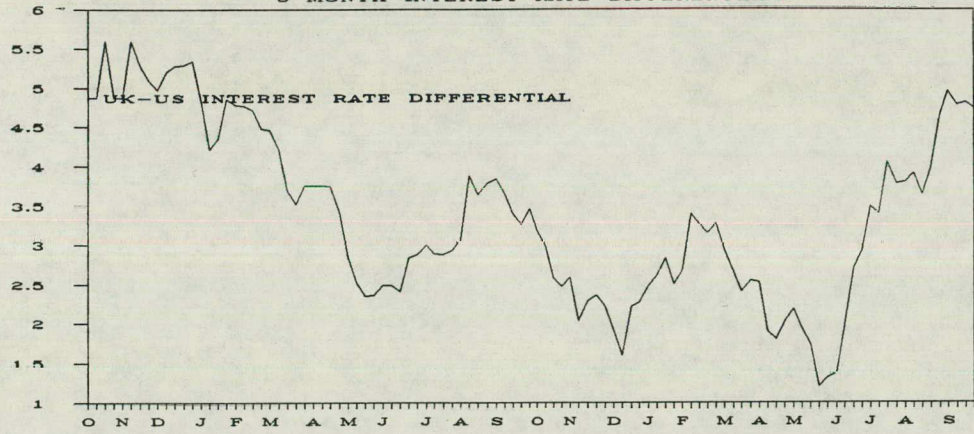
CHART 2 MOVEMENTS IN STERLING

APRIL 5TH 1987 - SEPTEMBER 30TH 1988



(Daily Data)

CHART 3 MOVEMENTS IN STERLING AND UK
3 MONTH INTEREST RATE DIFFERENTIALS



OCT 1986 - SEPT 1988(WEEKLY DATA)

CHART 4 MOVEMENTS IN THE DOLLAR

OCTOBER 1986 - SEPTEMBER 1988

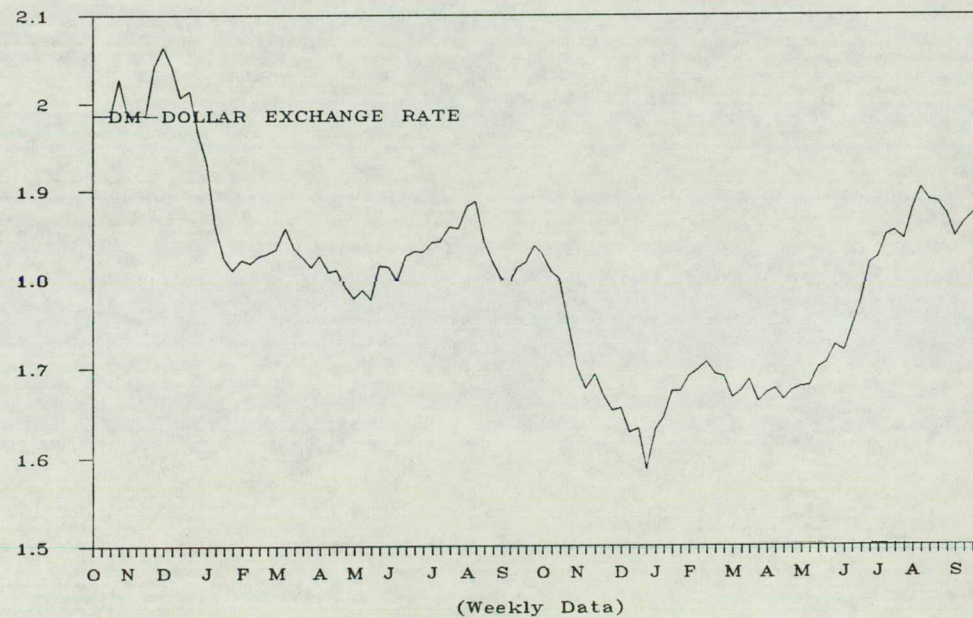
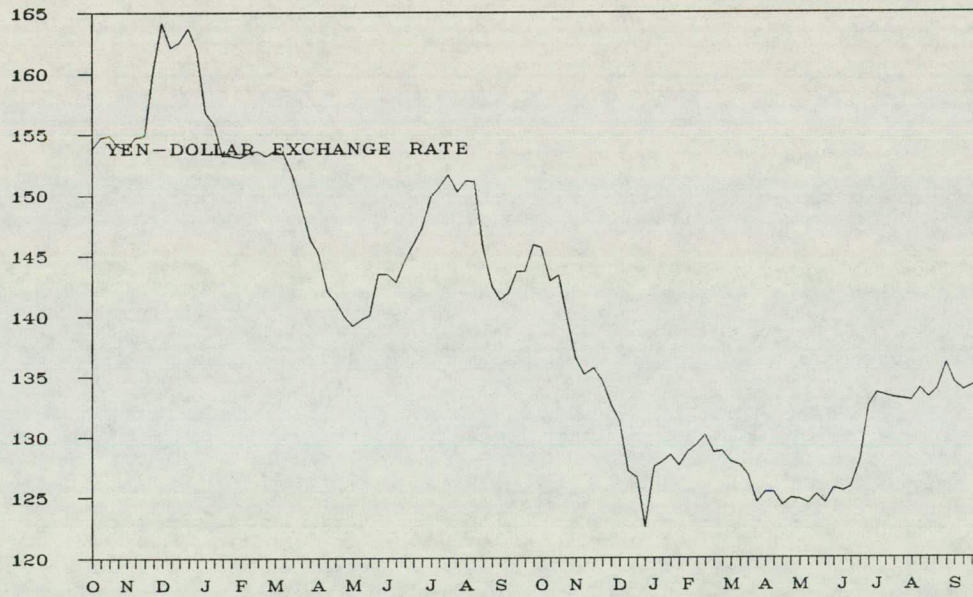
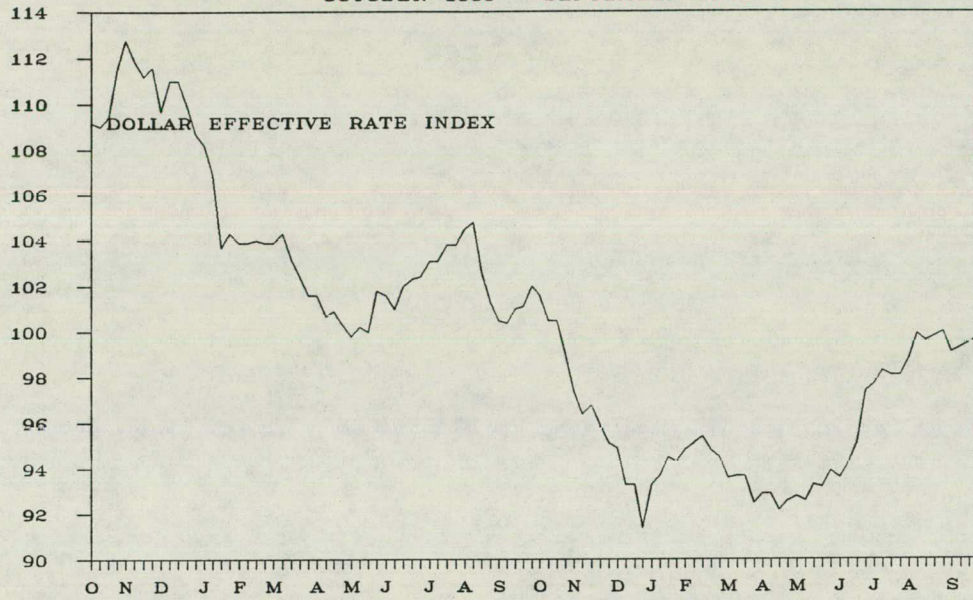


