



PO-CH/NL/0110

PART B

Part B

SECRET
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Begins: 20/10/87
Ends: 26/10/87


PO -CH /NL/0110

PART B

Chancellor's (Lawson) Papers:

THE WORLD FINANCIAL
MARKETS 1987 - 1988

PO -CH /NL/0110
PART B

Disposal Directions: 25 Year

Anderson
16/8/95

MG NOON REPORT

FINANCIAL MARKETS

Tuesday 20 October 1987

Opening 10 AM			NOON	Oil Price (10 AM)	
73.7	73.7	£ERI	73.7	Nov	\$18.97
1.6660	1.6715	\$/£	1.6698	Dec	\$18.97
2.9975	2.9953	DM/£	2.9928	Jan	\$18.97
1.7992	1.7920	DM/\$	1.7923		
142.90	142.45	Yen/\$	142.72		

UK interbank £

Eurodollars

9 1/2	*	7 day	7 5/8	(-3/16)
9 13/16	(-)	1 month	8 1/16	(-1/16)
10 5/16	(-1/32)	3 month	9 3/16	(-1/16)
10 5/8	(-3/16)	12 month	9 3/4	(-1/16)

Figures in brackets show change since previous market close

* No change available

MARKET COMMENT In the foreign exchange market the dollar firmed at the New York close after the Baker/Stoltenberg meeting. It opened easier as the markets assessed the consequence of this meeting but has now steadied on comments by Stoltenberg underscoring Louvre accord. Sterling opened firmer on the weaker dollar with the money supply figures having no effect.

The gilts market continue to trade very erratically. Longs opened over 2 points up but had lost much of this gain by 11.30. Since then longs have rebounded and are up around a point and a half on the day.

The equity markets continue to dominate. The Nikkei lost 15 per cent. FTSE opened down 186 points and had lost a further 80 points by 10am. At 12.32 FTSE down 295 points at 1759. Money numbers had little effect.

MARKET INTERVENTION (\$m)

OTHER COUNTRIES INTERVENTION (\$m)

Overnight	+236\$	Far East
Today so far	-	
Total	+236\$	

GILTS

	Latest market movements	Price change since previous close	Gilt Sales since market opening
Shorts	Easier	+11/32	-£23.0 million
Mediums	Better	+21/32	
Longs	Better	+31/32	

Futures (Long Contracts) +33/32 (Vol:23358)



FROM: CATHY RYDING

DATE: 20 October 1987

MR BLOWER

TODAY'S STOCK MARKET: MONDAY 19 OCTOBER

The Chancellor was grateful for your minute of 19 October.

A handwritten signature in cursive script, appearing to be "CR", enclosed within a large, hand-drawn oval.

CATHY RYDING

TRANSCRIPTS

TUESDAY

py

INTERVIEW: CHANCELLOR ON CHANNEL 4 NEWS, ~~THURSDAY~~ 20 OCTOBER, 7.00 PM

Introduction (Peter Sissons)

[of the turmoil on the world markets]

First I asked him whether the end was in sight.

A: I think it's very rash to say when the storm will die out - it certainly will die out, but precisely when it will happen is difficult to say. But what is interesting is that today there has been two-way movement and the market has been going part of the day down and part of the day up, whereas yesterday it was just down all the time. So there are signs that it is gradually blowing itself out. But as you say, it is difficult to say exactly when.

Q: Is there any case to be made for some sort of concerted international effort to ensure that these movements do not make such large waves?

A: I think that this is the first time that this has happened on anything like this scale since the new electronic markets....existed. And I think...themselves...will be conducting a postmortem to see what can be done to prevent some of things that have perhaps added to the instability on this occasion.

Q: ... economic trends could be knocked sideways by the technology ...

A: I don't believe that any economic plans need to be knocked out certainly the economic prospects for Britain won't be in any way knocked sideways. The British economy is in very good shape and has been totally unaffected by this. I don't believe economies elsewhere in the world will be either. If there is any risk ... I think it is going to be in the United States. And I think that is why the American authorities today have made various statements and done one or two things designed to bolster confidence in the United States. Because this thing as you know began in Wall Street, it began in the United States with a loss of confidence there in the American economy. And think that that is possibly the weak link.

Q: What I think you are referring to is the statement by the Chairman of the Federal Reserve in the United States that they are standing by their role as traditional liquidity provider what does that mean?

A: That means that if there is a danger of major financial houses getting so short of liquidity that they can't meet their commitments and a financial collapse arises as a result of that then they would provide on a temporary basis the necessary liquidity to prevent that from happening.

Q: Does that go to the Bank of England too?

A: Our institutions are in a stronger position I think and the state of confidence is very much higher in this country so I see no need for the Bank of England - indeed the Bank of England itself has seen no need to make any statements of that kind.

Q: An additional worry has been today's figures for bank lending - up again by more than £4 billion. How long can that go on?

A: What has been happening is that public sector borrowing - borrowing by the ... has been going down, private sector borrowing has been going up, the total amount of borrowing has not been increasing. And this increase in private sector borrowing has been to a very large extent the growth of home ownership, it's been mortgages where as you know the banks have been more and more going into this market - a growing market, and increasing their share of this market at the expense of the Building Societies. And that is reflected in these figures.

Q: Is there a risk of interest rates having to go up again?

A: I have obviously to watch interest rates very closely and put them up when it is necessary to do so and put them down when that is the right thing to do. I shall continue to do that, in order to keep us on a firm

anti-inflationary course. But there is absolutely nothing in the event of the past few days - nothing at all - that should put upward pressure on interest rates.

Q: A couple of big banks in the United States have cut their crime rate. Can one make out a case for cutting interest rates here to head off fears of recession and to give the market a boost?

A: I don't believe there is any likelihood of a recession in this country; there were fears of a recession in the United States; I think there were greatly exaggerated but undoubtedly they clearly existed. But the British economy is growing faster than any other major economy in the world today ... any fears at all of a recession in this country.

Q: Has anything happened in the last few days to deflect you from your plans to reduce the basic rate of tax to 25 per cent?

A: No, I have always said that I would do that as soon as it is prudent to do so, and I am happy to repeat that to you this evening.

Q: Earlier today when my colleague Nicholas Owen spoke to the Chairman of the Stock Exchange Sir Nicholas Goodison, he said that today there was not much incentive to apply for BP shares: would you agree with that?

A: I think he - he after all is in a very good position to judge: I think his judgement may be absolutely right. I don't want to quarrel with him. But of course there is another week before the offer - a week or more before the offer closes, and we shall just have to see what happens during the coming week.

Q: Does it concern you that the new capitalists - the 7 million people whom you are so proud of recruiting to share ownership - might have been terrified by what is happening in the markets?

A: Well I hope they are not terrified. If they are terrified then I would say to them don't be. You went into the world of share owning not to make quick speculative gains but in order to have a long term investment which will be an investment, a stake in British industry and which over time will be a profitable investment.

Q: Will the Government's privatisation programme ever be the same again?

A: Oh yes, I am quite confident that privatisation will go on from strength to strength.

Q: But if it doesn't? If there is a setback, that surely must setback your plans for fiscal reform, because you need that money to do it?

A: No, it doesn't. If that were to be the case it wouldn't, because companies' finances now are sounder than they have ever been before. However, I don't believe the premiss is correct, I don't believe the privatisation programme will be stopped in its track. All the indications are that there is a growing desire to own shares, not only in this country but throughout the world - other countries are following our example.



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prep Copies to
Mr George
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Mr Kirby
Mr Green
Mr Webster

Also to
Mrs LOMAX (HMT)
Sir G LITTLER (HMT)
etc.

Mr A D Loehnis
Executive Director
Bank of England

BY FAX: 01-601-4771

PPs
C. McCarroll
Mr Welt
Mr Richardson

Your reference
Our reference
Date 20 October 1987

Mr Wallcott - DTI.

Dear Mr Loehnis,

TOKYO STOCK EXCHANGE

... Following our telephone conversation yesterday I attach a copy of the TSE's press release issued on 16 October (and translated by ourselves). You will see that the criteria for the selection of new members are very unspecific, but I understand that the TSE will be holding a briefing meeting for potential applicants next week, which may make things a little clearer.

On fees (para 3), the net result is that the total amount to be paid on admission will be ¥1.13 billion (£4.8 million), little changed from the fee payable last time. There had been rumours that the cost might be as much as ¥1.7 billion, so this will be welcomed by the candidates.

... I also attach a copy of the article which appeared in the Nikkei on 17 October, which includes the list of candidates which they consider most likely to be admitted at this stage.

As reported in our telno 803 (which I hope you have now managed to trace) the Ambassador and I called on the TSE and MOF on 16 October and spoke on the lines you suggested (in FCO telno 642). In addition, Mr Malcolm Rifkind, Secretary of State for Scotland, called on Gyohten this morning and (amongst other points raised) reiterated the political importance of a satisfactory result for our 5 candidates.

At our end, I think we need to await the briefing meeting promised by the TSE. I shall report on this, and suggest the next steps, as soon as possible.

You are,
D G Raikes

D G Raikes
Financial Attache

35/14/87

20/10/87 3

TOKYO STOCK EXCHANGE MEMBERSHIP

At its special committee meeting on 16 October the Tokyo Stock Exchange decided that a total of 22 firms will be newly admitted as its members. The decision will be finalised in an official form at its members' general meeting on 4 November after receiving its board's approval on 20 October. [Total membership will increase by 22 from the present 92 to 114 when new members are admitted next May; the merger of two existing members on 1 October has created one vacancy which adds up to a total of 22 new members to be admitted.]

2. The stock exchange will hold one or more explanatory meetings on membership application procedures from the end of this month; applications will be received in November. Under the current plans new members will be nominated before the end of December, but actual admission will not take place until towards the end of next May by which time one hundred (stock) names will ^{have} be_{en} transferred to electronic trading room in order to create enough space in the trading floor to accommodate 22 new members.

3. About 80% (17 or 18 firms) of new members are likely to be foreign; however the number may decrease to 16 or 17 depending on the degree of intenseness of domestic applicant firms' criticisms "foreign firms are being too favourably treated at the victim of domestic firms" (about ten domestic firms have so far registered their interest with the stock exchange). Although selection procedures are to start after applications are officially received in November, actual selection work is already in process 'under the surface of the water'. From what our reporters have gathered from senior officials in the Ministry of Finance and Tokyo Stock Exchange the following foreign firms are most likely to be newly admitted as its members:

UK: Kleinwort Benson, Baring, Schroder and County Natwest.

USA: Salomon Brothers, First Boston, Shearson Lehman Brothers, Smith Barney, Prudential Bache and Kidder Peabody.

FRG: Deutsche Bank and Dresdner Bank ABD.

SWL: Swiss Bank and Swiss Union Philipps & Drew.

4. In addition the following firms are very likely: Chase Manhattan, W I Carr and James Capel. Of these three, however, W I Carr is still disputable as a senior MOF securities bureau said: "The admission of French firm(s) is controversial from a reciprocity point of view." No foreign member is currently admitted at French stock exchanges; in addition, it has not been decided yet whether foreign members will be newly admitted on the occasion of, or in connection with the planned liberalisation of capital subscription in 1992.

5. Commenting on yesterday's decision many foreign firms including Schroder welcomed it by saying "the number of membership increase on this occasion has been greater than expected." However, it is highly likely that the admission of American and British commercial banks' affiliated securities firms, whose experiences in Japan are not long enough, will be tabled on this occasion. On the other hand some firms, such as Hoare ~~Gabett~~^{Govett}, hitherto regarded as hopeful, have apparently decided to withhold applying until next time for cost and other reasons.

6. A team of US audit board representatives arrive here on 21 October to investigate among other things whether additional US government pressure will be required for further membership opening of the Tokyo Stock Exchange. Foreign pressure will undoubtedly increase in the future as foreign nonmember firms' footholds here become secure with growing business opportunities. However, as "maximum efforts have already been paid to admit as many new members as possible" (as said by Tokyo Stock Exchange Chairman Takeuchi on 16 October when announcing the above decision), there will be very little room physically to allow in any further "full and proper" member; so a drastic review of the current membership system, which will involve revisions to the Securities Trading Law, will probably become necessary on the next round of membership opening.

From Nihon Keizai Shimbun on 17 October 1987

TOKYO STOCK EXCHANGE MEMBERSHIP: NUMBER OF NEW MEMBERS TO BE ADMITTED, METHOD OF SELECTING NEW MEMBERS, AND THE AMOUNT OF MONEY TO BE PAID ON ADMISSION (OUTLINE)

1. NUMBER OF INCREASE

The number of members shall be increased by 22; this includes one vacancy made available by Daiyo Securities Co. Ltd. which recently left the stock exchange.

2. METHOD OF SELECTING NEW MEMBERS

(A) THE INVITATION OF APPLICATIONS

Applications will be invited not on a tender basis but through the presentation of a special admission fee.

(B) THE SELECTION OF NEW MEMBERS

The selection will be carried out by the stock exchange by taking into account on an overall basis such points as the business scale of an applicant firm, financial details, business performance, and securities business experience and organisation in Japan. Selection will however have to be approved by its special committee on membership and then by the board of directors before it becomes final.

Note: Considerations on business scale and financial details will be based on (a) paid-up capital, (b) net assets, (c) trading profits, (d) recurring profit ratio, (e) debt ratio, etc. and those on business performance on (a) turnover on shares and convertible bonds, (b) commission received, (c) commission paid, etc. For foreign securities companies these considerations will be based on figures pertaining to their branches in Japan though those of their head offices, etc. will also be taken into account as necessary.

3. AMOUNT OF MONEY TO BE PAID ON ADMISSION

(A) SPECIAL ADMISSION FEE

The amount of special admission fee shall be ¥500 million, the same as on the previous occasion.

(B) OTHER

(a) The basis for a default loss compensation reserve levy shall be 1/92.

(b) The basis for a 'members' deposit' levy shall be 1/114.

Interviewer: Do you feel like King Canute this morning?

Chancellor: No, I've never professed to be able to control the stock markets.

Interviewer: Somebody should perhaps, do you think they are out of control?

Chancellor: No, I think they have always been rather volatile by nature, and I think in modern trading conditions with the electronic devices there are world wide markets they are perhaps more volatile than they used to be.

Interviewer: Is that because they simply don't have time to come to their senses between dealings?

Chancellor: No, I don't know what the reasons are, nobody ever does and it's foolish to pretend. What has happened is that stock markets have been rising throughout the world pretty solidly for the past 10 years and particularly for the past 5, so there is bound to be some sort of correction, some sort of turn-down sooner or later. What was not expected was the severity of the turn-down, which quite frankly is rather absurd.

Interviewer: But do you think that's something to do with America having a badly run economy as distinct from ours?

Chancellor: Yes, I think it is undoubtedly. I mean this began on Wall Street. It has a lot to do with the American stock market, a lack of confidence in the United States and some careless talk by those who should have known better.

Interviewer: Is that the danger that people talk themselves into collapse?

Chancellor: Well I think certainly. When people have been talking about the possibility of America going into a recession, I see no fundamental signs why the United States economy should go into recession and indeed the possibility of higher interest rates

would certainly in my judgement not lead the American economy into recession. The only way in which the American economy would go into recession is if it actually talks itself into recession.

Interviewer: Is that why you said go ahead with the BP sale, because you didn't want to contribute to negative talk?

Chancellor: No, we are going ahead because the whole issue has been underwritten. We had it underwritten because there is always a risk of this sort of thing happening.

Interviewer: But, you are a man who talks in favour of the market usually, and yet clearly the economy and the market are not necessarily the same things?

Chancellor: No, they're not, but the economy is fundamentally sound, this has been reflected by stock markets for a very long time, but stock markets are very volatile and although I profoundly believe in the market system is the best way of securing economic prosperity, that doesn't mean to say that markets are infallible.

Interviewer: And therefore is it unwise to encourage the innocent to enter into the stock market?

I think that

Chancellor: No, / my advice to the millions of small investors who have entered the stock market in the past few years, would be to keep calm, there is absolutely no reason not to do so, and that I believe that stock market investment over the long-term will prove well worthwhile. But there are fluctuations, there are along the way, there can be from time to time rather like the big dipper.

Interviewer: But can you leave it to itself? You have Louvre accord and things like that? Is there not a need now for more international co-operation, firm exchange rate, some control over what markets do?

Chancellor: I think it is very desirable to have international co-operation over the foreign exchange market. I think the exchange rate fluctuations which can affect trade very considerably, affect prosperity of British industry and world industry very considerably. I think that if we can get a degree of stability there that is *the*

highly desirable, and that co-operation is designed to^{do}/that and I was very glad to that after an apparent difference of opinion which perhaps shouldn't have been aired in public in the way it was, that Mr Baker, the American Treasury Secretary and his German opposite number Mr Sholtenberg and the President of the German Central Bank issued a statement last night reaffirming their commitment to the Louvre accord. And that's important, and it's very striking too that throughout all this turmoil on the stock markets throughout the world, the foreign exchange markets have really been pretty steady, remarkably steady.

Interviewer: Nigel Lawson, thank you very much.



FROM: CATHY RYDING
DATE: 20 October 1987

MR ILETT

cc Economic Secretary
Sir P Middleton
Sir G Littler
Mr Cassell
Mrs Lomax
Mr Peretz
Mr R I G Allen
Mr C W Kelly
Mr Neilson
Mr Cropper

GEMMS AND THE JAPANESE

The Chancellor was grateful for your minute of 19 October and is content with your advice that we should stick to the course suggested by Sir G Littler.

CR

CATHY RYDING

CONFIDENTIAL

FROM: N J ILETT

DATE: 20 October 1987

PRINCIPAL PRIVATE SECRETARY

cc: PS/Financial Secretary
 PS/Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Cassell
 Mrs Lomax
 Mr Moore
 Mr Peretz
 Mr R I G Allen
 Mr Board
 Mr Neilson
 Mr Richardson
 Mr Cropper

Ch
 I have spoken to K Clarke's office & I am confident this won't run. MA

It had better be!

FINANCIAL MARKETS BILL : MARKET INSOLVENCIES

You will recall that the DTI, with Treasury support, obtained time for a Bill this session to clear up conflicts between insolvency law and market practices in the event of the insolvency of market members. The intention - indeed, the need - to legislate is not public knowledge. The purpose of this submission is to warn Treasury Ministers that in present circumstances DTI Ministers may seek their agreement to a very early statement that this Bill will be introduced with retrospective effect.

2. In brief, accepted market practice would permit the market authorities to close a defaulter's positions in an orderly fashion so as to minimise disruption to the market and to recover as much of the value of those positions as possible for the benefit of creditors. But the DTI discovered that this practice might be overruled by the liquidator's duty under the insolvency legislation to treat all creditors equally. The objective of the Bill is to clarify the position and allow markets to protect themselves against default at the least cost to the principles of the insolvency system.