CHART 5: MOVEMENTS IN STERLING

JANUARY 1976-SEPTEMBER 1988
INDICES : 1980=100

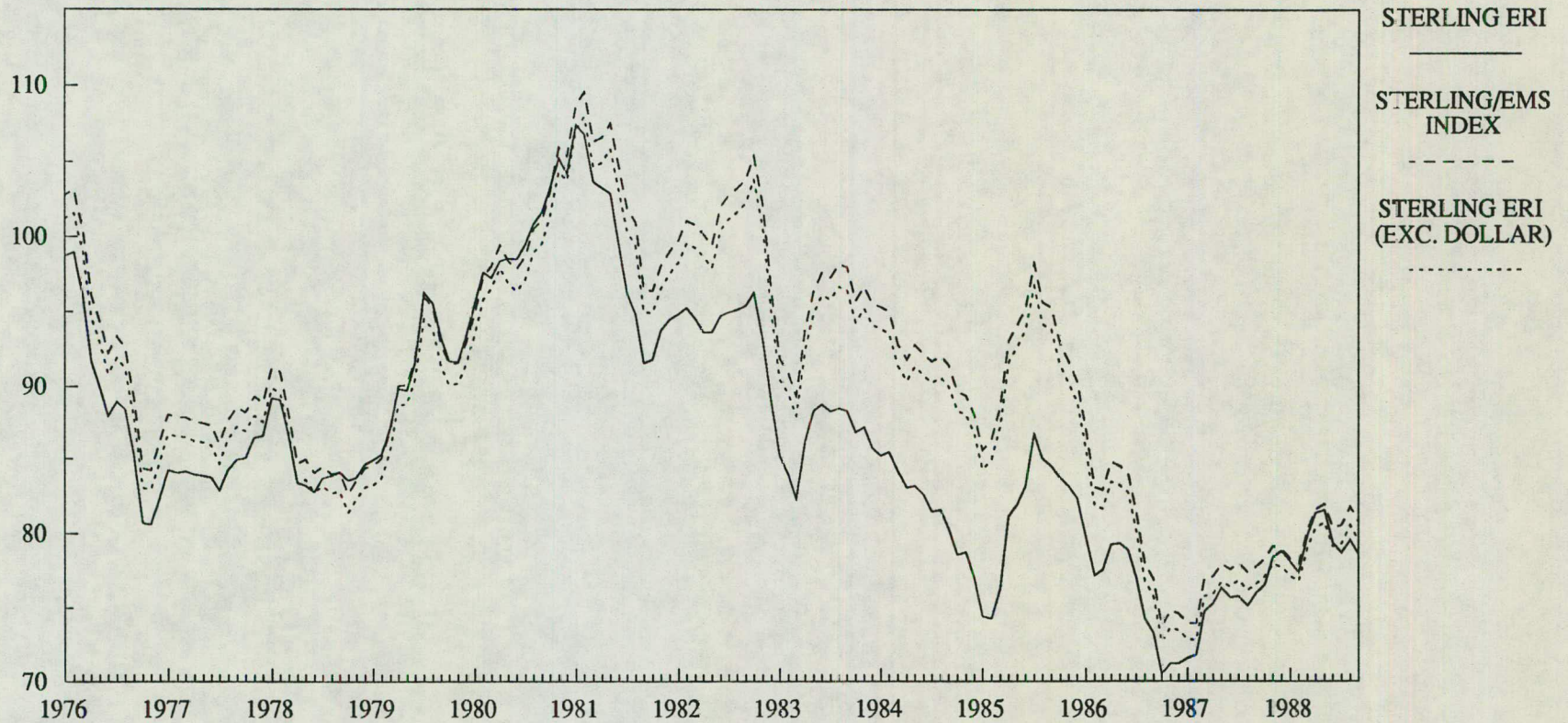


CHART 6: MOVEMENTS IN STERLING

JANUARY 1976-SEPTEMBER 1988
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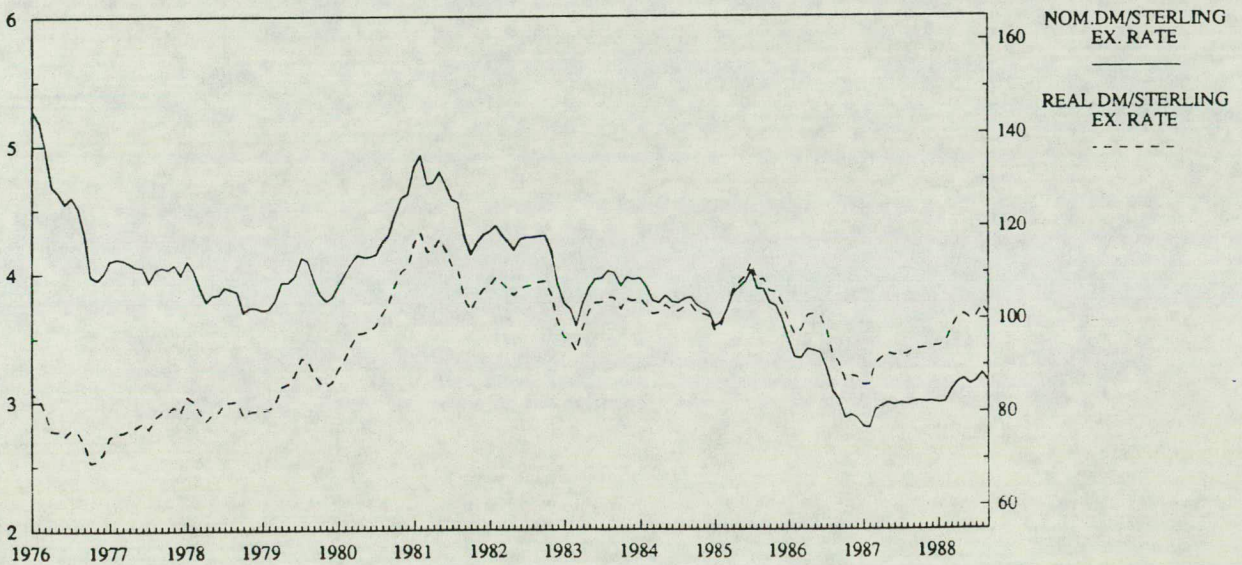
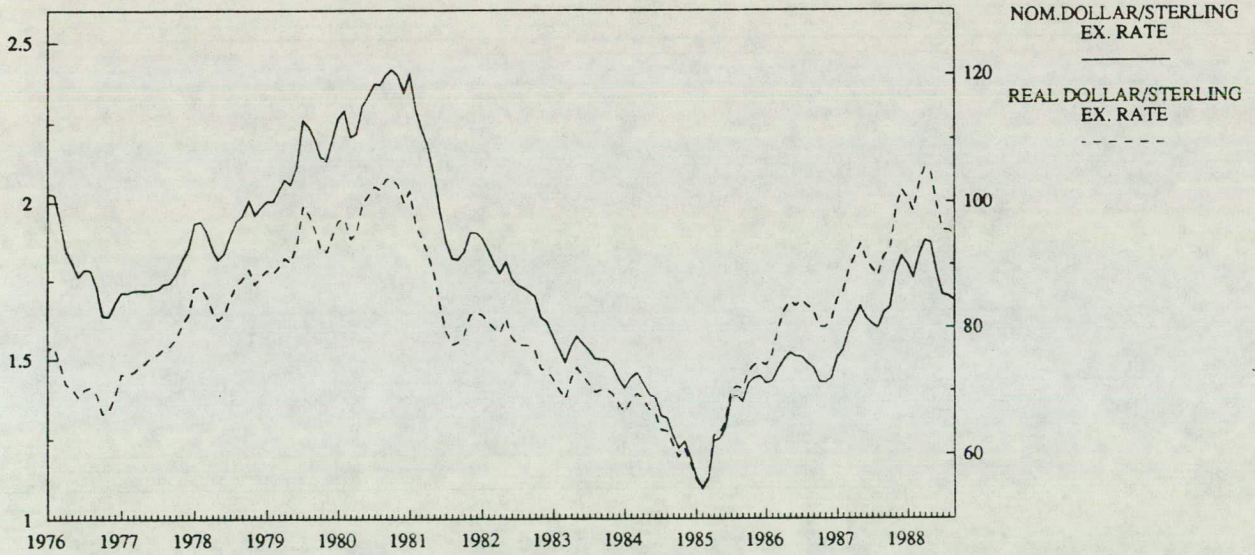
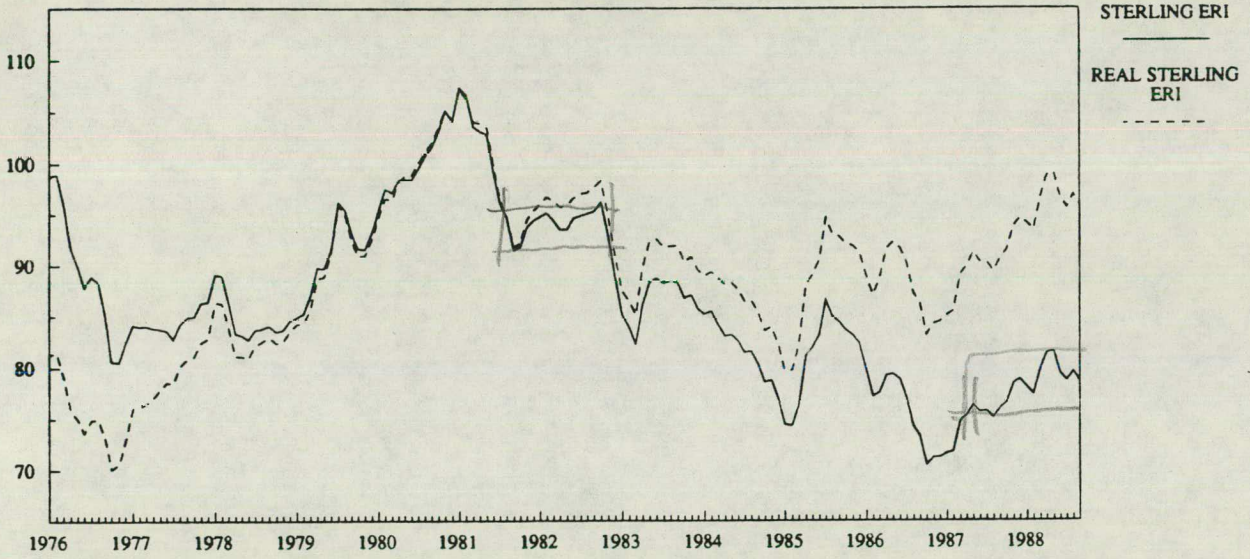