3. DTI officials have produced some pretty complex proposals to that effect. With MG and the Bank, FIM is currently looking at these proposals and is working up policy on parallel arrangements for the gilts market. We are accelerating this work as far as possible.

4. The DTI's original plan was to delay any announcement until the Bill is introduced, so as to reduce the period of uncertainty. However, the market crisis this week has brought fears of an insolvency which would trigger the contingency with which the Bill is designed to deal. Specifically, doubts in the US about E F Hutton, which is a significant player in London commodity markets, provoked the DTI to consider making a statement to enable the ICCH to take any necessary action without fear of complications under insolvency law. There was a good deal of toing and froing in the DTI earlier today, until Mr Kenneth Clarke ruled that there was no need for any action today.

5. We have told DTI officials, and you have told DTI Private Offices, that there can be no question of the DTI making any announcement under any circumstances whatever without prior clearance with the Chancellor. We have also made it clear that in present circumstances Treasury and Bank officials would advise strongly against making any statement about insolvency and market failure because that could make things worse.

6. Also, the Treasury Solicitor advises that if the Government did make a statement promising broadly that "actions taken in good faith to cope with a default or impending default cannot be challenged or set aside under provisions of the insolvency legislation", (to quote the (preposterous) DTI draft which Mr Kenneth Clarke struck out), and the legislation which we duly produced did not in every respect meet expectations aroused by that statement, the Government could be liable for very substantial damages for negligence or even recklessness.

7. The way this has been left is that DTI officials have been asked to work up draft statements on a contingency basis, with the help of the Treasury and the Bank. This is without prejudice to whether the statements will actually be used if a crisis occurs. And work on the policy on the Bill will be speeded up further.

8. To recap, there is no need for action or decisions ^(by Ministers) now but the situation could obviously change.

N.

CONFIDENTIAL

FROM: F CASSELL
20 October 1987

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Peretz
Sir G Littler o.r.

CONVERSATION WITH DAVID MULFORD

As you requested I spoke to David Mulford this morning, and put to him the proposition that the collapse in stock markets changed the political arguments surrounding action to reduce the US budget deficit. The damage that the 1929 crash did to the Republican cause would surely make the President anxious to do whatever he could to contain the fall in markets. Determined action to reduce the fiscal deficit would help confidence and in the new circumstances an increase in taxes could be less damaging politically than continuing demoralisation in the financial markets.

Mulford assured me that he was sensitive to the sort of points that I was making about fiscal policy. He had talked by telephone last night with Baker about "all aspects of the drama" and they would be having a further talk as soon as Baker returned to Washington later today. He then went on to say that the financial markets had not yet taken on board the very large reduction in the fiscal deficit in the year just ending, to around \$70 billion, and that with fears of recession haunting the markets many people would argue that an increase in taxes would be an "anti-growth" solution to the problem. I said that that was not the way I thought the financial markets would see it: there were real worries about the fiscal prospect for 1988.

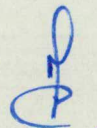
He acknowledged this, but said that as he saw it, the chief fear unsettling markets was the feeling that there was "nobody in control". This manifested itself in the trade deficit, the growing pressures for protectionism and the feeling that the Louvre accord was losing its credibility. The first message

CONFIDENTIAL

to get across to markets was that Louvre was still in force, and his reading of developments in the past 24 hours was that yesterday's agreement between Baker and Stoltenberg had had some success in that direction.

As regards the budget deficit for 1988 the current position was that Congress had passed a bill that includes tax increases and the administration would have to react to this. He assured me that the budget front was under active consideration in the Treasury. But the White House had a committed position against tax increases. I said that it was in that spirit that I had put forward the point about the political implications of the stock market collapse. He said that he took that point, and indeed it was one that was already being made in the press this morning, by some eminent Republicans. It would undoubtedly figure in the discussion of the "drama" that he would shortly be having with Mr Baker. But it was not only the United States but Germany and Japan that needed to reexamine their basic policies. This was a point that had been just made forcefully to him by Wilson of Canada.

He had discussed with Wilson, and would be putting to the other G7 Deputies, the question whether they saw advantage in a G7 statement, building on the statements by Baker and Stoltenberg. I said my own view was that unless there was something substantive to say vague statements of good intentions usually did not help market sentiment, and more often had exactly the reverse effect. He said that was very much his own view too. I said however that I would take soundings here and if there was a feeling that a statement might be worth considering I would ring him back.



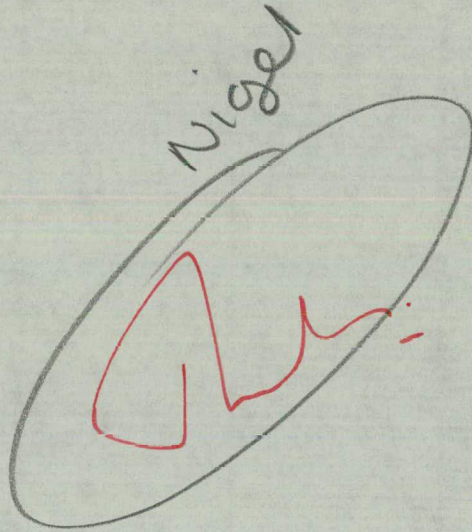
F CASSELL

FROM: R N G BLOWER

DATE: 20 October 1987

PS/CHANCELLOR

Nigel



cc: PS/CST
 PS/FST
 PS/EST
 PS/PMG
 Sir P Middleton
 Mr Cassell
 Mrs Lomax
 Mr Moore
 Mr Peretz
 Mr Ilett
 Mr Waller

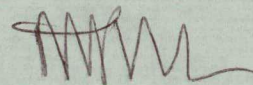
STOCK MARKET CLOSING: 20 OCTOBER

As you will be aware the equity market has again been very volatile, throughout the day, and has closed substantially lower.

2. Wall Street set the scene with a 508 point fall to 1739 (down 22 per cent on the day). Tokyo followed by falling 3836 points to 21910 (down 15 per cent on the day) whilst Hong Kong suspended trading for the rest of the week to "protect investors". London opened down 186 points on the FTSE 100 and fell until noon when it was 304 points lower at 1748.

3. Prior to Wall Street's opening two US banks reversed rises in their prime rates from last week and the London market recovered strongly to a net loss of 67 points at 1985 by 3.00pm. Wall Street gained sharply, up 186 points around 4.00pm, but ran out steam as the London close approached and London fell back sharply. London ended down 250.7 points at 1801.6 on the FTSE 100 and Wall Street was down 5.98 at 1732.4 and falling.

4. Since last Wednesday the FTSE 100 had lost 21 per cent and the Dow Jones had lost 27 per cent by 4.30pm. London is now back to January levels on the FTSE 100.



RP R N G BLOWER

MG NOON REPORT

pm

FINANCIAL MARKETS

Wednesday 21 October 1987

Opening	10 AM		NOON	Oil Price (10 AM)	
73.4	73.4	£ERI	73.4	Nov	\$18.97
1.6530	1.6540	\$/£	1.6557	Dec	\$18.97
2.9903	2.9916	DM/£	2.9897	Jan	\$18.97
1.8090	1.8087	DM/\$	1.8057		
143.90	143.65	Yen/\$	143.35		

UK interbank £

Eurodollars

9 7/8	(+1/4)	7 day	7 7/16	(-5/16)
9 7/8	(+1/32)	1 month	7 11/16	(-3/8)
10 1/8	(-1/16)	3 month	8 3/16	(-1)
10 3/8	(-3/16)	12 month	8 11/16	(-1 1/16)

Figures in brackets show change since previous market close

MARKET COMMENT In the foreign exchange market the dollar opened firmer, and has remained steady. It had picked up in New York after the Stock markets had rallied. Sterling opened easier on the stronger dollar and has remained steady in a quiet market. The equity markets now showing a small about-turn. Nikkei closed at 23,947 (+2037), the Dow Jones closed at 1841 (+102), in London the FTSE100 was 1915.7(+114.1) at 12.15. The gilts market opened slightly down but firmed during the morning. Sales of both Index linked and Conventionals.

R J McRobbie

MARKET INTERVENTION (\$m)

OTHER COUNTRIES INTERVENTION (\$m)

Overnight	-
Today so far	-
Total	-

GILTS

Latest market movements

Price change since previous close

Gilt Sales since market opening

Shorts	Better	-1/32	+£140.0 million +21.5 Index Linked
Mediums	Easier	-1/32	
Longs	Easier	+3/32	
Futures (Long Contracts)		+21/32 (Vol:11229)	

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

CONFIDENTIAL



FROM: CATHY RYDING
DATE: 21 October 1987

PR

MRS LOMAX

cc: Sir G Littler
Mr Cassell
Mr Ilett

TOKYO STOCK EXCHANGE MEMBERSHIP - LETTER FROM SIR MARTIN JACOMB

The Chancellor has seen Sir Martin Jacomb's letter to Sir G Littler of 19 October.

2. The Chancellor has commented that we must do what we can to get a commitment (a) that BZW will be in on the next tranche and (b) that it will be in no more than a year from now.

CR

CATHY RYDING



FROM: A C S ALLAN

DATE: 21 September 1987

PS/ECONOMIC SECRETARY

cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Peretz
Mr Culpin
Mr C W Kelly
Mr Cropper**MARKETS**

The Chancellor discussed with the Economic Secretary and others on Friday the question of market tactics after the August trade figures were announced (on Thursday this week).

2. The Chancellor thought the figures could be taken very badly, and we needed to be prepared to raise interest rates swiftly by 1 per cent. But we certainly would not want to be seen to move because of the trade figures, and it was therefore essential that we should instead be seen to act because of pressure in either the domestic or the foreign exchange markets. The line would correspondingly be either that the domestic markets were clearly indicating a move and it would give the wrong signals if the authorities were to resist; or that we were simply reaffirming our commitment to the Louvre accord.

3. He would not want to move while the pound remained above DM2.90, unless ~~the~~ domestic interest rates had risen sharply. But if the foreign exchange markets reacted sharply and the rate fell below 2.90, then he would be ready to move as early as this Friday - though this scenario was perhaps unlikely.



4. The difficulty would come if the exchange rate dropped to, say, DM2.95 and the money market rates moved upward by, say, $\frac{1}{4}$ to $\frac{1}{2}$ per cent. In those circumstances we would face a dilemma between seeming to confirm rather too narrow a range for the exchange rate, or facing days of newspaper headlines about the authorities - as last year - being reluctant to act when it was clearly necessary.

5. There would clearly need to be close contact between those with the Chancellor in Barbados and Washington and those remaining in London, with decisions taken in the light of how the markets reacted.

ACSA

A C S ALLAN

CONFIDENTIAL

PPS in?
ppp

FROM: P D P BARNES
DATE: 21 October 1987

PPS

cc PS/Financial Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mrs Lomax
Mr Moore
Mr Peretz
Mr Ilett
Mr R I G Allen
Mr Board
Mr Neilson
Mr Richarson
Mr Cropper

FINANCIAL MARKETS BILL : MARKET INSOLVENCIES

The Economic Secretary has seen Mr Ilett's minute to you 20 October.

2. The Economic Secretary thinks that, since the legislation will be retrospective, it is not clear why the announcements need to precede a default, especially since no one outside the Government apparently knows that there is a problem.

PB

P D P BARNES
Private Secretary

CONFIDENTIAL

ps7

UNCLASSIFIED



[Handwritten signature]

FROM: N G FRAY

DATE: 21 October 1987

MR BLOWER

STOCK MARKET CLOSING: 20 OCTOBER

The Chancellor has seen and was grateful for your minute of 20 October.

Nigel Fray
N G FRAY

CONFIDENTIAL

pyf



FROM: CATHY RYDING
DATE: 21 October 1987

MRS LOMAX

cc: Sir G Littler
Mr Cassell
Mr Ilett

TOKYO STOCK EXCHANGE MEMBERSHIP - LETTER FROM SIR MARTIN JACOMB

The Chancellor has seen Sir Martin Jacomb's letter to Sir G Littler of 19 October.

2. The Chancellor has commented that we must do what we can to get a commitment (a) that BZW will be in on the next tranche and (b) that it will be [redacted] in no more than a year from now.

CR

CATHY RYDING

PPS

~~*c. Sir G. Littler
Mr Cassell
Mr Ilett*~~

be as brief as the Tokyo Embassy to make those points; and both Bae & BTI, as well as ourselves, have had a go at the Japanese embassy in London.

Re 21/10

24/10/21



Stock Markets

- Had been very long bull market, which would inevitably end one day;
- But very hard to see what the is to justify anything like 23% fall in one day;
- Certainly no reflection on British industry, which remains profitable & competitive; nor on prospects for UK economy.

BP

- Couldn't have foreseen this, but - as I said on Thursday - that's why we go to trouble & expense of getting it underwritten.

Lowrie

- Welcome Baker / Stoltenberg / Poehl
- Lowrie very much alive
- Remarkably stable presc mkt is in the face of turbulent stock mkt.



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

21 October 1987

David Norgrove Esq
10 Downing Street
LONDON
SW1

Dear David

PRIME MINISTER'S QUESTIONS: STOCK MARKET

... I attach briefing for Prime Minister's Questions tomorrow on stock markets (plus a separate brief on BP, cleared with the lawyers, underwriters etc).

As you will see, the numbers and tables will need updating tomorrow, and I will send these over as soon as I can. There are various other bits of briefing which the Chancellor thought would be useful, and we will send these over tomorrow:

- Peter Brook — (i) The position in the gilts market;
JT — (ii) Labour's BP share sale in 1977; and
— (iii) Labour's inability to decide whether it is in favour of ordinary people owning shares or not.

Yours
Alex

A C S ALLAN
Principal Private Secretary

FTSE -164.6 at
1779.2.

BP-23 274.

LINE TO TAKE**Stock Market**

Following the initial collapse on Wall Street, there have been enormous gyrations in stock markets all around the world. The UK has been swept up in that, and share prices are now back to the levels of some six months ago. But what matters is that the British economy, and British industry, remain sound and strong.

Interest rates

Maintained at levels necessary to keep downward pressure on inflation.

BP

BP offer will go ahead as planned. Offer underwritten precisely to guard against fall in share price. (See also separate brief.)

Exchange markets

Exchange rates have remained stable in spite of turmoil in the equity markets. All seven Summit countries are committed to that.

BACKGROUND

At close on 21 October London stood at 1944, 15½ per cent down on close Thursday 15 October, but 8 per cent up on the day. Even at the close on Tuesday it was still well above its level at the start of the year (full details in table and chart attached).

BP share price 299 at close on 21 October, (BP offer price fixed at 330p).

EQUITY INDICES

(closing, except where indicated)

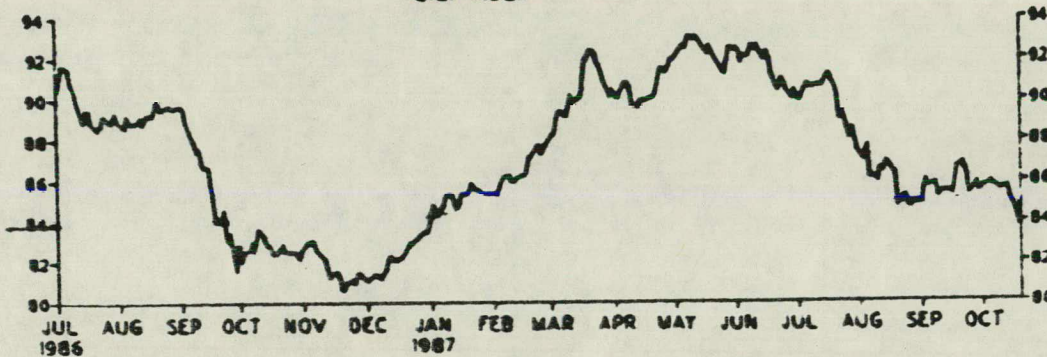
	Closing Index level	Change on previous close points %	Change on Thursday close points %	Change on 1987 peak points %	Change on 1987 previous low points %
NEW YORK					
(Dow Jones Industrial)				(2722 on 25/8)	(1927 on 2/1)
Thursday 15	2355				
Friday 16	2247	-108 - 4.6			
Monday 19	1739	-508 -22.6	-616 -26.2	-983 -36%	-188 -10%
Tuesday 20	1841	+102 + 5.9	-514 -21.8	-881 -32%	- 86 - 4%
Wednesday 21					
Thursday 22					
Friday 23					
LONDON					
(FSTE 100)				(2449 on 16/6)	(1798 on 29/1)
Thursday 15	2302				
Friday 16	-				
Monday 19	2052	-250 -10.9			
Tuesday 20	1802	-251 -12.2	-501 -21.7	-647 -26%	+ 4 -
Wednesday 21 (11.15)	1956	+154 +8.5	-346 -15.6	-493 -18%	+158 +9%
Thursday 22	1944	+142 +7.9	-358	-505 -20 1/2%	+146 +8%
Friday 23					

Update
to stock

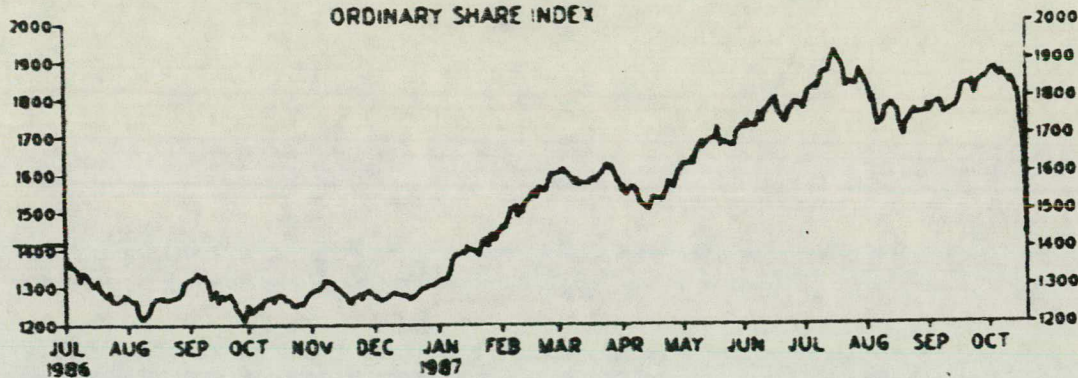
Index level	Change on previous close		Change on Thursday close		Change on 1987 peak		Change on 1987 previous low	
	points	%	points	%	points	%	points	%
TOKYO					(26626 on 14/10)		(18544 on 13/1)	
(Nikkei Dow)								
Thursday 15	26428							
Friday 16	26367	- 61	- 0.2					
Monday 19	25746	- 621	- 2.3	- 682	- 2.6			
Tuesday 20	21910	-3836	-14.9	-4518	-17.1	-4736	-18%	+3366 -18%
Wednesday 21	23947	+2037	+ 9.3	-2481	- 9.4	-2699	-10%	+5403 +29%