CHART 7 - MOVEMENTS IN STERLING

JANUARY 1976 - SEPTEMBER 1988

INDICES: 1980=100

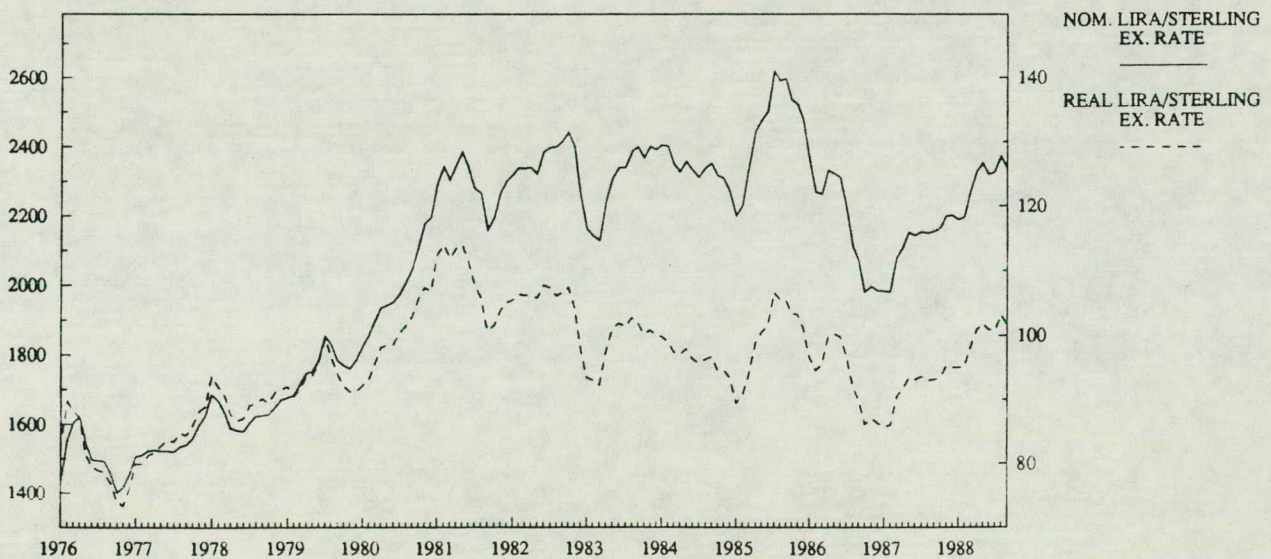
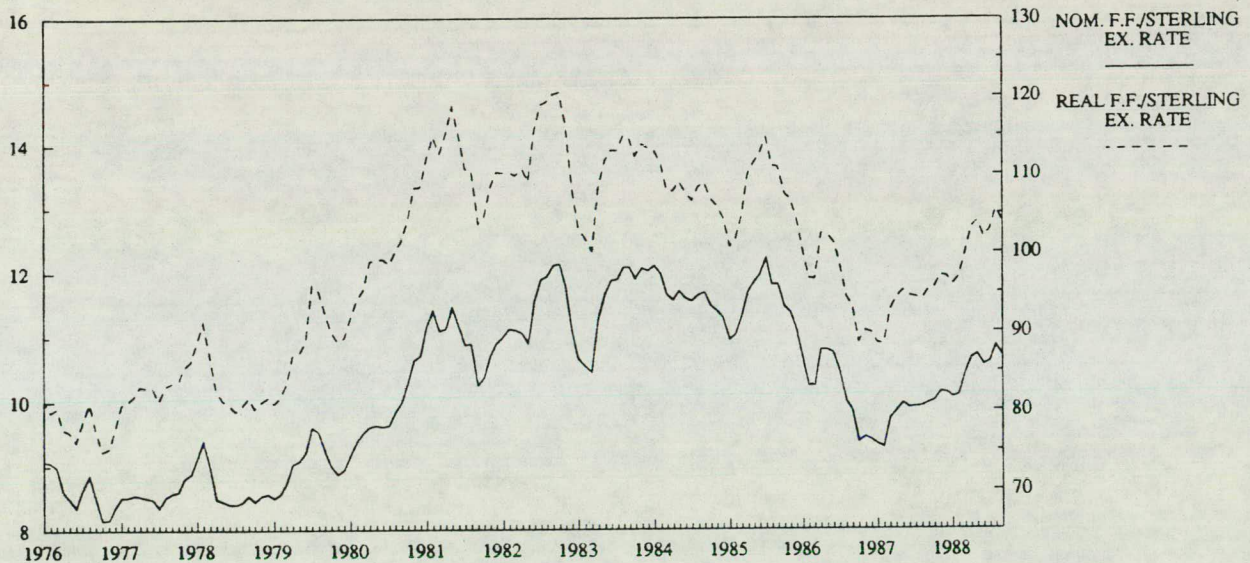
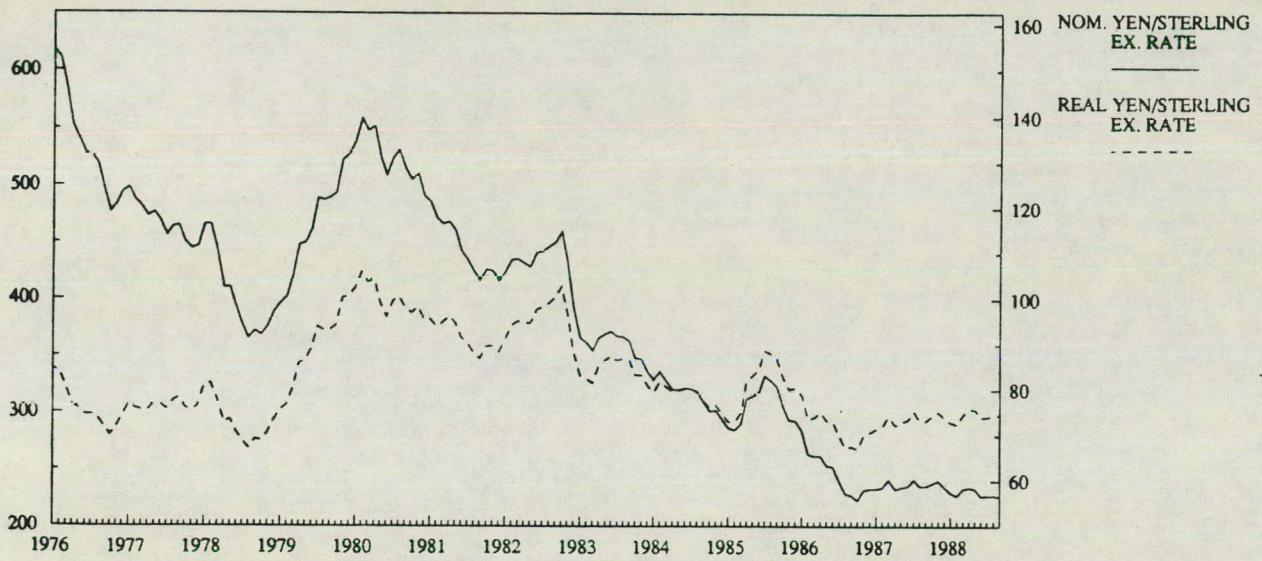