CAPITAL MARKET INDICES

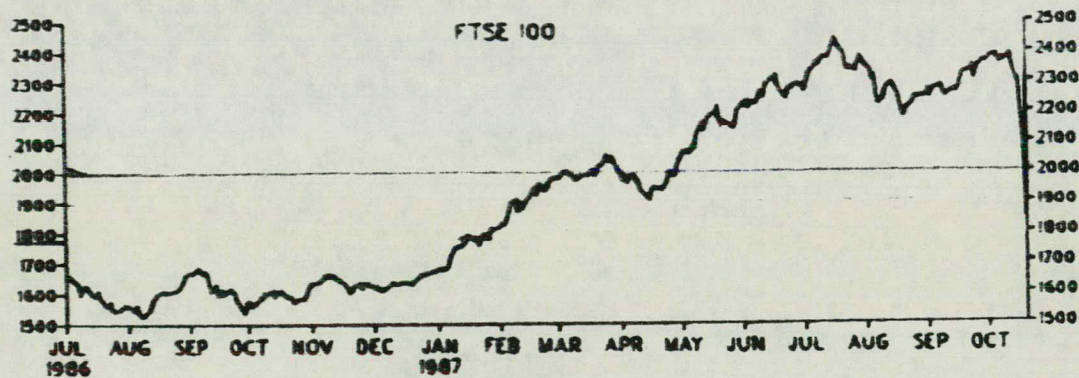
GILT INDEX



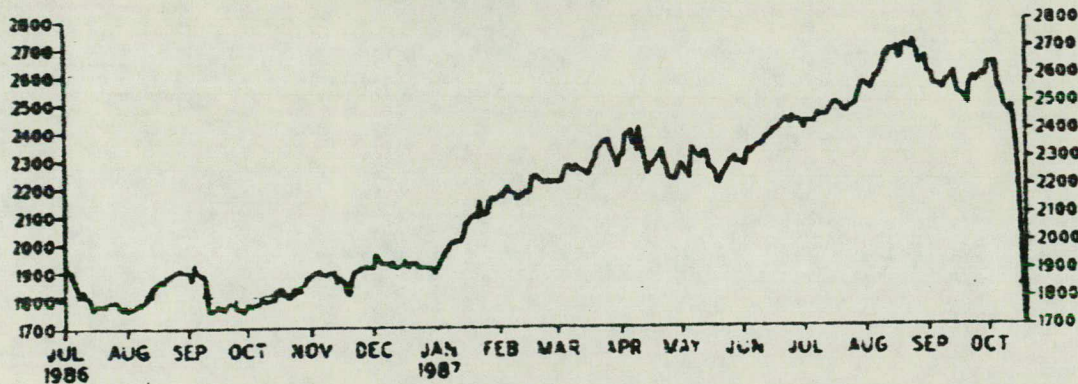
ORDINARY SHARE INDEX



FTSE 100



DOW-JONES INDUSTRIAL INDEX



SA5.016.SS

FROM: CLARE PELHAM

DATE: 21 October 1987

MR TAYLOR

cc Mr Moore
Mrs Brown
Mr Bent

CURRENT PRICES OF PRIVATISATION SHARES

You asked for a note of the current prices of some major privatisation shares compared with their offer prices. This is below:

Company	Fully Paid Offer Price (Date of Offer)	Current Price (3:30 pm today)
Jaguar	165p (August 1984)	454
British Telecom	130p (November 1984)	234
British Gas	135p (December 1986)	152
British Airways	125p (February 1987)	177
Rolls Royce	170p (May 1987)	167
BAA	100p (partly-paid price in fixed price offer) (July 1987)	125 (partly-paid)

Clare Pelham

CLARE PELHAM

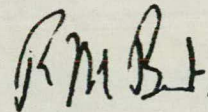
GOVERNMENT EYES ONLY

BP SHARE SALE

The briefing material below has been cleared with all parties to the sale, as is required by the terms of the Underwriting Agreement. But our lawyers have rightly advised us to stress the importance of the Health Warning given the BP share price and the uncertain state of world stock markets. This note, which is not being given a wide circulation, amplifies the Health Warning as follows:-

PRESS OR PUBLIC ANNOUNCEMENTS (SAVE IN PARLIAMENTARY PROCEEDINGS IN ANSWER TO ANY QUESTION OF WHICH PRIOR NOTICE HAS NOT BEEN GIVEN) SHOULD RECEIVE THE PRIOR CLEARANCE OF ROTHSCHILDS (ON BEHALF OF THE UNDERWRITERS) AND BP.

ANY PRESS OR PUBLIC ANNOUNCEMENT OR COMMENT MADE BY A MINISTER OF THE CROWN WHICH IS NOT SO CLEARED AND WHICH IS MATERIAL IN THE CONTEXT OF THE OFFER CAN LEAD TO THE UNDERWRITERS SEEKING TO TERMINATE THE UNDERWRITING AGREEMENT.



R M BENT
H M Treasury

PRIME MINISTER'S QUESTIONS

BP SHARE SALE

HEALTH WARNING: ANYTHING SAID ABOUT THE OFFER, BP OR BP'S TRADING ENVIRONMENT MUST BE FACTUAL, ACCURATE AND FAIR, AND SHOULD BE CONSISTENT WITH THE PROSPECTUS. NO OPINION SHOULD BE EXPRESSED AND NO PREDICTION MADE ABOUT THE PROSPECTS FOR THE SHARES OR FOR BP'S BUSINESS OR ABOUT BP'S COMPETITORS OR THE OIL INDUSTRY GENERALLY. NO STATEMENTS SHOULD BE MADE WHICH COULD BE INTERPRETED AS AN INDUCEMENT OR RECOMMENDATION TO BUY, OR NOT TO BUY, BP SHARES.

Line to take

I can confirm that the Government is not considering terminating the offer. It is fully underwritten.

The [Rt] Hon Member will understand that there are limits to what more I can say while a public offer is underway.

Details of the offer are set out in the Prospectus, a copy of which has been placed in the Library. Copies of the Prospectus are being sent to all those who have registered their names with the BP Share Information Office, and are now publicly available.

Investors must decide for themselves whether or not to apply. They have until 10 am on 28 October to make up their minds and to deliver a completed application form to whichever primary receiving centre is appropriate for their particular surname.

Supplementaries

Should small investor apply?

The offer is priced at £3.30, payable in three instalments. Investors must decide for themselves whether to apply, taking account of the offer terms set out in the Prospectus and current market prices.

Position of those who have applied already?

Once applications have been made they cannot be withdrawn.

Government prepared to modify terms of offer?

Terms of offer are as set out in the Prospectus. No change is contemplated.

Wider share ownership in tatters?

Not so. Hon Member must wait and see what happens on BP share sale. Implementation of Government's wider share ownership

policies has been highly successful.

Shareholders buying into earlier Government sales always knew that share prices could go down and well as up. They have a continuing stake in the success of British enterprise.

Will the offer be left with the Underwriters?

That depends on the number of applications received when the offer closes at 10 am on 28 October.

Collapse of City institutions under weight of underwriting?

Hon Member is presuming outcome of the BP share sale, and casting doubt on strength of City institutions. Do not share his concerns.

Advertising and marketing costs wasted?

Right and proper to advertise share sales. Can give no estimate of costs of BP sale at this stage.

Cutback in offer advertising?

Some readjustment is being made to the offer advertising. Advertisements setting out the terms of the Prospectus and/or supplying an Application Form are being published according to plan.

Limit on foreign ownership of partly paid shares?

Not appropriate. The issued ordinary share capital of the company is already listed on the stock exchanges in London, Tokyo, Paris, Geneva, Basle, Zurich, Dusseldorf, Frankfurt and Hamburg and is traded in the form of depositary receipts on the stock exchanges in New York and Amsterdam. Foreign share ownership is welcomed by the company.

How many foreign shareholders expected?

That depends on the outcome of the offer.

CONFIDENTIAL - MARKET SENSITIVE

FROM: MRS R LOMAX
DATE: 21 October 1987

PRINCIPAL PRIVATE SECRETARY

cc: PS/Economic Secretary
Sir P Middleton
Mr Cassell
Mr D Moore
Mr Ilett
Mr Board

STOCK MARKET COLLAPSE: AFTERMATH

The FTSE 100 recovered pretty sharply today - up 142. BP closed at 297, up 12.

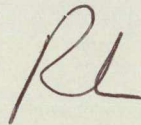
2. Supervisors from the Bank and the Stock Exchange have been making special enquiries, ahead of the normal account day return this Friday and have now received partial returns from banks and Stock Exchange member firms. Enquiries have also been made at some institutions who fall into neither category.

3. Brian Quinn reports that there are no signs that any significant player is in difficulty. Some have taken significant losses, but they are book losses, which will therefore dwindle as and when the market recovers. One UK house is known to have called for "a relatively small amount" of capital from its parent. And one large non-bank financial institution, which seemed to have had worryingly large losses, turns out to be able to cover them from surpluses accumulated during the summer bull run.

4. US houses are reported to have met with some resistance on the inter-bank market, where there has been concern about their exposure in both New York and London. The underwriting stick on the overseas tranche of BP has caused some nervousness in New York about the houses involved. One house - Morgan Stanley I think - had its inter-bank lines cut for a time, but they have now been reinstated, though not in full, and on a secured basis.

5. In short, nervousness is slowly beginning to evaporate and there are no real distress signals at the moment.

6. The Bank and the Stock Exchange are doing another round-up tomorrow morning. I suggested Brian Quinn might contact Mr Cassell, in my absence, if there is anything further to report.

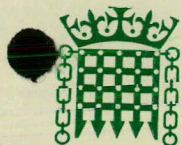


RACHEL LOMAX

Alex - Sorry, but I don't
know what he means by an
app acknowledgment.

Thank you for
The Ch has asked me to thank
you for your letter of 21 October
and for the copy of your letter to Times,
Cathy Ryding.

21st October '87.



Dear Nigel,

For the appropriate

I sent this letter to the Times before I spotted that the F.T. and the Guardian are saying much the same this morning - so I doubt if they will publish it.

However, I am sending it to you in the hopes that you will have time to read my last paragraph.

Yours ever

Brandon.

From: Sir Brandon Rhys Williams, MP



HOUSE OF COMMONS

LONDON SW1A 0AA

21st October 1987

The Editor, The Times,
Times Newspapers Limited,
1 Virginia Street,
London, E1 9XN

Sir,

Curing Market Instability

While the major trading countries pursue autonomous policies of internal economic management it is inevitable that conditions in the main financial centres will vary and that markets will notice the fact. The variations can be accommodated by changes in rates of exchange; or currency adjustments can be temporarily postponed by official intervention - in which case there will be unwelcome variations in the ruling rates of interest in the different centres instead. Though plainly overdone, the rapid fluctuations in share prices of recent days are a reflection of the fact that markets are suffering from measures of official interference which are certain to be defeated in the end - the concerted attempts of national central banks to prevent the decline in the relative value of the dollar against the yen and the EEC currencies. Since the United States Government is not correcting its deficits, dollar devaluation obviously has to come.

Only one way is open to the national monetary authorities to avoid instability in the markets - the sincere, continuing co-ordination of their monetary, economic and fiscal policies.

Economic nationalism did not work in the 1930's. It is not working now. Under the gold standard, the national authorities were obliged to operate within a fixed framework. Gold cannot return to its former place, but it remains open to national finance ministries and central banks to integrate their activities as an act of deliberate policy. In present circumstances the Rome Treaty, still only partially implemented, shows how the democratic countries of Europe can save themselves from recession by their endeavours and the rest of the world by their example. We know what has to be done. Have our governments the will?

Yours faithfully,

Brandon Rhys Williams

22/10/87.

1. World Stock Markets: A Case of Overreaction

Overreaction. The fall in the London Stock Market at the beginning of the week reflected a massive overreaction on Wall Street not justified by anything in the real economy. In particular, the UK economy and British industry remain sound and strong. It is worth noting that, after huge falls on Monday and Tuesday, share prices recovered sharply on Wednesday, bringing them back to the levels of last March.

Link with United States. The fall in share prices started on Wall Street and was triggered by uncertainties about the US economy. In the global investment markets of today this fall was reflected in stock markets around the world. Thus the exchanges in Frankfurt, Paris, Hong Kong, Tokyo, Singapore and Australia, as well as London, experienced record falls. The US authorities have now acted to restore confidence. While the markets are still volatile, there are signs that things may be settling down.

Underlying Causes of Fall. Concern about the US economy surfaced at a time when markets were already vulnerable. For many years now, share prices have moved up with barely an interruption. We have had a bull market of record duration. As the Chancellor has said:

"Stock Markets have been rising throughout the world pretty solidly for the past 10 years,, so there was bound to be some sort of downturn sooner or later. What was not expected was the severity of the downturn." [BBC Radio 4, 20 October 1987]

In perspective. While the fall in share prices was extremely rapid it should be seen in perspective. At the close of Wednesday's trading share indices had only fallen back to the level at which they stood in March 1987. Even at the end of Tuesday, at the low point, the index was still above its level at the start of 1987.

Outlook Remains Good. Despite the large fluctuations in share prices over the last week, the UK's economic prospects remain good. The resurgence of UK manufacturing industry is set to continue. The exchange rate has remained stable throughout. Interest rates will be maintained at levels necessary to keep downward pressure on inflation. This aberration in the stock market will not divert the Government's eye from that key responsibility.

Although a major recession in the United States would have knock-on effects in the UK, there's no reason to expect this. As the Chancellor said:

"I see no fundamental reason why the United States' economy should go into recession The only way the American economy would go into recession is if it actually talks itself into recession." [ibid]

Small Investors should Keep Calm. Stock markets have always been volatile, and those investing in shares are fully aware that the price can go down as well as up. The Chancellor gave this advice



PS/Chancellor

Your Ref

~~Alex~~

with compliments

MARK CALL

[Handwritten signature]

Treasury Chambers
Parliament Street
London SW1P 3AG

Tel: Direct Line 01-~~233~~270 5106
Switchboard 01-~~233~~3000 270 3000

to the millions of small investors who have entered the Stock Market in the past few years:

"My advice would be to keep calm, there is absolutely no reason not to do so, and I believe stock market investment over the long-term will prove well worthwhile. But there (will be) fluctuations along the way." [ibid]

Impact on BP Share Issue. The offer for sale of the Government's remaining holding of British Petroleum shares is going ahead as planned. The Government had this sale underwritten; underwriting provides insurance against just this kind of eventuality. The underwriters receive a fee for taking on the risk that they may have to buy unsold stock.

Wider Share Ownership. The Government remains firmly committed to its objective to increase the number of people owning shares. As a result of the privatisation programme so far over 9 million people now own shares, and have a continuing stake in the success of British enterprise. The privatisation programme will, of course, continue throughout this Parliament.

H M Treasury

22 October 1987



no

FROM: CATHY RYDING

DATE: 22 October 1987

MRS LOMAX

STOCK MARKET COLLAPSE: AFTERMATH

The Chancellor was grateful for your minute of 21 October.

A handwritten signature in cursive script, appearing to be "Cathy Ryding".

CATHY RYDING

MG NOON REPORT

FINANCIAL MARKETS

Thursday 22 October 1987

Opening	10 AM		NOON	Oil Price (10 AM)
73.4	73.4	£ERI	73.5	
1.6490	1.6500	\$/£	1.6518	Nov \$19.15
2.9954	2.9948	DM/£	2.9964	Dec \$19.20
1.8165	1.8150	DM/\$	1.8140	Jan \$19.22
144.20	144.17	Yen/\$	144.35	

UK interbank £

Eurodollars

9 7/8	(-)	7 day	6 15/16	(+1/8)
9 7/8	(-)	1 month	7 1/4	(-)
10 1/8	(-)	3 month	8 1/16	(+1/16)
10 3/8	-)	12 month	8 7/16	(-)

Figures in brackets show change since previous market close

MARKET COMMENT In the foreign exchange market the dollar firmed overnight in New York after hopes that Reagan may cut interest rates. A press conference is being held tonight. The dollar is steady and firm this morning. Sterling opened easier on last night's close and has remained steady at around 1.65\$. Markets calm awaiting Greenspan testifying on market volatility from 2.30pm onwards. The gilts market opened a little softer but strengthened in the late morning. Sales of conventionals.

R J McRobbie

MARKET INTERVENTION (\$m)

OTHER COUNTRIES INTERVENTION (\$m)

Overnight	+142\$	New York
Today so far	-	
Total	+142\$	

GILTS

	Latest market movements	Price change since previous close	Gilt Sales since market opening
			+£120.0 million
Shorts	Better	+3/32	
Mediums	Better	+4/32	
Longs	Better	+2/32	
Futures (Long Contracts)		+17/32 (Vol:9859)	

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

CONFIDENTIAL

*pus*

FROM: A C S ALLAN

DATE: 22 October 1987

MR ILETT

cc: PS/FST
PS/EST
Sir P Middleton
Sir T Burns
Mr Cassell
Mrs Lomax
Mr Moore
Mr Peretz
Mr R I G Allen
Mr Board
Mr Neilson
Mr Richardson
Mr Cropper

FINANCIAL MARKETS BILL: MARKET INSOLVENCIES

The Chancellor was grateful for your minute of 20 October. In the event, the idea of a statement does not seem to have run very far.

A handwritten signature in dark ink, appearing to read "ACSA", with a long horizontal flourish underneath.

A C S ALLAN

CONFIDENTIAL



FROM: A C S ALLAN
DATE: 22 October 1987

MR CASSELL

cc: Sir P Middleton
Sir T Burns
Sir G Littler
Mr Peretz

CONVERSATION WITH DAVID MULFORD

The Chancellor was most grateful for your minute of 20 October. He very much agrees with your view that unless there is something substantive to say, vague statements of good intentions usually do not help market sentiment, and more often have exactly the reverse effect.

A handwritten signature in black ink, appearing to read "A C S Allan", with a long horizontal flourish underneath.