CHART 8 - MOVEMENTS IN STERLING & 3 MONTH INTEREST RATE DIFFERENTIALS JANUARY 1976-SEPTEMBER 1988

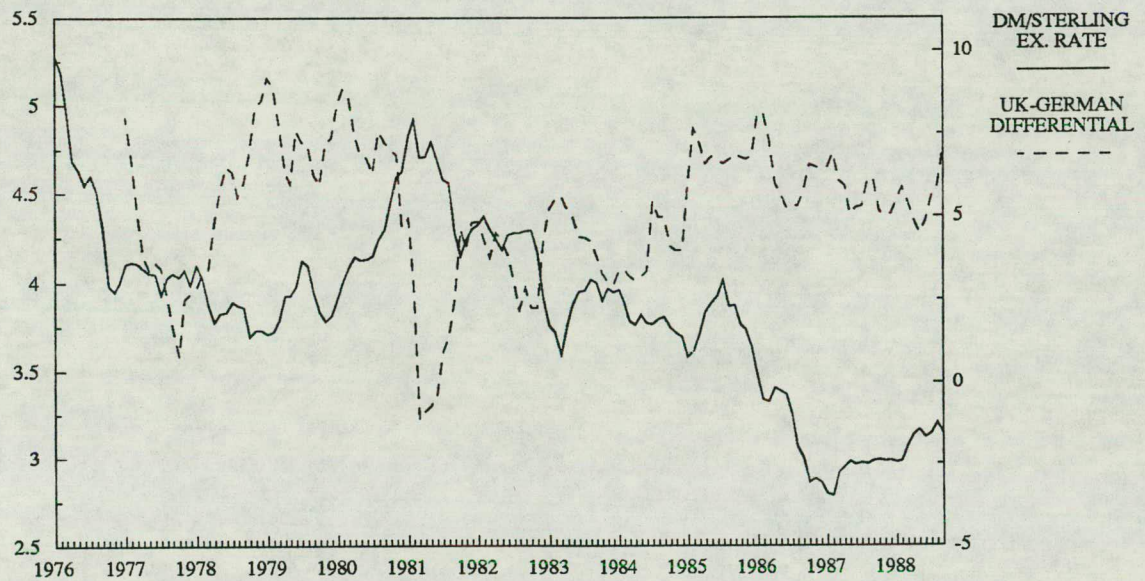
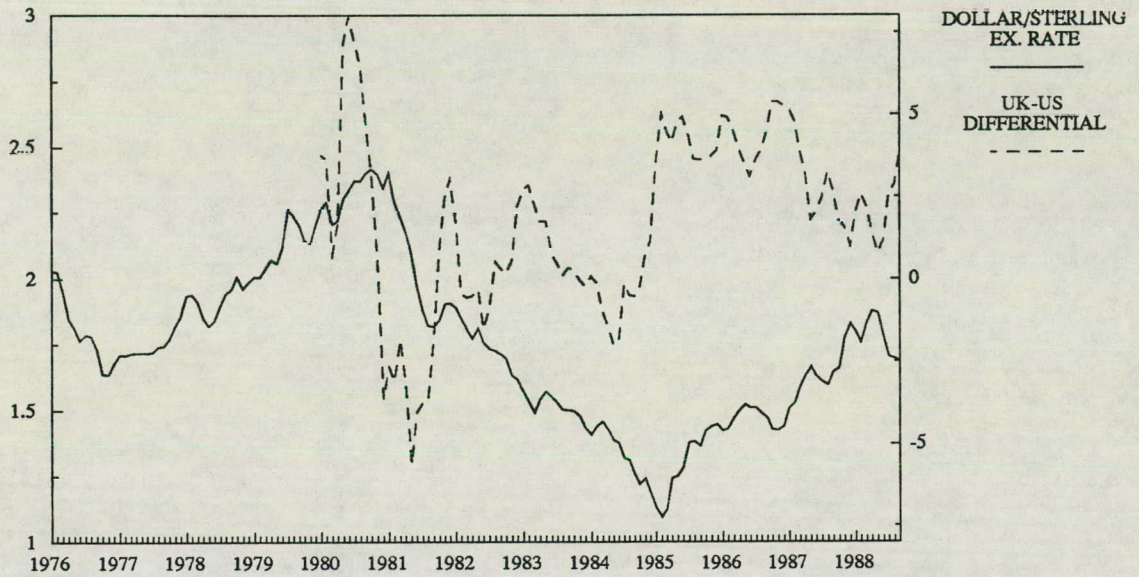


CHART 9 INFLUENCES ON STERLING
1975Q1 - 1988Q3

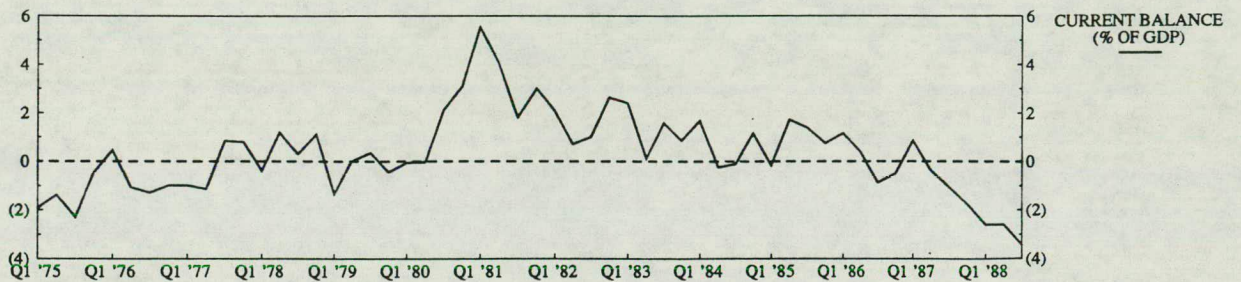
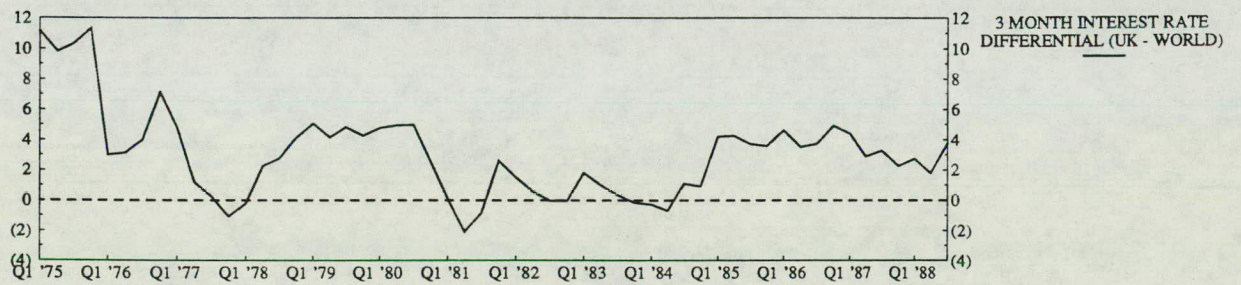
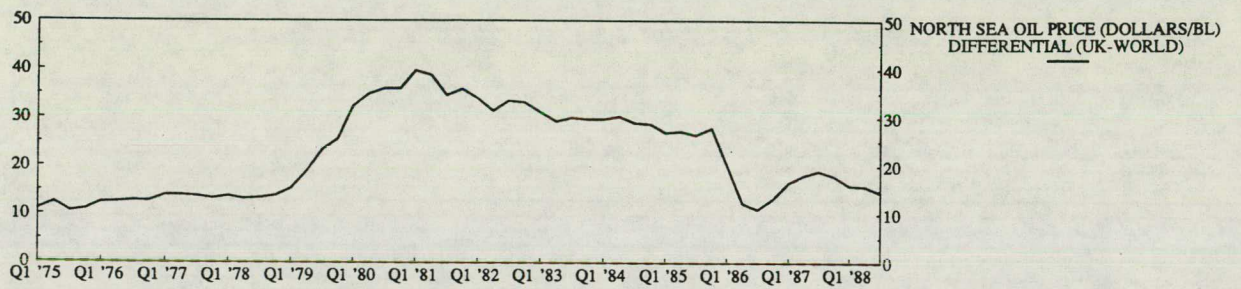
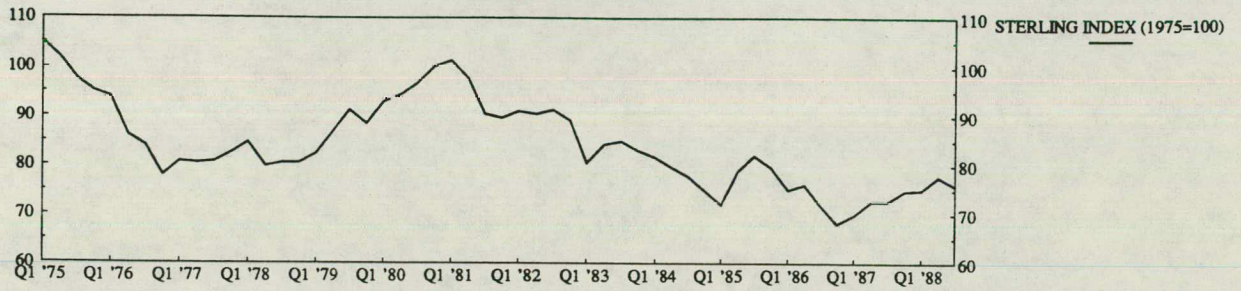