A C S ALLAN



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

22 October 1987

David Norgrove Esq
10 Downing Street
LONDON
SW1

Dear David

PRIME MINISTER'S QUESTIONS: STOCK MARKET

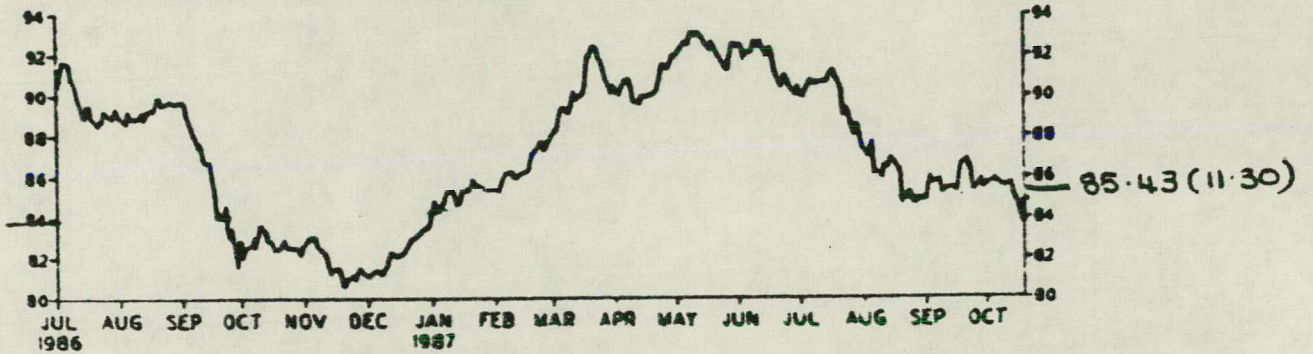
... I attach some updated tables as promised in Alex Allan's letter of yesterday. The further briefing will follow shortly.

Yours Cathy

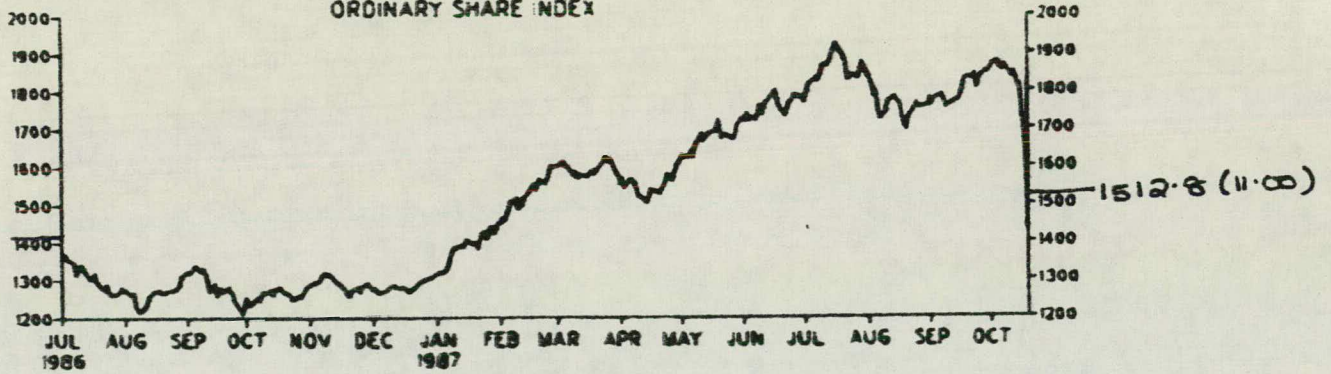
CATHY RYDING

CAPITAL MARKET INDICES

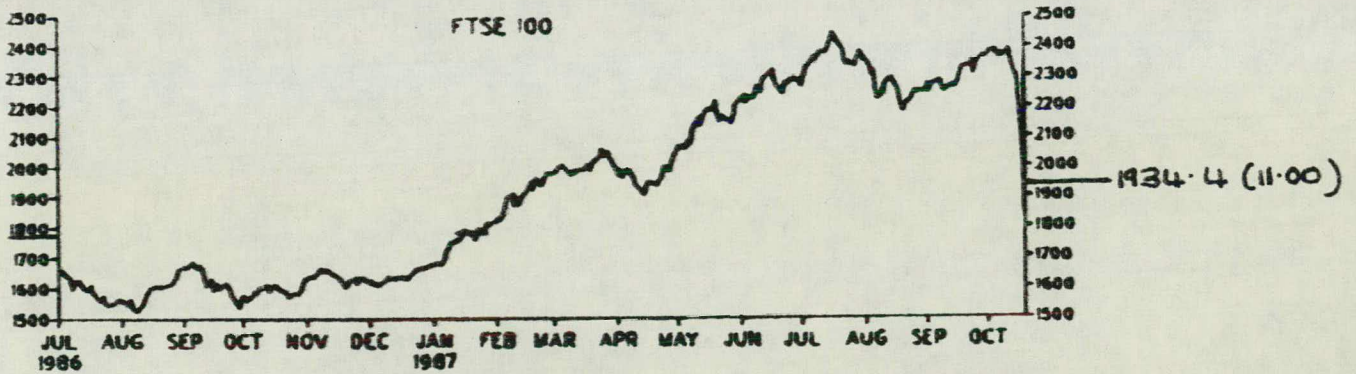
GILT NCX



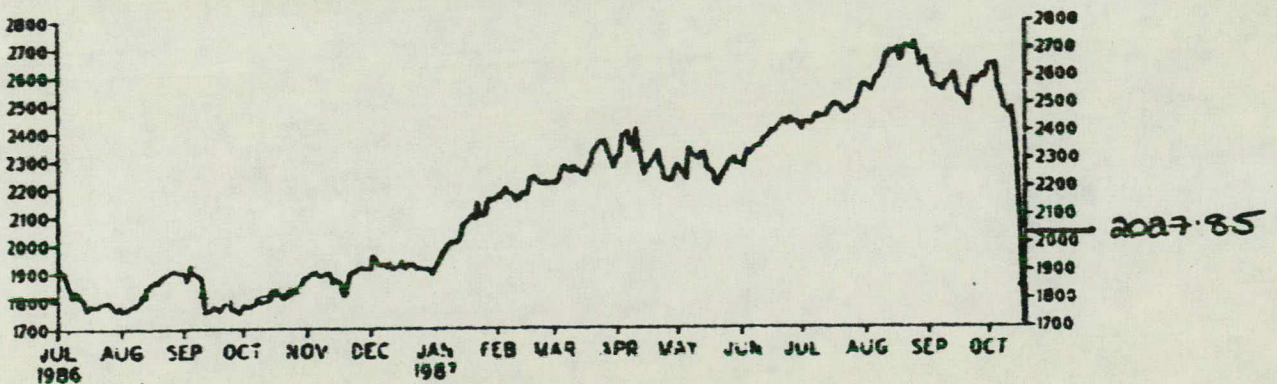
ORDINARY SHARE INDEX



FTSE 100



DOW-JONES INDUSTRIAL INDEX



EQUITY INDICES
(closing, except where indicated)

	Index level	Change on previous close		Change on Thursday close		Change on 1987 peak		Change on 1987 previous low	
		points	%	points	%	points	%	points	%
NEW YORK									
(Dow Jones Industrial)									
Thursday 15	2355					(2722 on 25/8)		(1927 on 2/1)	
Friday 16	2247	-108	-4.6						
Monday 19	1738	-508	-22.6	-616	-26.2	-984	-36%	-189	-10%
Tuesday 20	1841	+102	+5.9	-514	-21.8	-881	-32%	-86	-4%
Wednesday 21	2028	+187	+10.2	-327	-13.9	-694	-25%	+101	+5%
LONDON									
(FSTE 100)									
Thursday 15	2302					(2449 on 16/6)		(1798 on 29/1)	
Friday 16	-								
Monday 19	2052	-250	-10.9						
Tuesday 20	1802	-251	-12.2	-501	-21.7	-647	-26%	+4	-
Wednesday 21	1944	+142	+7.8	-358	-15.6	-505	-21%	+146	+8%
Thursday 22 (11:00am)	1934	-10	-0.5	-368	-16.0	-515	-21%	+136	+8%
(2:20pm)	1781	-163							

	Index level	Change on previous close		Change on Thursday close		Change on 1987 peak		Change on 1987 previous low	
		points	%	points	%	points	%	points	%
TOKYO									
(Nikkei Dow)									
Thursday 15	26428							(26646 on 14/10)	(18544 on 13/1)
Friday 16	26367	-61	-0.2						
Monday 19	25746	-620	-2.4	-681	-2.6				
Tuesday 20	21910	-3836	-14.9	-4517	-17.1	-4736	-18%	+3366	+18%
Wednesday 21	23947	+2037	+9.3	-2480	-9.4	-2699	-10%	+5403	+29%
Thursday 22	24404	+457	+1.9	-2024	-7.7	-2242	-8%	+5860	+32%

PRIVATISATION ISSUES

(Fully paid prices except where indicated)

	Issue Date	Issue Price	Peak Price	Thursday close (18/10)	Wednesday close (21/10)	% change Wednesday close on issue price
Jaguar	August 1984	165	626	578	448 ²⁰ 401 ✓ 394	+172%
BT	November 1984	130	336	261	237 215 ✓ 209	+82%
British Gas	December 1986	135	200	168	149 132 × 132	+10%
British Airways	February 1987	125	235	219	175 153 ✓ 148	+40%
Rolls Royce	May 1987	170	240	206	166 143 × 142	-2%
BAA (*)	July 1987	100	152	151	125 118 ✓ 115 BP 270	+25%

(* partly paid, fixed price offer)

	latest	Change on the day		
FT 100	1779.1	-164.7	1749.4	-194.4
FT 30	1407.9	-119.4	1407.9	-119.4
Dow Jones	2024.9	-3.0	1964.8	-63

EXCHANGE RATES
(London close, except where indicated)

	\$/£	\$/DM	DM/£	¥/\$
Thursday 15	1.6650	1.7990	2.9953	142.00
Friday 16	1.6645	1.8005	2.9969	142.70
Monday 19	1.6865	1.7718	2.9881	141.30
Tuesday 20	1.6560	1.8060	2.9907	143.75
Wednesday 21	1.6532	1.8100	2.9923	143.90
Thursday 22 (opening)	1.6490	1.8165	2.9954	144.20



no

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

22 October 1987

David Norgrove Esq
10 Downing Street
LONDON SW1

Dear David,

PRIME MINISTER'S QUESTIONS: STOCK MARKET

... I attach the further briefing for Prime Minister's Questions this afternoon mentioned in Mr Allan's letter of yesterday.

You will want to note that the stock market has fallen again over the last few hours. At 1.35pm the FTSE was down 164.6 at 1779.2.

Yours,

Cathy

CATHY RYDING

PS The notes on the BP share sale in 1977 are not attached.
In the time available we have been unable to produce figures that we are sufficiently confident about for the PM to use.

BRIEFING FOR PRIME MINISTER'S QUESTIONS, 22 OCTOBER

LABOUR CONFUSION ON SHARE OWNERSHIP

As on so many issues, the Opposition cannot make up their minds whether they are in favour of ordinary people owning shares or not. Last month the HM for Dagenham wrote that "instead of opposing wider share ownership, we should set about making it a reality." (Sunday Times, 27 September 1987). But earlier this week the HM for Sedgefield warned that "the Stock Exchange is a casino where you can lose as well as win". (Evening News, 20 October).

BRIEFING FOR PRIME MINISTER'S QUESTIONS, 22 OCTOBER

GILTS MARKET

Yields on long gilts rose by about 0.2 per cent on Monday and fell by over $\frac{1}{4}$ per cent on Tuesday. Neither movement was unprecedented. Gilt markets are at present a little higher than at the end of last week.

SECRET

EQUITY
MARKETS

FROM: N J ILETT

DATE: 22 October 1987

CHANCELLOR

cc: Financial Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mrs Lomax o/r
Mr Peretz

EQUITY MARKETS

The London market opened slightly down despite strong overnight performances by Wall Street and Tokyo. Today's peak was +12.9 (1956) on the FTSE 100. But the FTSE 100 then fell steadily until its low point at 3.00pm (-193.5). Major influences were the Iranian missile attack on a Kuwaiti oil terminal, and the poor start on Wall Street. The Bank suspect some UK institutions were selling this afternoon. Much of the ground was recovered thereafter; the index finished at -100.6 (1833). Nevertheless, the outcome is that the market lost 40% of yesterday's record gains.

2. The Bank of England's assessment is that the atmosphere in the major financial centres is getting distinctly worse. Worries are still largely general in character - specific sources of worry remain relatively isolated (a Dutch market maker has failed, and I have reported separately on the Hong Kong futures market).

3. The most sensitive point of concern is probably one of the interfaces between the securities houses and the core banking system, ie the lines of credit which the banks supply to finance the houses' operations. There are growing signs on banks cutting down on their lines to at least US securities houses. At Mr Moore's meeting with Goldman Sachs (lead underwriter to the BP issue in the USA), Goldman Sachs emphasised that they were fully capable of maintaining their indemnity commitment, and so were the other US underwriters. But this contrasted with liquidity worries which Goldman Sachs communicated to Rothschilds yesterday.

P.S. Wall Street was down 77
at 1950 at 6pm, and down
85 at close. — not to close

M.
N J ILETT

SECRET



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

22 October 1987

David Norgrove Esq
10 Downing Street
LONDON
SW1

Dear David

PRIME MINISTER'S QUESTIONS: STOCK MARKET

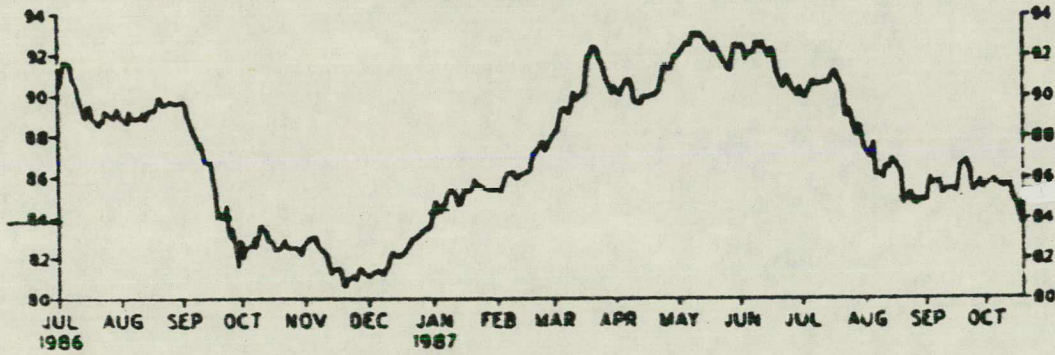
... I attach some updated tables as promised in Alex Allan's letter of yesterday. The further briefing will follow shortly.

Yours Cathy

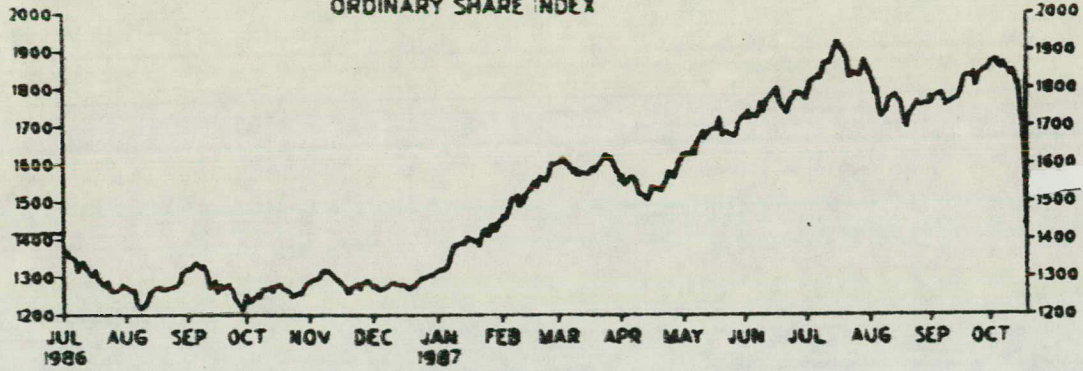
CATHY RYDING

CAPITAL MARKET INDICES

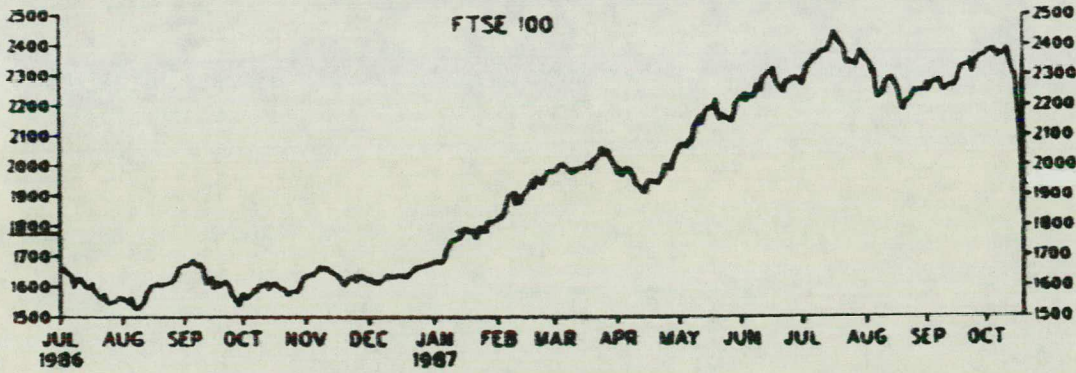
GILT INDEX



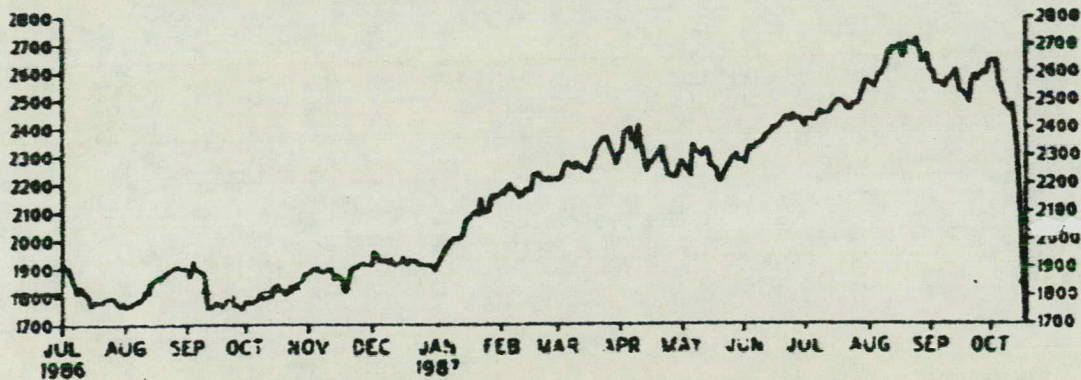
ORDINARY SHARE INDEX



FTSE 100



DOW-JONES INDUSTRIAL INDEX



Index level	Change on previous close		Change on Thursday close		Change on 1987 peak		Change on 1987 previous low	
	points	%	points	%	points	%	points	%
TOKYO							(26646 on 14/10)	(18544 on 13/1)
(Nikkei Dow)								
Thursday 15	26428							
Friday 16	26367	-61	-0.2					
Monday 19	25746	-620	-2.4	-681	-2.6			
Tuesday 20	21910	-3836	-14.9	-4517	-17.1	-4736	-18%	+3366 +18%
Wednesday 21	23947	+2037	+9.3	-2480	-9.4	-2699	-10%	+5403 +29%
Thursday 22	24404	+457	+1.9	-2024	-7.7	-2242	-8%	+5860 +32%
Friday								
monday	22203							

PRIVATISATION ISSUES

(Fully paid prices except where indicated)

	Issue Date	Issue Price	Peak Price	Thursday close (18/10)	Wednesday close (21/10)	Monday close (% change on issue price)	% change Wednesday close on issue price
Jaguar	August 1984	165	626	578	448	336 (104)	+172%
BT	November 1984	130	336	261	237	223 (72)	+82%
British Gas	December 1986	135	200	168	149	142 (5)	+10%
British Airways	February 1987	125	235	219	175	144 (15)	+40%
Rolls Royce	May 1987	170	240	206	166	127 (-25)	-2%
BAA (*)	July 1987	100	152	151	125	107 (7)	+25%
BP						266	

(* partly paid, fixed price offer)

C/W

+ Commlens
phase - r.

DBauss.

pys
22/10/87.

1 spoke to Adam Ridley at 6 pm.

1. Hong Kong. Think we've solved it - but a
kenned squeak. Clean opening, not a
close-out or fix. The banks here
injected \$2 bn HK into the ludicrously
under-capitalised Clearing House.
2. UK. Welcomed the interest rate cut.
Dealers were appalled by the funding offer
on Thursday afternoon and hope there will
be no more. (I said nothing).
3. BP. Adam thinks on balance we should
pull the issue. Politically we would not
suffer by doing so: Labour criticism would
be laughed out of court. Meanwhile
we would remove a threat to the equity
market and we would save some
privatisation stock for another day.

"Neither Richardson nor Garmyale are able to
give fully dispassionate advice." But among
the principal underwriters there was an
8-8 split on Friday on whether to advise
HONG to pull. Adam would expect it
to swing in favour tomorrow.

The overseas underwriters are dependant
on the UK underwriters to make
representations to HONG on their behalf.
They might sue the UK underwriters for
failure to act. Adam would not
give a fig for that. Nevertheless he
would on balance pull.

PS/Chancellor.

22/10/87.

I have reported verbally to AR that his message has been delivered.

He amplified the Hong Kong point. It seems that the market has moved since the Hong Kong financial community would be to impose a settlement of outstanding futures business at an arbitrary level of prices.

But this would hit the American and other foreign participants in Hong Kong (e.g. James Capel) and "unleash a torrent of litigation similar to the backwash on Tin".

The American has learned a lot in the course of the Tin experience and would be very quick on the draw. Many of them are

to some people who are being hit in
futures markets in USA and London and
they would trade Hong Kong without mercy.

DJR

5.15 pm

SECRET

FROM: N J ILETT

DATE: 22 October 1987

PS/CHANCELLOR

cc: Sir P Middleton
Mr Cassell
Mrs Lomax o/r
Mr Peretx

HONG KONG FUTURES MARKET

Mr Loehnis (Bank) telephoned at 4.00pm this afternoon. There are press and City rumours that serious defaults in the Hong Kong futures markets are imminent. (We have picked up City rumours on the same point ourselves - specifically that James Capel are hard hit and that the Hong Kong authorities propose to negate all futures contracts entered into since Monday this week.) The reports the Bank is getting from various sources vary in seriousness.

2. The Hong Kong authorities will not say much over the telephone, possibly for security reasons. But Piers Jacob, I think this morning, asked Hambros to send out experts on futures markets to help the ~~HK~~ authorities; Brian Williamson (LIFFE Chairman) is on his way to Hong Kong now with a Hambros expert.

3. The Bank does not know the scale of the problem, not the direct impact (if any) on London or New York. In normal circumstances, this would probably be a domestic Hong Kong affair. In present circumstances, the effect on fragile world markets could be serious.

4. The Bank is keeping the FCO in touch.

5. For the moment, there is no call for the UK authorities to take any action except, of course, to keep a close eye on developments.

M.

N J ILETT

SECRET

ILETT
To
PS/CH
22/10

1412

INTERVIEW WITH THE CHANCELLOR ON 'WORLD AT ONE', 23 OCTOBER 1987

1. ~~or Taxes to note X!~~
2. Pse return. Cathy Eudir)

John Widlake: Chancellor, how would you summarise last week?

Chancellor. I think Mr Ross Goobey's summary which I have just been listening to is pretty accurate. It has been a correction in the market ~~that repeatedly~~ ^{whose rapidity} nobody expected. I think that most people thought that equities had got very high, that shares had got very high, and they had been going higher steadily year after year and there was bound to be some fall back, but this has gone further and faster, certainly faster than anybody was expecting. I think it has had an adverse effect on confidence which has now got to be restored because there is no reason why confidence should be weak, certainly not in Britain where the British economy is very sound and very strong, but I believe that the world economy generally despite the undoubted problems of the United States, the world economy is in fairly good shape. X!

Brian Widlake. Do you think that we are now out of the wood bar a few hiccups?

Chancellor. No, I think it's impossible to say that because when you have these wild swings in markets they can always overshoot and it is very difficult to say how far they can overshoot. We saw this in the foreign exchange markets, with the dollar in the not so recent past. But what I do say is that the fundamental conditions are sound, the economies are sound, and what is also striking throughout this week is that the difficulties have been confined exclusively to the share market; there has been no trouble as we had some past periods in the foreign exchange markets and no problems at all in the bond market and the gilt edged market.

Brian Widlake. We've seen the Midland and Barclays cut base rate by $\frac{1}{2}$ per cent this morning. Did you do that to allay any fears of any interest rate increases and therefore more gloom in the market?

Chancellor. No, not at all, I did it because I thought that in the circumstances, in the light of current conditions, that was the right thing to do.

Brian Widlake. In what sense, what effect did you expect it to have, or what effect do you expect it to have?

Chancellor. We have a policy of keeping inflation down, that is vitally important; we should stick with that, and that does from time to time involve a higher rate of interest in order to keep conditions sufficiently tight. But at other times we can make do with a lower rate of interest. When we can in my judgement, when conditions are such that a lower rate of interest is appropriate, there is no danger - I think even those who were saying earlier that there was a danger of the economy over-heating are unlikely to make any such judgements now in the light of what has happened in equity markets in this country and throughout the world. So I believe that it is within the prudent policy we have been pursuing it was right to reduce interest rates. I think that one has to take conditions, all conditions, into account all the time and that is what we do.

Brian Widlake. Chancellor, do you feel that perhaps President Reagan did not give the markets what they were hoping for last night, particularly on more positive measures to cut the deficit?

Chancellor. I rather suspect that the markets have rather under-estimated the importance of what President Reagan said last night. It is quite clear that he has shifted his position and he is now now prepared for the first time to accept the possibility of increases in taxation as part of package to cut the American deficit. And that is the key that might well unlock this door which it of so much importance.

Brian Widlake. You mean that if perhaps he did announce a programme which included raising taxes and therefore obviously easily the Budget deficit would you see that restoring a good deal of confidence to world markets?

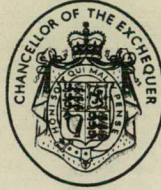
Chancellor: Yes, I think that the Americans to give them credit have reduced their Budget deficit very substantially in the year that has just ended by something like \$60bn American dollars,

and that is a substantial reduction. I think what people are worried about is that they see no follow through in the year that's just beginning, no further reduction in the Budget deficit which is still very big. Now I think to get a sufficient reduction, he is going to have to agree to increases in taxation as well as reductions in public expenditure, the package has got to contain both. He is entering now into negotiations with Congress so he is not going to show his full hand and the markets have under-estimated that, because I think what does lie behind that is a readiness on his part, which has hitherto been absent, to have tax increases as part of a package.

Brian Widlake. Leaving Mr Reagan aside for a moment, we heard earlier in the programme from Alasdair Ross Goobey who was stressing the importance of international financial co-operation to deal with the market crisis we have been going through. He was saying he thought you would be a very useful intermediary in the sense that you could act as it were between nations. Now, is there anything more that could be done in terms of international co-operation to ease the pressure on markets?

Chancellor. I think that you are right and he is right to say that international co-operation is very important between the major nations and we have that. It did break down temporarily between the United States and Germany but that is now patched up. And we have international co-operation fully operating now *not merely* although mainly in the foreign exchange markets but perhaps we've built co-operation on a wider field, and that should continue and we have all been closely in contact over the past week over the telephone.

Brian Widlake. Chancellor, thank you for talking to me.



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

23 October 1987

Sir Brandon Rhys Williams MP
House of Commons
LONDON SW1

Dear Sir Brandon,

The Chancellor has asked me to thank you for your letter of 21 October and the copy of your letter to the Times.

Yours sincerely,

Cathy Ryding

CATHY RYDING

SECRET

Alex

MG NOON REPORT

Friday 23 October 1987

FINANCIAL MARKETS

Opening	10 AM		NOON	Oil Price (10 AM)	
73.4	73.3	£ERI	73.5	Nov	\$19.02
1.6545	1.6535	\$/£	1.6575	Dec	\$19.05
2.9897	2.9870	DM/£	2.9926	Jan	\$19.10
1.8070	1.8065	DM/\$	1.8055		
144.10	144.05	Yen/\$	143.87		
UK interbank £			Eurodollars		
		7 day		6 15/16	(-)
9 5/8	(-5/16)	1 month		7 1/16	(-)
9 5/8	(-7/16)	3 month		7 3/4	(-)
9 5/8	(-10/16)	12 month		8 1/4	(-)

Figures in brackets show change since previous market close

MARKET COMMENT The dollar firmed in New York on short covering ahead of Reagan press conference. It eased in the Far East subsequently. Dollar has continued to ease slightly this morning as a result of Ohta comment that Japan should expect medium to long appreciation of the Yen and of a nervous market. Sterling opened firmer on the weaker dollar. The high point was 1.6615. It remained strong on the trade figures at 11.30 in the range DM 2.9940 to DM 2.9925. The base rate cut announced at 12.12 steadied it at the lower end of this range. The US and Japanese equity market closed down: Dow Jones at 1950.43 -77 and Nikkei 23201 -1203. The FTSE100 opened at 1833. At the low point at 11am it was down 87 points. It rallied after the UK trade figures to -41 down but fell back subsequently to -71, the interest rate announcement little effect at 12.30 it was 1766 -67 points. Gilts were firm in advance of the Bank's announcement of a cut in its money market dealing rates from 9 7/8 to 9 3/8 which took place shortly after noon. Following this money market rates fell quickly and at 12.30pm stood at 9 5/8 across the maturity range. Gilts surged on the announcement with prices rising 1/2 a point in longs and mediums. Midland and Barclays announced a 1/2 per cent cut in base rates at 12.42pm/12.45

MARKET INTERVENTION (\$m)

Overnight	-
Today so far	+15
Total	+15

OTHER COUNTRIES INTERVENTION (\$m)

GILTS

	Latest market movements	Price change since previous close	Gilt Sales since market opening
Shorts	Easier	+11/32	+£435.0 million
Mediums	Easier	+49/32	+90 Index linked
Longs	Easier	+82/32	
Futures (Long Contracts)		+70/32 (Vol:15909)	

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

SECRET



THE
STOCK
EXCHANGE

cc. PPS

PS/EST

G. P. Middleton

Mr Laroche

Mr Perez

Mr Ullott

84/87

23rd October 1987

MARKET ANNOUNCEMENT

The Council of the International Stock Exchange has been asked whether, in the light of actions taken by stock exchanges elsewhere, it is considering closing its market or the SEAQ price display system for short periods. The Council does not believe that either action would have a significant effect on volume or the settlement backlog. The Council has therefore decided that the market and SEAQ should remain open during normal hours. Meanwhile the Exchange's central systems continue to work reliably.

For further information: Anne Coleman, Chief Press Officer; Teresa Hodges, Gill Ackers, Press Officers;
Telephone: 01-588 2355; Fax 01-256 8972

Issued by: The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited
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NEWS RELEASE NEWS RELEASE NEWS RELEASE NEWS RELEASE NEWS RELEASE

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TOKYO STOCKS CLOSE FIVE PCT LOWER IN ACTIVE TRADE
TOKYO, OCT 23 - TOKYO'S SHARE INDEX CLOSED FIVE PCT LOWER,
ITS 11TH LARGEST ONE-DAY FALL, FOLLOWING PLUNGES ON WALL
STREET AND LONDON ON THURSDAY, BROKERS SAID.
"IT HAS NOTHING TO DO WITH THE JAPANESE ECONOMY," SAID
ANALYST TADAKI UEHARA OF WAKO SECURITIES. "BUT WALL STREET
TUMBLED WHEN IT LOOKED LIKE IT WOULD RECOVER. IT LOOKED BAD."
JAPANESE INSTITUTIONS, WHOSE "NO SELL" ATTITUDE THIS WEEK
HAS BEEN A CALMING INFLUENCE ON THE MARKET, BEGAN TO SELL.
THE 225-SHARE AVERAGE LOST 1,203.23 POINTS TO 23,201.22,
WIPING OUT THURSDAY'S 457.05 POINT ADVANCE. TURNOVER WAS ONE
BILLION SHARES AGAINST 1.3 BILLION ON THURSDAY.
23-OCT-0637 SHK575 JJJA

JAPAN

MORE

P

REUTER MONITOR 0718

REAGAN DISAPPOINTS TOKYO STOCK, CURRENCY MARKETS NRRO
TOKYO, OCT 23 - THE DOLLAR EASED SLIGHTLY AND TOKYO STOCKS
RESUMED THEIR SLIDE AS FINANCIAL MARKETS REACTED BEARISHLY TO
PRESIDENT REAGAN'S NEWS CONFERENCE, DEALERS SAID.
THEY SAID THE MARKETS WERE DISAPPOINTED THAT REAGAN HAD
NOT CLEARLY SPELLED OUT HIS SUPPORT FOR THE TAX INCREASE THAT
MANY ECONOMISTS BELIEVE IS NEEDED TO REDUCE THE HUGE U.S.
BUDGET DEFICIT.

REAGAN, WHO HAS CONSISTENTLY OPPOSED A TAX INCREASE, HAD
SHOWN SOME SIGNS OF SOFTENING THAT STAND EARLIER THIS WEEK IN
THE FACE OF MONDAY'S STOCK MARKET PLUNGE.

23-OCT-0159 MON002 MONA

CONTINUED ON - NRBP

P

REUTER MONITOR 0718

REAGAN DISAPPOINTS #2 TOKYO NRBP
AFTER OPENING AT 144.52 YEN, THE DOLLAR SLIPPED TO ABOUT
144.25 AFTER REAGAN'S COMMENTS, DEALERS SAID.
THE STOCK MARKET WAS DOWN MORE THAN 500 POINTS AT
MID-MORNING, AND DEALERS SAID REAGAN'S COMMENTS WERE PARTLY TO
BLAME FOR THE DECLINE.

REAGAN SAYS PRIME RATE CUTS WERE WISE NRAQ
WASHINGTON, OCT 22 - PRESIDENT REAGAN SAID BANKS HAVE ACTED
WISELY IN REDUCING THEIR PRIME LENDING RATES.

"I THINK IT'S A VERY WISE THING TO DO," REAGAN SAID IN A
NATIONALLY TELEVISED NEWS CONFERENCE. HE WAS REFERRING TO MOVES
BY SOME MAJOR BANKS TODAY TO REDUCE THEIR PRIME RATES TO NINE
PCT FROM 9.25 PCT.

ASKED WHETHER HE SHOULD URGE MORE BANKS TO LOWER THEIR
RATES, HE RESPONDED, "THEY HAVE DONE THAT." ASKED FURTHER
WHETHER HE WOULD NOW URGE STORES TO REDUCE THEIR PRICES TO SPUR
SALES, HE SAID THIS WOULD BE "UP TO THEM."

23-OCT-0032 SEC350 MONQ

REUTER

P

REUTER MONITOR 0718

REAGAN SAYS HE SEES NO REASON FOR RECESSION NRAE
WASHINGTON, OCT 22 - PRESIDENT REAGAN SAID HE SEES NO
REASON FOR A RECESSION FOLLOWING MONDAY'S PRECIPITOUS STOCK
MARKET DECLINE AND CONTINUING MARKET VOLATILITY.

THE ONLY WAY THERE MIGHT BE A RECESSION, HE SAID IN A
NATIONALLY TELEVISED NEWS CONFERENCE, WOULD BE "IF ENOUGH
PEOPLE, WITHOUT UNDERSTANDING THE SITUATION, PANIC AND DECIDE
TO PUT OFF PURCHASES."

"THAT COULD BRING ON A RECESSION, BUT I DON'T SEE ANY
REASON TO DO THAT," HE SAID.

23-OCT-0021 SEC344 MONQ

REUTER

P

REUTER MONITOR 0718

REAGAN SAYS EVERYTHING ON TABLE IN NEGOTIATIONS NRRY
WASHINGTON, OCT 22 - PRESIDENT REAGAN SAID EVERYTHING
EXCEPT SOCIAL SECURITY WILL BE ON THE NEGOTIATING TABLE IN
DISCUSSIONS WITH CONGRESS TO REDUCE THE FEDERAL BUDGET DEFICIT.

"I'M PUTTING EVERYTHING ON THE TABLE, WITH THE EXCEPTION OF
SOCIAL SECURITY, WITH NO "PRECONDITIONS," REAGAN SAID IN A
STATEMENT DURING A NATIONALLY TELEVISED NEWS CONFERENCE. "AND I
AM CALLING ON THE BIPARTISAN LEADERSHIP TO DO THE SAME."

REAGAN SAID WHITE HOUSE CHIEF OF STAFF HOWARD BAKER,
TREASURY SECRETARY JAMES BAKER AND OFFICE OF MANAGEMENT AND
BUDGET DIRECTOR JAMES MILLER WILL LEAD THE WHITE HOUSE
NEGOTIATING TEAM.

23-OCT-0014 SEC341 MONQ

REUTER

P

REUTER MONITOR 0718

23-OCT-0122 SEC366 MONR
CONTINUED FROM - NRAA

CONTINUED ON - NRBI

REUTER MONITOR 0718

REAGAN APPOINTS TASK FORCE ON STOCK MARKET NRAL
WASHINGTON, OCT 22 - PRESIDENT REAGAN SAID HE WILL APPOINT
A TASK FORCE TO EXAMINE THE WORKINGS OF THE STOCK MARKET.
IN A PREPARED STATEMENT DELIVERED AT THE BEGINNING OF HIS
TELEVISED PRESS CONFERENCE, REAGAN SAID HE WILL APPOINT FORMER
NEW JERSEY REPUBLICAN SENATOR NICHOLAS BRADY TO HEAD THE
THREE-PERSON TASK FORCE.