CHART 10 - MOVEMENTS IN US DOLLAR

JANUARY 1976-SEPTEMBER 1988

INDICES: 1980=100

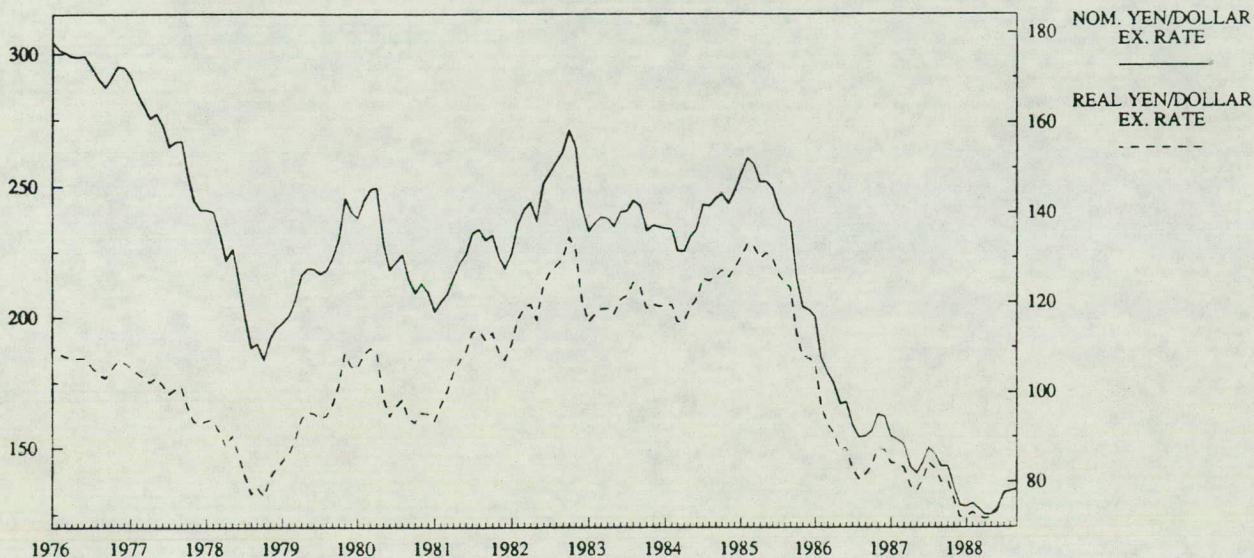
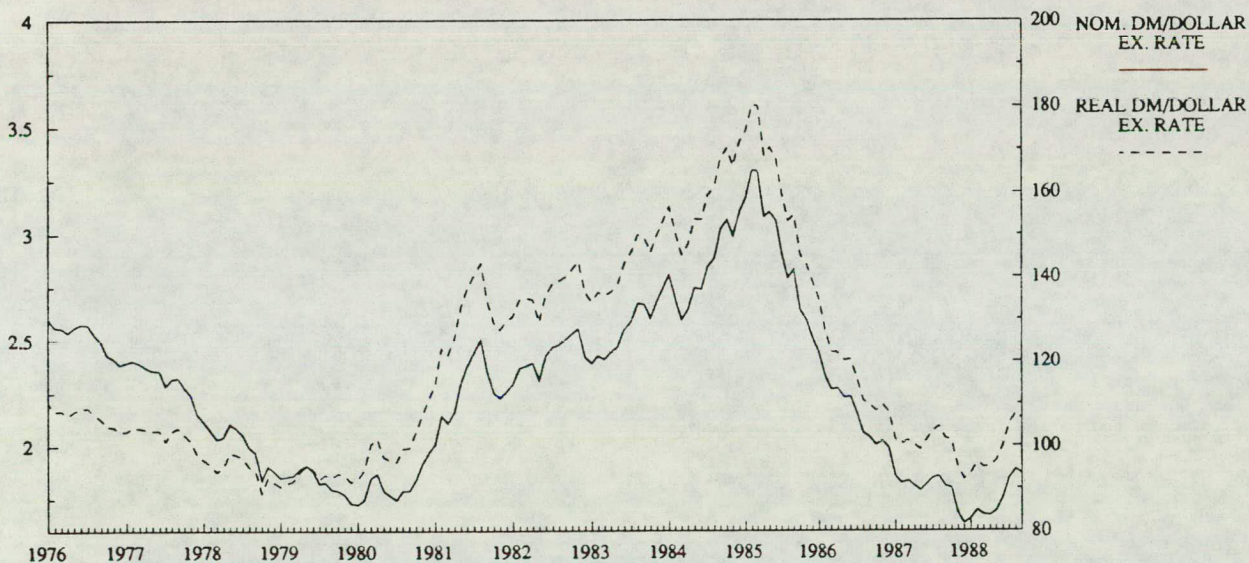
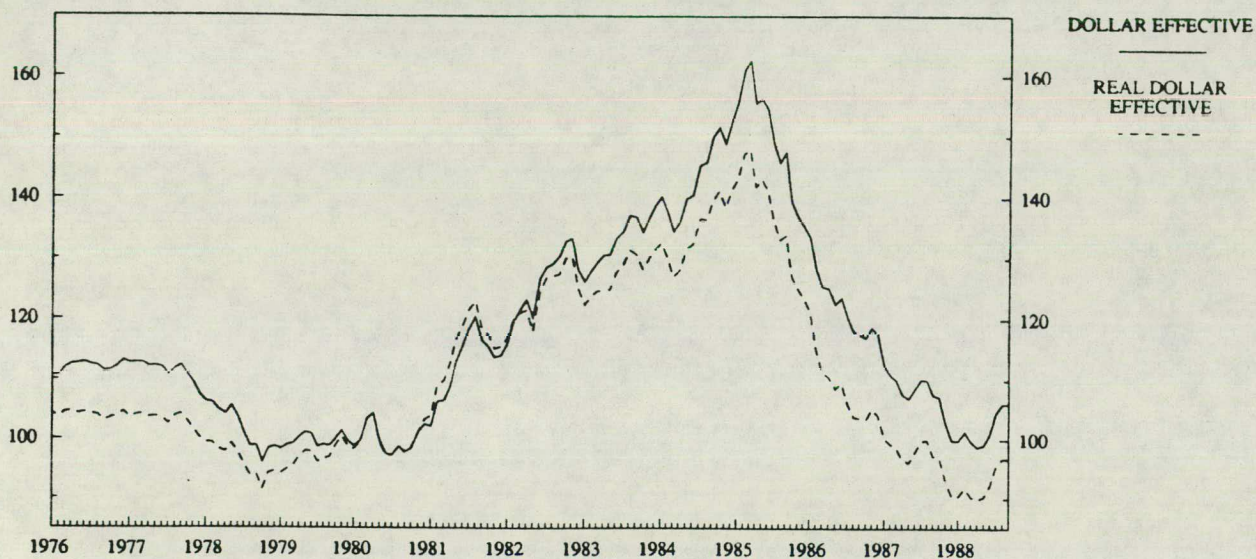
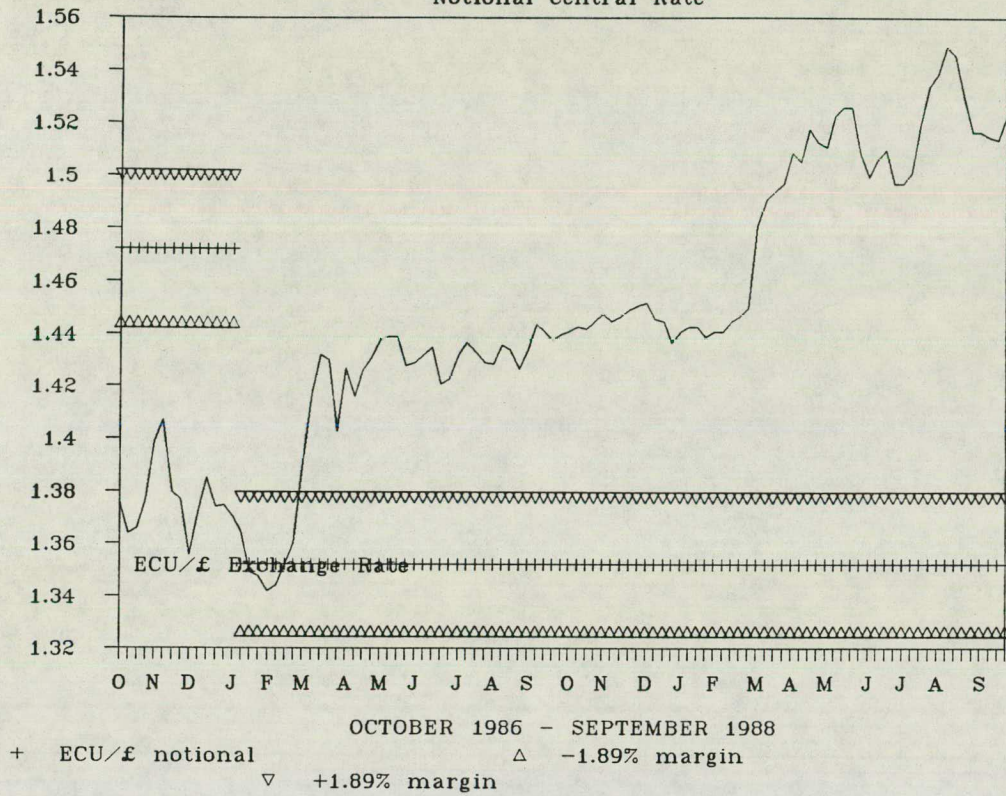