23-OCT-0030 SEC349 MONQ

CONTINUED ON - NRAM

P

REUTER MONITOR 0718

REAGAN APPOINTS #2 WASHINGTON NRAM
THE TASK FORCE WILL "EXAMINE STOCK MARKET PROCEDURES" AND
WILL MAKE RECOMMENDATIONS OVER THE NEXT 30 TO 60 DAYS FOR ANY
CHANGES IT BELIEVES ARE NEEDED, REAGAN SAID.
BRADY SERVED BRIEFLY IN THE SENATE TO FILL THE UNEXPIRED
TERM OF FORMER NEW JERSEY DEMOCRAT HARRISON WILLIAMS.
HE IS AN INVESTMENT BANKER AND MANAGING PARTNER OF DILLON,
READ AND CO INC, A WALL STREET SECURITIES FIRM.

23-OCT-0040 SEC352 MONQ
CONTINUED FROM - NRAL

CONTINUED ON - NRBM

P

REUTER MONITOR 0718

REAGAN APPOINTS #3 WASHINGTON NRBM
REAGAN SAID HE SUPPORTED ACTIONS BY MAJOR U.S. STOCK
EXCHANGES TO CLOSE EARLY ON FRIDAY, MONDAY AND TUESDAY TO GIVE
BROKERAGE FIRMS A CHANCE TO CLEAR THE BACKLOG OF THEIR
PAPERWORK FOLLOWING THE RECORD TRADING VOLUMES OF THIS WEEK.

23-OCT-0126 SEC367 MONR
CONTINUED FROM - NRAM

REUTER

P

REUTER MONITOR 0718

BUDGET DEFICIT STANDS AT 148 BILLION DLRS NRNZ
 WASHINGTON, OCT 22 - PRESIDENT REAGAN SAID THE BUDGET
 DEFICIT IN THE FISCAL YEAR ENDED SEPTEMBER 30 WAS 148 BILLION
 DLRS, DOWN 73 BILLION DLRS FROM 221 BILLION DLRS A YEAR
 EARLIER.

HE TOLD A PRESS CONFERENCE THAT THE IMPROVEMENT OCCURRED
 NOT ONLY BECAUSE OF A ONE TIME INCREASE IN REVENUE BUT BECAUSE
 OF A REDUCTION IN SPENDING.

REAGAN ALSO SAID HE WILL MEET WITH CONGRESSIONAL LEADERS TO
 NEGOTIATE A BUDGET ACCORD IN RESPONSE TO THE STOCK MARKET
 SLIDE.

23-OCT-0017 SEC343 MONQ

CONTINUED ON - NRAA

P

REUTER MONITOR 0718

BUDGET DEFICIT STANDS =2 WASHINGTON NRAA
 THE DOW JONES INDUSTRIAL AVERAGE FELL A RECORD 508 POINTS
 ON MONDAY TO CLOSE AT 1,738.74 POINTS. ITS PERCENTAGE DECLINE
 WAS NEARLY TWICE THAT WHICH OCCURRED ON OCTOBER 28, 1929,
 GENERALLY REGARDED AS THE START OF THE GREAT DEPRESSION.

"WE SHOULDN'T ASSUME THE STOCK MARKET'S EXCESS VOLATILITY
 IS OVER. HOWEVER, IT DOES APPEAR THE SYSTEM IS WORKING," REAGAN
 SAID.

HE ALSO SAID A PUBLIC PANIC OVER THE STOCK DECLINE COULD
 PRECIPITATE A RECESSION IF AMERICANS DECIDED IT WAS REASON TO
 DELAY SPENDING. BUT HE ADDED, "I DON'T THINK THERE IS ANY REAL
 REASON FOR THAT."

23-OCT-0023 SEC346 MONQ

CONTINUED ON - NRBH

CONTINUED FROM - NRNZ

P

REUTER MONITOR 0718

BUDGET DEFICIT STANDS =3 WASHINGTON NRBH
 "I THINK THAT THIS (THE MARKET DECLINE) WAS A LONG OVERDUE
 CORRECTION," REAGAN SAID.

"THIS IS, I THINK, PURELY A STOCK MARKET THING AND THERE
 ARE NO INDICATORS OUT THERE OF RECESSION OR HARD TIMES AT ALL,"
 HE SAID.

23-OCT-0159 MON003 MONA
CONTINUED FROM - NRBO
P

REUTER

REUTER MONITOR

0718

CORRECTED - REAGAN SAYS TAX RISE SHOULD NOT HURT NRAF
WASHINGTON, OCT 22 - PRESIDENT REAGAN SAID THE WHITE HOUSE
AND CONGRESS WILL LOOK FOR 23 BILLION DOLLARS IN DEFICIT CUTS
FOR FISCAL 1988 AND SAID THAT ANY TAX INCREASE SHOULD NOT HAVE
ANY ADVERSE EFFECT ON THE ECONOMY.

"THEY MUST NOT BE SOMETHING THAT HAS AN ADVERSE EFFECT ON
THE ECONOMY," REAGAN TOLD A NATIONALLY TELEVISED NEWS
CONFERENCE.

REAGAN SAID HE WOULD NOT DISCUSS IN PUBLIC WHAT HIS
STRATEGY WILL BE IN THE UPCOMING DEFICIT REDUCTION TALKS WITH
CONGRESS.

(CORRECTS FISCAL YEAR IN FIRST PARAGRAPH).

23-OCT-0059 SEC357 MONQ

CONTINUED ON - NRBF

P

REUTER MONITOR

0718

REAGAN SAYS TAX RISE #2 WASHINGTON

NRBF

REAGAN SAID HIS BASIC OPPOSITION TO TAXES REMAINS.

WHILE REFUSING TO DISCLOSE WHAT SPECIFIC TAX OPTIONS HE
WOULD ACCEPT, HE SAID HE WOULD FAVOR CHARGING FEES TO USERS OF
GOVERNMENT SERVICES OVER A GENERAL TAX INCREASE.

"THERE ARE MANY REVENUE SOURCES THAT WE POINTED OUT,"
REAGAN SAID.

THE ADMINISTRATION'S FISCAL 1988 BUDGET PROPOSAL HAD
INCLUDED A NUMBER OF PROPOSED USER FEES, WHICH WERE REJECTED BY
CONGRESS, THAT WERE TO HAVE RAISED 3.2 BILLION DLRS.

23-OCT-0115 SEC363 MONR
CONTINUED FROM - NRAF

CONTINUED ON - NRBG

P

REUTER MONITOR

0718

REAGAN SAYS TAX RISE #3 WASHINGTON

NRBG

"I'M IN FAVOR OF PAY FOR SERVICES. I DON'T THINK THAT THE
TAXPAYERS SHOULD PAY FOR THAT SERVICE WHEN IT IS LIMITED TO ONE
PARTICULAR GROUP. THEY SHOULD PAY A FEE FOR THAT SERVICE,"
REAGAN SAID.

HE SAID HE STILL BELIEVED THAT "TAXING IS WHAT BROUGHT ON
THE TROUBLES THAT WE HAD WHEN I CAME HERE."

CONFIDENTIAL - MARKET SENSITIVE

FROM: MRS R LOMAX
 DATE: 23 October 1987

NOTE FOR THE RECORD

cc: PPS
 PS/Financial Secretary
 PS/Economic Secretary
 Sir P Middleton
 Mr Cassell
 Mr Monck
 Mr D Moore
 Mr Ilett
 Mr Board

STOCK MARKET: MORNING REPORT

This note records a telephone conversation with Brian Quinn at 8.45 am this morning.

2. Brian Quinn has been in touch with the Fed in Washington and New York. On Wednesday evening the Fed had told him that they had spoken to all the major firms involved in the overseas tranche of the BP issue. Losses then in prospect were well within their capacity to absorb. Yesterday Brian Quinn told his Fed contact that there were reports at this end that if the BP issue were not pulled, the US securities houses involved in the issue would find themselves with a severe liquidity problem. As a result his Fed contact spoke to the US Treasury, and rang back "with a different tone in his voice" saying that, "there might be something there", but it was a matter of market psychology rather than the scale of the prospective underwriting losses. The tone in the market was very jumpy, and the BP overhang was a factor in that. But the Fed were still making enquiries, and trying to get a proper appreciation of the situation. At this stage, the Fed did not want to commit itself in one way or the other. It was agreed that the Bank and the Fed would stay in very close touch.

3. On the facts, Brian Quinn's understanding is that each of the US underwriters has exposure of the order of \$120 million (give or take) all booked in New York, not London. As a rough rule of thumb, every 10p that the BP price falls below 310p

means a loss of about \$20 million per house. As of last night, therefore, the houses were individually looking at losses of around \$60 million each - which is not very large, in relation to the size of the institutions.

4. The judgement that the main problem was confidence was subject to two caveats: it was conceivable that one or more of the houses had suffered significant losses in consequence of other stock market transactions, and it might be that market worries were creating funding problems for at least some of the institutions. On the latter point, information at the London end suggests that one \$½ billion line was pulled, but subsequently reinstated. The Bank thought that a number of London institutions were looking very carefully at their exposure to US institutions and might ^{allow} ~~show~~ some funding to run off. But extensive or persistent questioning on this subject is tricky, for obvious reasons. There was no suggestion of any funding problems in New York.

5. On the general market situation, Brian Quinn noted that liquidity was not a problem, either in New York or London. A number of fairly unrelated factors had combined to unsettle sentiment on Thursday: the collapse of the Japanese warrant market, the bankruptcy of a number of Dutch market makers, the Iranian bombing, and market rumours that large institutional investors had started to sell. The gilt market had been strong. Ultimately market worries focused on US policy, rather than the UK.

6. We touched briefly on the Hong Kong situation. Information was very scanty, but there must be a risk of big losses, affecting the London market. So far, however, the Bank is not aware of any difficulty at James Capel.

7. In short, the general picture was much as on Wednesday evening; no real distress signals anywhere, though one or two cases of parent institutions providing extra capital for their securities subsidiaries.

RL

RACHEL LOMAX

CONFIDENTIAL - MARKET SENSITIVE

FROM: MRS R LOMAX
 DATE: 23 October 1987

PS/FST

PRINCIPAL PRIVATE SECRETARY

cc: PS/Economic Secretary
 Sir P Middleton
 Mr Cassell
 Mr Monck
 Mr D Moore
 Mr Ilett
 Mr Board

Nigel

STOCK MARKET: EVENING REPORT

Brian Quinn reports a better tone to the equity market today. After opening quite sharply down, the FTSE 100 recovered, and then stayed fairly steady at 40 points off. Business was reasonably two-way, and "elements of stability" crept back into the situation. BP closed around 285, up from a low of 257.

2. On the institutional front, there was less nervousness all round. There are still a couple of peripheral traders in options and futures who are "fairly close to the wire", but they are being kept afloat by lending from the clearers for the time being. And they are small players, one in Birmingham and one in London.

3. There is a better tone in New York too. The Fed describe the situation as "pretty stable". On the whole the Fed are more comfortable, but there are still one or two institutions (notably E F Hutton) about whom they are "not as comfortable as they would like to be". They still do not have "a clear fix" on how worried they ought to be about the US investment banks involved in the BP issue. There is evident concern about how events will unfold in Hong Kong. In Chicago, there seems to have been some problem with an options trading subsidiary of Continental Illinois, which has been resolved with the parent putting in capital.

4. The New York Stock Exchange closed early today, and will do so again on Monday and Tuesday. In both New York and London there will be weekend working to catch up with paperwork. I have not formally heard the outcome of the Bank's discussions with the London Stock Exchange about whether they should also close early next week: the impression I got from Brian Quinn is that this is unlikely to happen.

5. In general, then, the Bank is not aware of any systemic risks or difficulties either in New York or London, on the information now available to it. They are keeping a particularly close watch on US houses in London, and as far as they can tell, there has been no further "line cutting" in the inter-bank market. As for Stock Exchange member firms, a number of foreign-owned institutions have needed to top up their capital, to meet Stock Exchange requirements - the sums involved being of the order of £30 million. Somewhat smaller amounts have been put up by the clearing banks, on behalf of their securities subsidiaries. On the whole the Bank's impression is that the market makers have weathered this storm quite well: and as the week has gone on, and they have managed to square their books, their ability to cope has improved. So far, so good.

RL

RACHEL LOMAX

Chancellor's office 12/2

RD

23/10/87.

Please note Correction at X.

1. Mr Tawes for note X!
2. se return Cathy Ludin

RP

John Widlake: Chancellor, how would you summarise last week?

Chancellor. I think Mr Ross Goobey's summary which I have just been listening to is pretty accurate. It has been a correction in the market ~~that repeatedly~~ ^{which rapidly} nobody expected. I think that most people thought that equities had got very high, that shares had got very high, and they had been going higher steadily year after year and there was bound to be some fall back, but this has gone further and faster, certainly faster than anybody was expecting. I think it has had an adverse effect on confidence which has now got to be restored because there is no reason why confidence should be weak, certainly not in Britain where the British economy is very sound and very strong, but I believe that the world economy generally despite the undoubted problems of the United States, the world economy is in fairly good shape.

Brian Widlake. Do you think that we are now out of the wood bar a few hiccups?

Chancellor. No, I think it's impossible to say that because when you have these wild swings in markets they can always overshoot and it is very difficult to say how far they can overshoot. We saw this in the foreign exchange markets, with the dollar in the not so recent past. But what I do say is that the fundamental conditions are sound, the economies are sound, and what is also striking throughout this week is that the difficulties have been confined exclusively to the share market; there has been no trouble as we had some past periods in the foreign exchange markets and no problems at all in the bond market and the gilt edged market.

Brian Widlake. We've seen the Midland and Barclays cut base rate by ½ per cent this morning. Did you do that to allay any fears of any interest rate increases and therefore more gloom in the market?

Chancellor. No, not at all, I did it because I thought that in the circumstances, in the light of current conditions, that was the right thing to do.

EQUITY INDICES

(closing, except where indicated)

	Closing Index level	Change on previous close points %	Change on Thursday close points %	Change on 1987 peak points %	Change on 1987 previous low points %
NEW YORK					
(Dow Jones Industrial)			(2722 on 25/8)		(1927 on 2/1)
Thursday 15	2355				
Friday 16	2247	-108 - 4.6			
Monday 19	1739	-508 -22.6	-616 -26.2	-983 -36	-189 -10
Tuesday 20	1841	+102 + 5.9	-514 -21.8	-881 -32	- 86 - 4
Wednesday 21	2028	+187 +10.2	-327 -13.9	-694 -25	+101 + 5
Thursday 22	1950	- 77 - 3.8	-405 -17.2	-772 -28	+ 23 + 1
Friday 23	1952	+ 1 -	-403 -17.1	-770 -28	- 25 + 1
Monday 26	1794	-158 - 8.1	-561 -23.8	-928 -34	-133 -6.9
Tuesday 27	1846	+52 +2.9	-509 -21.6	-876 -32	-81 -4.2
Wednesday 28 (5.30pm)	1846	+0 +0.0	-509 -21.6	-876 -32	-81 -4.2
Thursday 29					
LONDON					
(FSTE 100)			(2449 on 16/6)		(1798 on 29/1)
Thursday 15	2302				
Friday 16	-				
Monday 19	2052	-250 -10.9			
Tuesday 20	1802	-251 -12.2	-501 -21.7	-647 -26	+ 4 -
Wednesday 21	1944	+142 + 7.8	-358 -15.6	-505 -21	+146 + 8
Thursday 22	1833	-110 - 5.6	-469 -20.4	-616 -25	+ 35 + 2
Friday 23	1795	- 38 - 2.1	-507 -22.0	-654 -27	- 3 -
Monday 26	1684	-111 - 6.2	-618 -26.8	-765 -31	-114 - 6
Tuesday 27 (1.15)	1704	+ 20 + 1.0	-605 -26.0	-752 -30	-101 -5.0
Wednesday 28	1658	-46 -2.7	-644 -28.0	-791 -32	-140 -7.8
Thursday 29					

	Index level	Change on previous close		Change on Thursday 15 close		Change on 1987 peak		Change on 1987 previous low	
		points	%	points	%	points	%	points	%
TOKYO									
(Nikkei Dow)						(26646 on 14/10)		(18544 on 13/1)	
Thursday 15	26428								
Friday 16	26367	- 61	- 0.2						
Monday 19	25746	- 620	- 2.4	- 681	- 2.6				
Tuesday 20	21910	-3836	-14.9	-4517	-17.1	-4736	-18	+3366	-18
Wednesday 21	23947	+2037	+ 9.3	-2480	- 9.4	-2699	-10	+5403	+29
Thursday 22	24404	+ 457	+ 1.9	-2024	- 7.7	-2242	- 8	-5860	+32
Friday 23	23201	-1203	- 4.9	-3227	-12.2	-3445	-13	+4657	+25
Monday 26	22203	- 998	- 4.3	-4225	-16.0	-4443	-17	+3659	+20
Tuesday 27	22835	+ 632	- 2.8	-3593	-13.6	-3811	-14	+4291	+23
Wednesday 28	22578	-257	- 1.1	-3850	-14.6	-4068	- 15	+4034	+22
Thursday 29	22033	-5445	-2.4	-4395	-16.6	-4613	-17	+3489	+19

Wall St -232
 W- -262

EQUITY INDICES

(closing, except where indicated)

Index level	Change on previous close		Change on Thursday 15 close		Change on 1987 peak		Change on 1987 previous low		
	points	%	points	%	points	%	points	%	
NEW YORK									
(Dow Jones Industrial)					(2722 on 25/8)		(1927 on 2/1)		
Thursday 15	2355								
Friday 16	2247	-108	-4.6						
Monday 19	1738	-508	-22.6	-616	-26.2	-984	-36%	-189	-10%
Tuesday 20	1841	+102	+5.9	-514	-21.8	-881	-32%	-86	-4%
Wednesday 21	2028	+187	+10.2	-327	-13.9	-694	-25%	+101	+5%
Thursday 22	1950	-77	-3.8	-405	-17.2	-772	-28%	+23	+1%
Friday 23	1952	+1	-	-403	-17.1	-770	-28%	+25	+1%
Monday 26	1794	-158	-8.1	-561	-23.8	-928	-34%	-133	-7%
Tuesday 27									
Wednesday 28									
Thursday 29									
LONDON									
(FSTE 100)					(2449 on 16/6)		(1798 on 29/1)		
Thursday 15	2302								
Friday 16	-								
Monday 19	2052	-250	-10.9						
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Wednesday 21	1944	+142	+7.8	-358	-15.6	-505	-21%	+146	+8%
Thursday 22	1833	-110	-5.6	-469	-20.4	-616	-25%	+35	+2%
Friday 23	1795	-38	-2.1	-507	-22.0	-654	-27%	-3	-
Monday 26	1684	-111	-6.2	-618	-26.8	-765	-31%	-114	-6%
Tuesday 27									
Wednesday 28									
Thursday 29									