CHART 11 - Movement in Sterling Against

Notional Central Rate



DM/£ EXCHANGE RATE

OCTOBER 1986 - SEPTEMBER 1988

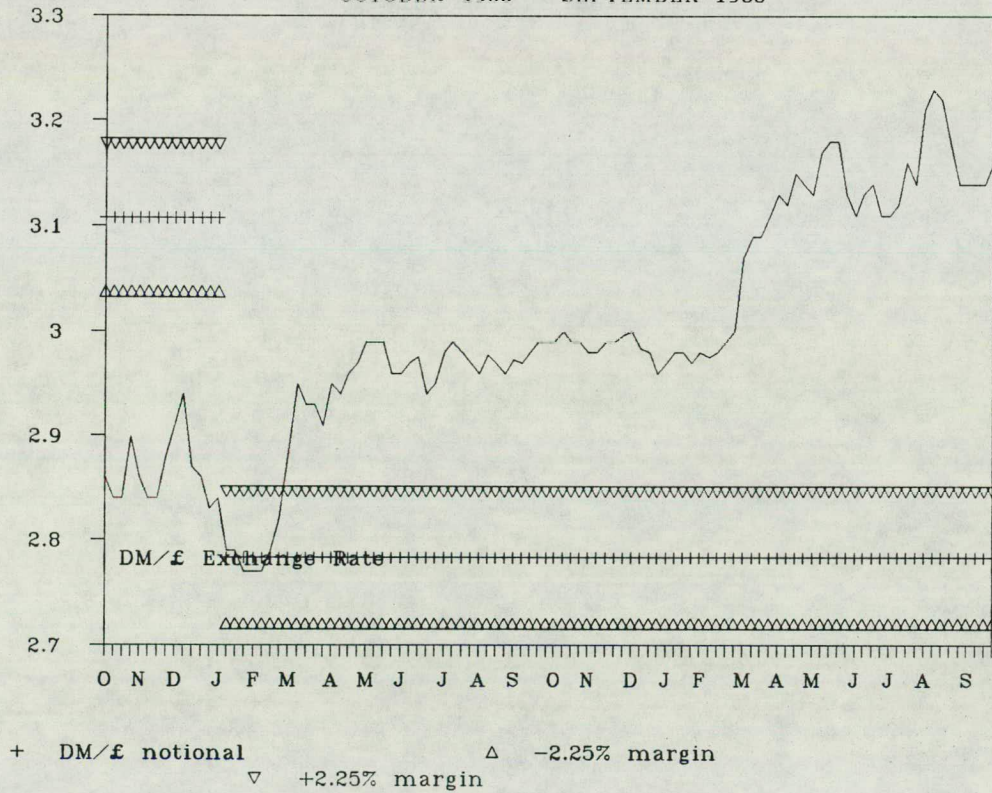
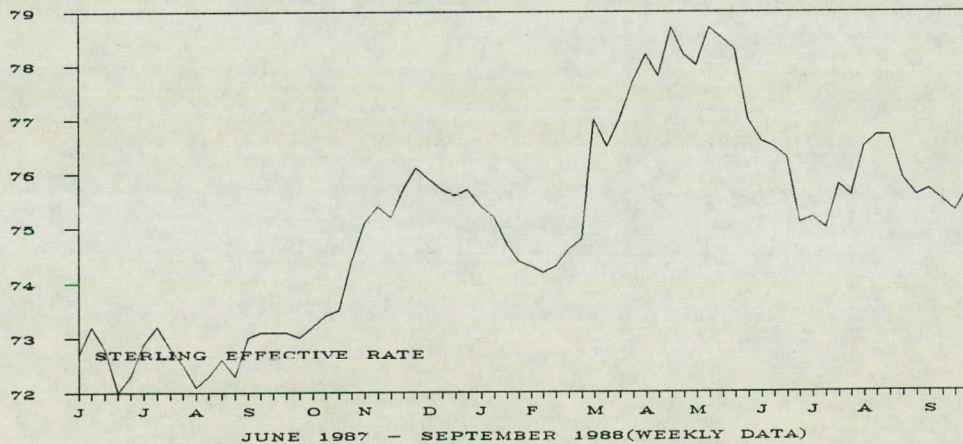
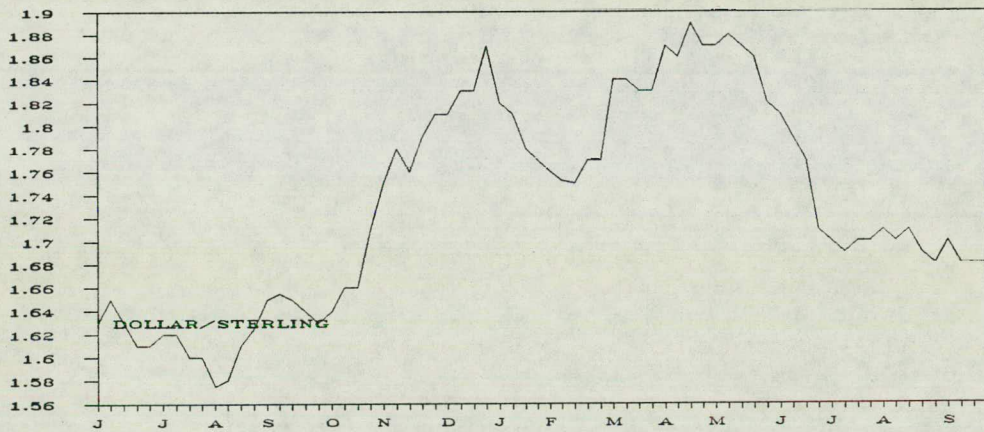
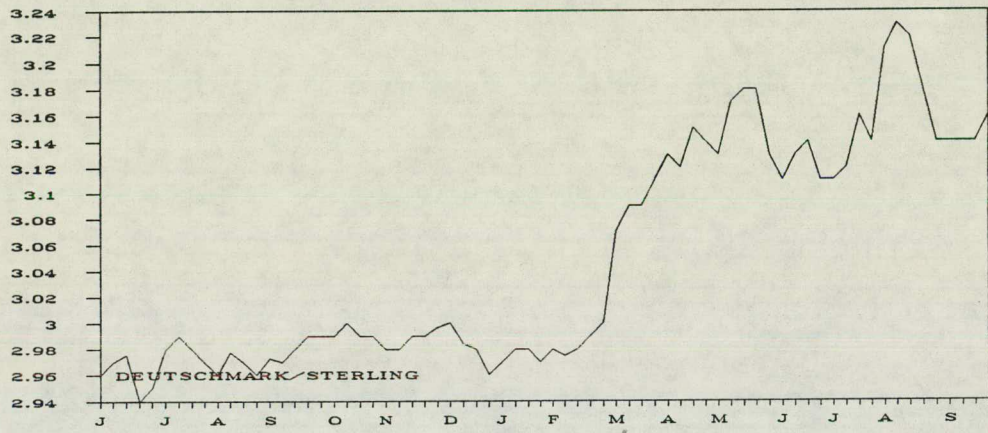
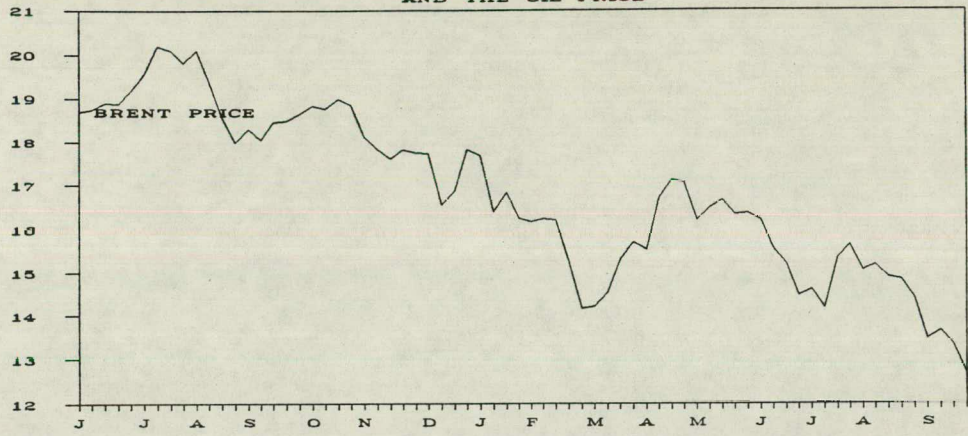


CHART 12 - MOVEMENTS IN STERLING
AND THE OIL PRICE



JUNE 1987 - SEPTEMBER 1988(WEEKLY DATA)