WU -572

✓

	Index level	Change on previous close		Change on Thursday 15 close		Change on 1987 peak		Change on 1987 previous low	
		points	%	points	%	points	%	points	%
TOKYO									
(Nikkei Dow)						(26646 on 14/10)		(18544 on 13/1)	
Thursday 15	26423								
Friday 16	26367	-61	-0.2						
Monday 19	25746	-620	-2.4	-681	-2.6				
Tuesday 20	21910	-3836	-14.9	-4517	-17.1	-4736	-18%	+3366	+18%
Wednesday 21	23947	+2037	+9.3	-2480	-9.4	-2699	-10%	+5403	+29%
Thursday 22	24404	+457	+1.9	-2024	-7.7	-2242	-8%	+5860	+32%
Friday 23	23201	-1203	-4.9	-3227	-12.2	-3445	-13%	+4657	+25%
Monday 26	22203	-998	-4.3	-4225	-16.0	-4443	-17%	+3659	+20%
Tuesday 27	22835	+632	+2.8	-3593	-13.6	-3811	-14%	+4291	+23%

EQUITY INDICES

(closing, except where indicated)

Page

Index level	Change on previous close		Change on Thursday 15 close		Change on 1987 peak		Change on 1987 previous low		
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Thursday 22	1950	-77	-3.8	-405	-17.2	-772	-28%	+23	+1%
Friday 23	1952	+1	-	-403	-17.1	-770	-28%	+25	+1%
Monday 26	1794	-158	-8.1	-561	-23.8	-928	-34%	-133	-7%
Tuesday 27	1846	+52	+2.9	-509	-21.6	-876	-32%	-81	-4.2%
Wednesday 28	1846	+0	+0	-509	-21.6	-876	-32%	-81	-4.2%
Thursday 29									
LONDON									
(FSTE 100)							(2449 on 16/6)	(1798 on 29/1)	
Thursday 15	2302								
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Monday 19	2052	-250	-10.9						
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Friday 23	1795	-38	-2.1	-507	-22.0	-654	-27%	-3	-
Monday 26	1684	-111	-6.2	-618	-26.8	-765	-31%	-114	-6%
Tuesday 27	1704	+20	+0.9	-598	-26.0	-745	-30%	-94	-5.2%
Wednesday 28	1658	-46	-2.7	-644	-28.0	-791	-32%	-140	-7.8%
Thursday 29 (noon)	1678	+20	+1.2	-624	-27.1	-771	-31%	-120	-6.7%
(2pm)	1672	+14	+0.8	-630	-27.4	-777	-32%	-126	-7.0%

Index level	Change on previous close		Change on Thursday 15 close		Change on 1987 peak		Change on 1987 previous low	
	points	%	points	%	points	%	points	%
TOKYO								
(Nikkei Dow)							(26646 on 14/10)	(18544 on 13/1)
Thursday 15	26428							
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Tuesday 20	21910	-3836	-14.9	-4517	-17.1	-4736	-18%	+3366 +18%
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Monday 26	22203	-998	-4.3	-4225	-16.0	-4443	-17%	+3659 +20%
Tuesday 27	22835	+632	+2.8	-3593	-13.6	-3811	-14%	+4291 +23%
Wednesday 28	22578	-257	-1.1	-3850	-14.6	-4068	-15%	+4034 +22%
Thursday 29	22033	-545	-2.4	-4395	-16.6	-4613	-17%	+3489 +19%

The peak price was 416p (on 7 July this year). The low this year was 238p (on 2 January). The share price over the last 10 days is as follows:

		<u>BP</u>
Wednesday	7 Oct	369
	8 Oct	367
	9 Oct	363
Monday	12 Oct	362
	13 Oct	362
	14 Oct	351
	15 Oct	349
	16 Oct	350
Monday	19 Oct	317
	20 Oct	286
	21 Oct	299
	22 Oct	280
	23 Oct	287
Monday	26 Oct	266
	27 Oct	260
	28 Oct	254
Thursday	29 Oct	
	(noon)	264
	(2pm)	262

PRIVATISATION ISSUES

(Fully paid prices except where indicated)

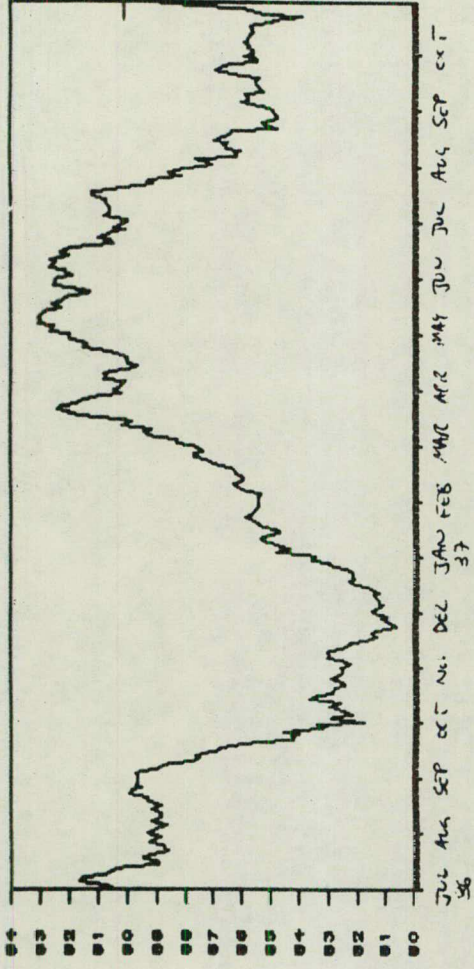
	Issue Date	Issue Price	Peak Price	Thursday close (18/10)	Wednesday 28 (% change on issue price)	Thursday (noon)
Jaguar	August 1984	165	626	578	286(+73)	299 299
BT	November 1984	130	336	261	229(+76)	234 233
British Gas	December 1986	135	200	168	137(+1)	146 145
British Airways	February 1987	125	235	219	140(+12)	138 136
Rolls Royce	May 1987	170	240	206	125(-26)	125 122
BAA (*)	July 1987	100	152	151	107(+7)	105 103
BP					254	

(* partly paid, fixed price offer)

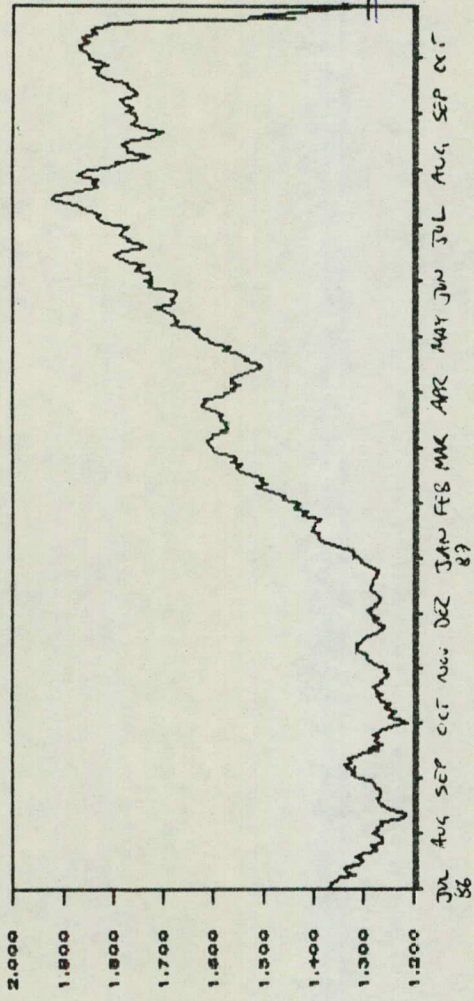
EXCHANGE RATES
(London close, except where indicated)

	\$/£	\$/DM	DM/£	Y/\$
Thursday 15	1.6650	1.7990	2.9953	142.00
Friday 16	1.6645	1.8005	2.9969	142.70
Monday 19	1.6865	1.7718	2.9881	141.30
Tuesday 20	1.6560	1.8060	2.9907	143.75
Wednesday 21	1.6532	1.8100	2.9923	143.90
Thursday 22	1.6522	1.8105	2.9913	144.30
Friday 23	1.6605	1.8032	2.9942	143.55
Monday 26	1.6910	1.7725	2.9973	141.85
Tuesday 27	1.6930	1.7692	2.9953	141.80
Wednesday 28	1.7120	1.7505	2.9969	139.05
Thursday 29	1.7202	1.7350	2.9863	138.50

CLOSE 26-10-87
90.1 (noon)
(apm)

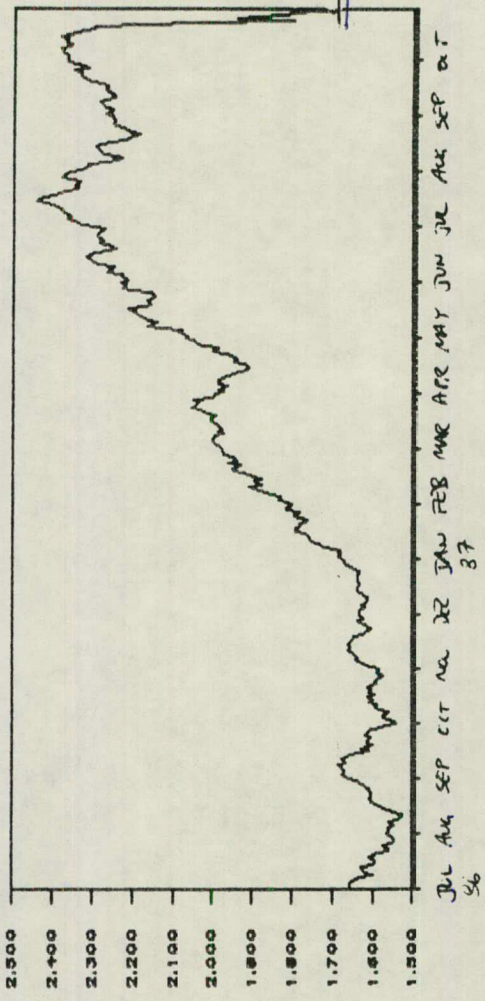


Ordinary Share Index



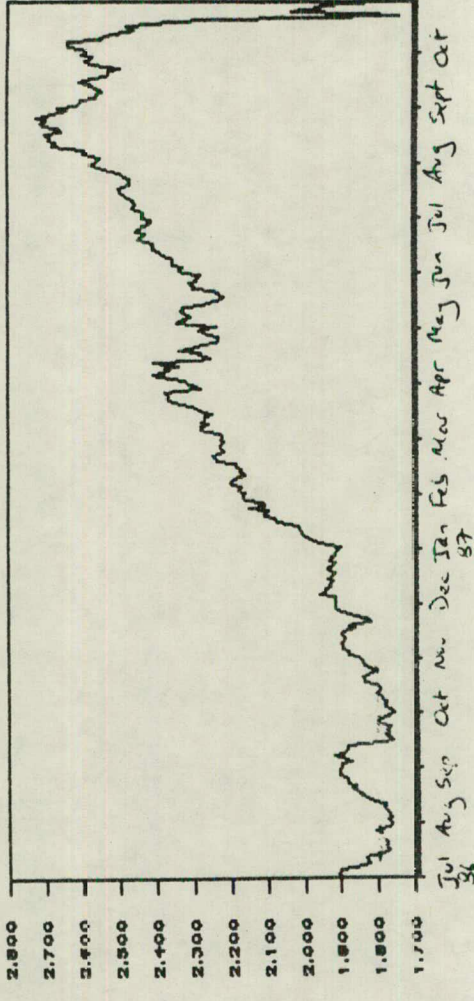
1898.9 (noon)
1892 (apm)

FTSE 100

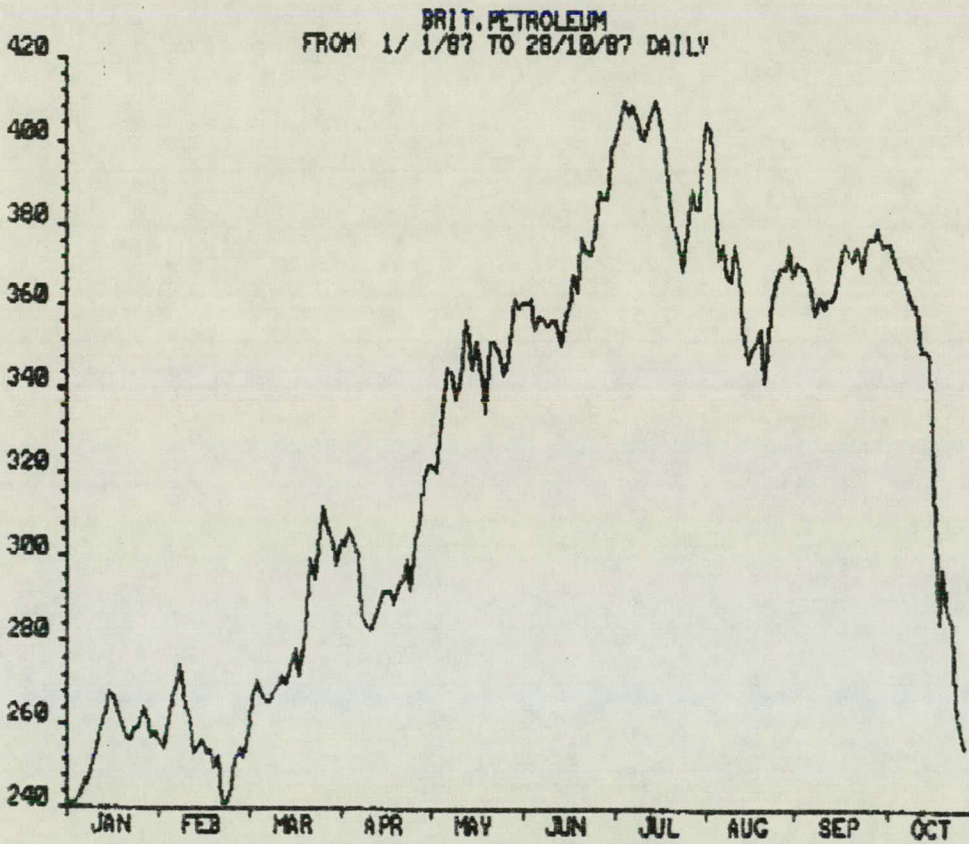


1678 (noon)
1673 (apm)

Dow-Jones Industrial Index



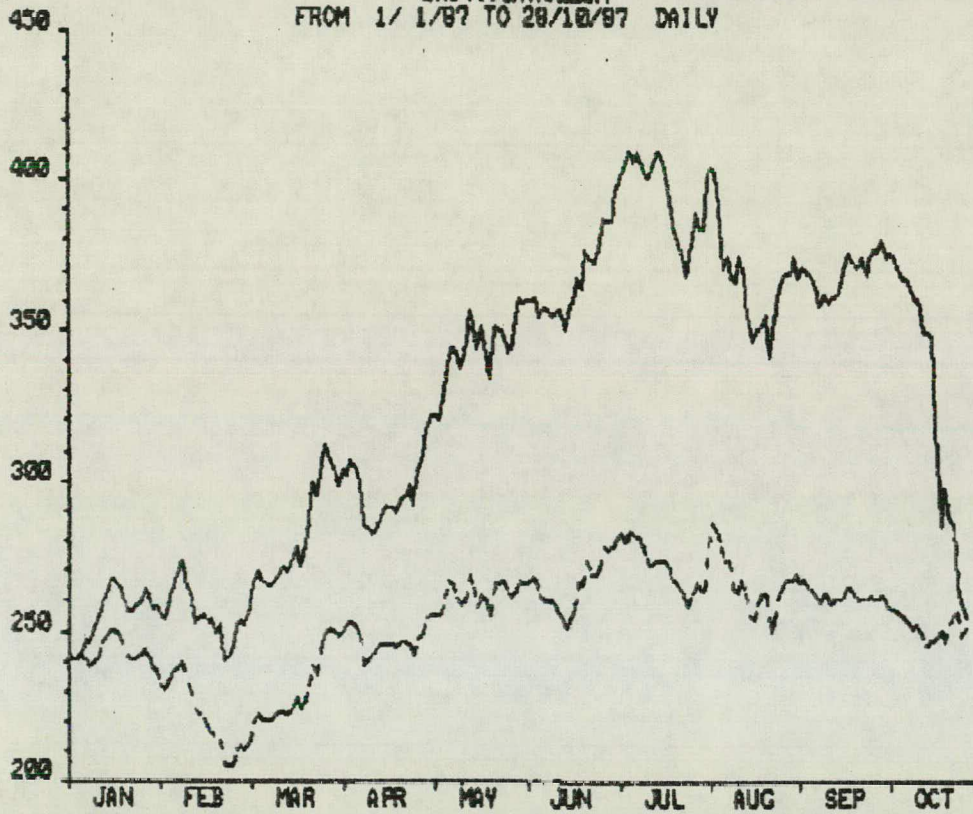
cc BP circulation
Mr Heywood
Mrs Ryding
Mr Blower



HIGH 410.00 7/ 7/87 LOW 240.67 2/ 1/87 LAST 255.00

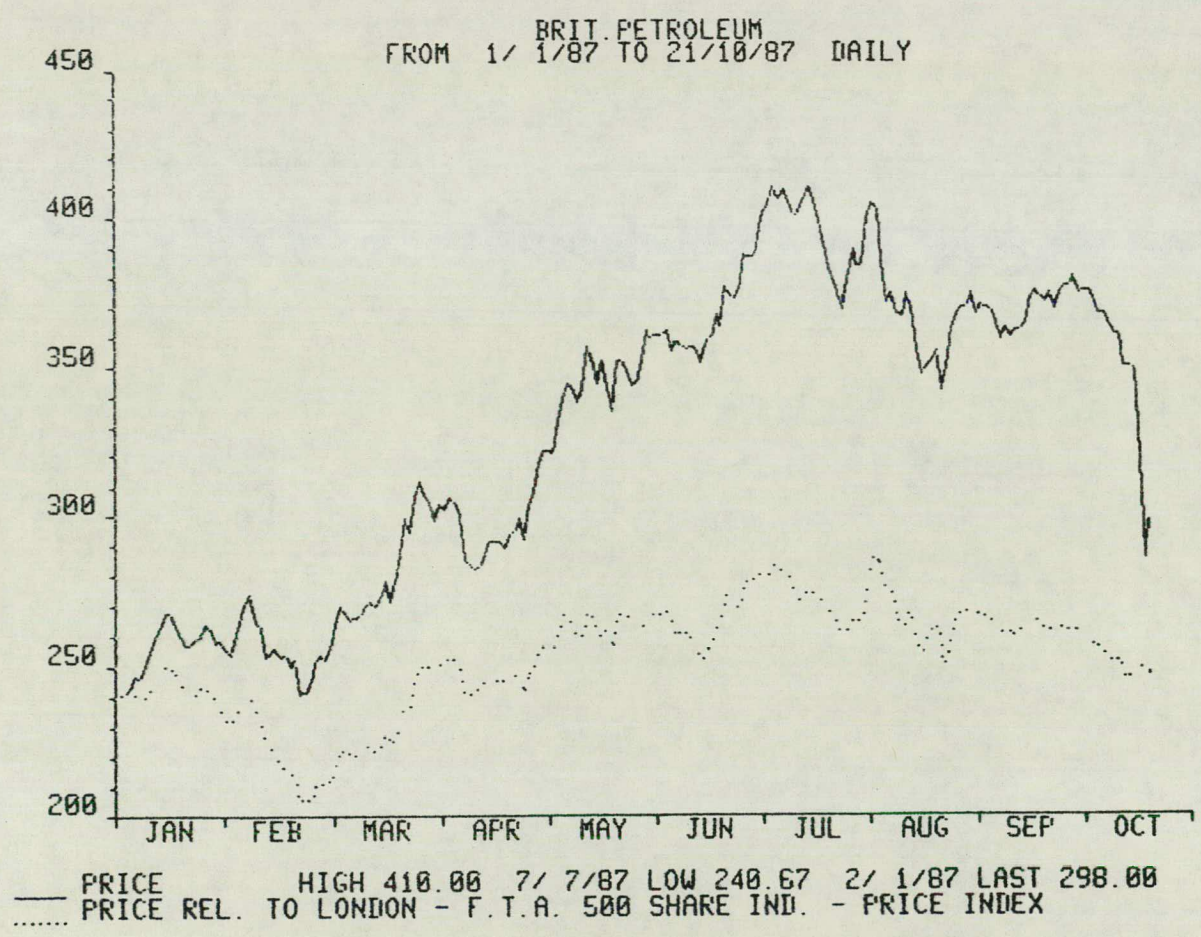
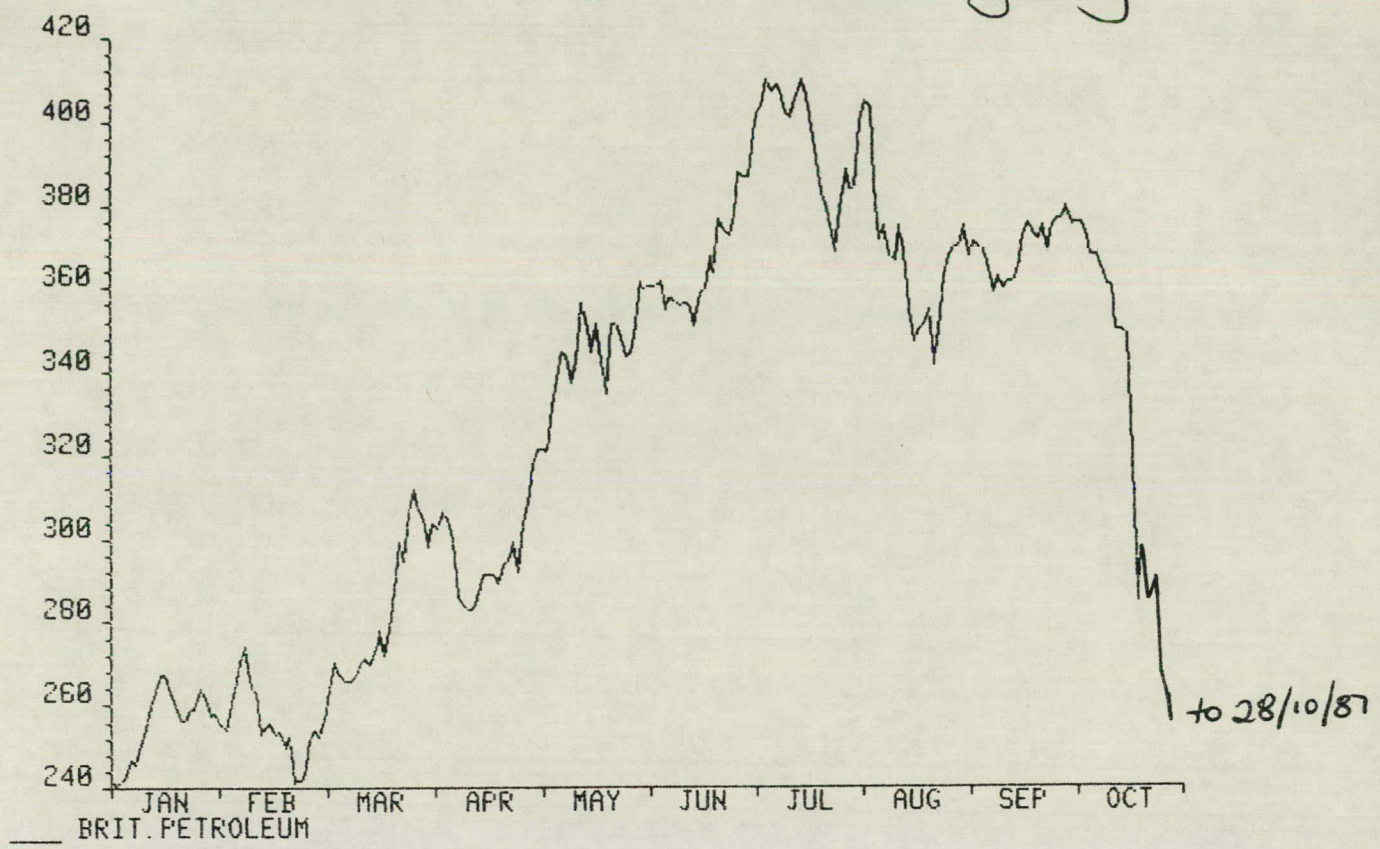


BRIT. PETROLEUM
FROM 1/ 1/87 TO 28/10/87 DAILY



— PRICE HIGH 418.00 7/ 7/87 LOW 240.67 2/ 1/87 LAST 255.00
 PRICE REL. TO LONDON - F.T.A. 500 SHARE IND. - PRICE INDEX

cc Mr Heywood
Ms Ryding



231133Z

LNMDAN 5947 HMLNAN 0887
CONFIDENTIAL
ZZ FCOLN
FM HOKON TO FCOLN
231110Z OCT
GRS 747

CONFIDENTIAL
FM HONG KONG
TO FLASH FCO
TELNO 4034
OF 231110Z OCTOBER 87

STRICTLY PERSONAL FOR HUM, HKD
FROM DEPUTY TO THE GOVERNOR (HONG KONG)

CLOSURE OF STOCK MARKET AND FUTURES MARKET

QUOTE

THE MOOD OF THE COMMUNITY REMAINS CALM ALTHOUGH THE PRESS AND FINANCIAL INSTITUTIONS, BOTH LOCAL AND OVERSEAS, ARE KEEPING UP PRESSURE FOR A SOLUTION.

STOCK MARKET

THE GENERAL COMMITTEE OF THE STOCK EXCHANGE OF HONG KONG UNANIMOUSLY DECIDED YESTERDAY THAT TRADING ON THE STOCK EXCHANGE WILL RESUME ON MONDAY, 26 OCTOBER. BROKERS ARE REQUIRED TO REPORT TO THE EXCHANGE BY 5 P.M. TODAY ALL UNSETTLED TRANSACTIONS. THE EXCHANGE WILL REQUIRE BROKERS TO BUY BACK SHARES IN THE MARKET ON MONDAY TO FULFIL ANY OUTSTANDING DELIVERY. BROKERS WHO FAIL TO REPORT UNSETTLED TRANSACTIONS WILL BE SUBJECT TO DISCIPLINARY ACTION. AS AN EMERGENCY MEASURE, BROKERS ARE ALLOWED TO CONTINUE SETTLEMENT AND DELIVERY UP TO 12 NOON, 24 OCTOBER (SATURDAY) TO HELP CLEAR UP THE BACKLOG. THERE HAS BEEN SOME REPORTED TRADING IN THE GREY MARKET.

FUTURES EXCHANGE

THE PROBLEM FACING THE HONG KONG FUTURES EXCHANGE IS NOW WIDELY KNOWN AND MAKES THE HEADLINES TODAY. WE ISSUED A SHORT STATEMENT YESTERDAY TO THE EFFECT THAT "IN VIEW OF THE IMPORTANCE OF THE ISSUES INVOLVED, THE GOVERNMENT HAS ENGAGED THE HAMBROS BANK LTD., ONE OF THE LEADING LONDON MERCHANT BANKS, TO ACT AS GOVERNMENT'S ADVISER IN THIS MATTER".

WE ARE TAKING THE PUBLIC LINE THAT "THIS IS A VERY COMPLEX AND URGENT MATTER AND HAMBROS HAS BEEN ENGAGED TO LOOK INTO IT. WE WOULD NOT WISH TO MAKE ANY COMMENT AT THIS STAGE UNTIL WE HAVE CONSIDERED THE ADVICE OF HAMBROS".

HAMBROS IS MEDIATING BETWEEN THE TWO GROUPS REFERRED TO IN MY TELNO 17 OF 22 OCTOBER, I.E. THE "LONGS" LED BY KIM CHAM AND RONALD LI, AND THE "SHORTS" LED BY THE HONG KONG BANK GROUP, TO FIND AN ACCEPTABLE SOLUTION.

HONG
KONG
TEL.
4034
23/10

KIM CHAN PRESENTED AN ALTERNATIVE SOLUTION THIS MORNING, WHICH GOES A LITTLE WAY TOWARDS MEETING THE "SHORTS", BUT THE GAP IS STILL SUBSTANTIAL.

EXECUTIVE COUNCIL

EXCO CONSIDERED THE PRESENT POSITION AT A SPECIAL MEETING THIS MORNING. PURVES HAVING DECLARED HIS INTEREST ARGUED STRONGLY AGAINST CLOSING OUT. OTHERS WERE FOR A COMPROMISE SOLUTION WITH A VIEW TO A RETURN TO AN ORDERLY MARKET, RECOGNISING THAT WHATEVER IS DONE OR NOT DONE, SOME PEOPLE WOULD GET HURT, THAT THE MOST WE COULD AIM FOR NOW IS DAMAGE LIMITATION, AND THAT WHAT WAS AT STAKE WAS HONG KONG'S STATUS AS AN INTERNATIONAL FINANCIAL CENTRE. THE OPTION OF EXCHANGE FUND INTERVENTION WAS ALSO DISCUSSED. MEMBERS WERE CONCERNED IN THE POLITICAL IMPLICATIONS OF THE FUND BEING USED TO "PROP UP" SPECULATORS. AS THERE HAS NOW BEEN SOME FEED THROUGH INTO THE FOREIGN EXCHANGE MARKETS WHICH REQUIRED INTERVENTION, THE LEGAL DIFFICULTIES OF USING THE EXCHANGE FUND WHICH WE REFERRED TO YESTERDAY ARE REDUCED SEMI-COLON THE POLITICAL ONES REMAIN. NEVERTHELESS, IT IS BECOMING INCREASINGLY CLEAR, AND THIS IS CONFIRMED BY HAMBROS, THAT ANY PACKAGE WITHOUT SOME GOVERNMENT PARTICIPATION IS UNLIKELY TO SUCCEED. EXCO WILL OF COURSE BE CONSULTED BEFORE ANY FINAL DECISION IS TAKEN.

ASSESSMENT

IT IS LIKELY THAT ANY SOLUTION WILL ONLY STAND A CHANCE OF SUCCESS IF THE STOCK MARKET DOES NOT PLUNGE WHEN IT REOPENS ON MONDAY. THAT IN TURN PARTLY DEPENDS ON DEVELOPMENTS IN OTHER MAJOR STOCK MARKETS. THE ACTIVITIES IN WALL STREET YESTERDAY AND TOKYO THIS MORNING ARE NOT ENCOURAGING. ON THE ONE HAND, IF WORLD MARKETS BECOME MORE STABLE THERE ARE PROSPECTS THAT SOME OF THE MAJOR LOCAL INVESTORS WILL PUT MONEY INTO THE MARKET WHEN IT OPENS IN A VISIBLE AND SUPPORTIVE MANNER (K S LI HAS ALREADY VOLUNTEERED) BUT THE PROSPECTS ARE NOT ALL THAT GOOD.

AS INDICATED ABOVE, IT MAY BE NECESSARY FOR THE EXCHANGE FUND TO GIVE ENCOURAGEMENT TO THE BIG PLAYERS BY PUTTING UP FUNDS EITHER TOWARDS A RECAPITALISED GUARANTEE CORPORATION OR TO BUY BLUE CHIP SHARES IN THE MARKET ON MONDAY IN SUPPORT OF THE LOCAL INVESTORS. IN EITHER CASE, WE WOULD SEE OUR CONTRIBUTION AS MORE AN EARNEST OF INTENT SO AS TO GIVE PSYCHOLOGICAL AND MORAL SUPPORT THAN AS A SIGNIFICANT PORTION OF THE PACKAGE. A SUM OF UP TO HK DOLLARS 1,000 MILLION IN TOTAL WOULD BE AS MUCH AS WE FEEL WE COULD COMMIT AND WE WOULD HOPE TO LIMIT IT TO A SMALLER FIGURE.

BOTH COURSES WOULD REQUIRE THE APPROVAL OF THE SECRETARY OF STATE UNDER SECTION 3(3) OF THE EXCHANGE FUND ORDINANCE. AS A CONTINGENCY, I SHOULD BE GRATEFUL IF YOU COULD OBTAIN THE NECESSARY APPROVAL IN PRINCIPLE AND REPLY BEFORE THE WEEKEND IF POSSIBLE BUT IN ANY CASE NOT LATER THAN 241100Z.

UNQUOTE

FORD

YYYY

231102Z
PERSONAL FOR MR HUM HKD
LNMDAN 5925 HMLNAN 0885
UNCLASSIFIED
ZZ FCOLN
FM HOKON TO FCOLN
231045Z OCT
GRS 372

UNCLASSIFIED
FM HONG KONG
TO FLASH FCO
TELNO 4033
OF 231045Z OCTOBER 87

STRICTLY PERSONAL FOR HUM, HKD
FROM DEPUTY TO THE GOVERNOR *OF HONG KONG*

CLOSURE OF STOCK MARKET AND FUTURE'S MARKET

MIPT REFERS.

QUOTE

FROM FINANCIAL SECRETARY

QUESTION :

DOES THE GOVERNMENT APPROVE OF THE DECISION OF THE COMMITTEE OF THE STOCK EXCHANGE OF HONG KONG LTD TO SUSPEND TRADING ACTIVITIES ON THE EXCHANGE FOR FOUR DAYS (TUESDAY 20TH OCTOBER TO FRIDAY 23RD OCTOBER 1987 INCLUSIVE) AND, IF SO, WHAT ARE THE MAIN REASONS FOR SUCH APPROVAL AND WHY DID THE COMMISSIONER FOR SECURITIES NOT ORDER THE SUSPENSION UNDER 27 OF THE SECURITIES ORDINANCE, RATHER THAN LEAVING THE DECISION TO THE COMMITTEE OF THE STOCK EXCHANGE OF HK LTD?

REPLY :

THE GENERAL COMMITTEE OF THE HONG KONG STOCK EXCHANGE UNANIMOUSLY DECIDED YESTERDAY TO SUSPEND TRADING FOR FOUR DAYS TO ENABLE ALL OUTSTANDING TRANSACTIONS TO BE SETTLED IN ACCORDANCE WITH THE TRADING RULES OF THE EXCHANGE. THE QUESTION OF GOVERNMENT APPROVAL DOES NOT ARISE SINCE THE EXCHANGE HAS THE POWER TO TAKE SUCH ACTION UNDER ITS OWN RULES. THE GOVERNMENT WAS, HOWEVER, INFORMED IN ADVANCE OF THE PROPOSED ACTION, WHICH IT REGARDS AS A SENSIBLE RESPONSE TO THE SITUATION.

THE DECISION TO SUSPEND TRADING WAS LARGELY DETERMINED BY THE CONSIDERABLE BACKLOG OF OUTSTANDING TRANSACTIONS WHICH REQUIRE TO BE SETTLED. THIS BACKLOG RESULTED FROM THE RECENT VERY HIGH LEVEL OF TURNOVER IN THE MARKET. IT IS IMPORTANT THAT BOOKS ARE PROPERLY SQUARED BEFORE TRADING IS RESUMED PARTICULARLY AGAINST A BACKGROUND OF HIGHLY VOLATILE WORLD MARKETS. THE EXCHANGE CONSIDERS THAT IT WILL TAKE FOUR DAYS TO CLEAR THE BACKLOG. I MIGHT ADD THAT A SECONDARY BENEFIT OF THE SUSPENSION, WHICH I REGARD AS HELPFUL, IS THAT IT ALLOWS TIME FOR THE INITIAL OVER-REACTION TO EVENTS TO SUBSIDE.

THE QUESTION OF INTERVENTION BY THE COMMISSIONER FOR SECURITIES DID NOT ARISE BECAUSE THE HONG KONG STOCK EXCHANGE TOOK THE INITIATIVE OF SUSPENDING TRADING UNDER ITS OWN RULES. I THINK IT IS PREFERABLE FOR SELF REGULATORY BODIES SUCH AS THE EXCHANGE TO MAKE USE OF THEIR OWN POWERS WHERE THESE ARE AVAILABLE INSTEAD OF RESORTING TO GOVERNMENT INTERVENTION. THIS IS IN LINE WITH OUR GENERAL PHILOSOPHY TOWARDS THE FINANCIAL MARKETS IN HONG KONG.

UNQUOTE

SEE MIFT

FORD

YYYY

HMLNAN 0885

231125Z

LNMDAN 5941 HMLNAN 0886
CONFIDENTIAL
ZZ FCOLN
FM HOKON TO FCOLN
231055Z OCT
GRS 1143

CONFIDENTIAL
FM HONG KONG
TO FLASH FCO
TELNO 4032
OF 231055Z OCTOBER 87

STRICTLY PERSONAL FOR HUM, HKD
FROM DEPUTY TO THE GOVERNOR *OF HONG KONG*

CLOSURE OF STOCK MARKET AND FUTURE'S MARKET

MIPT REFERS.

QUOTE

FROM FINANCIAL SECRETARY

GENERAL

MY REPLY TO MARTIN LEE'S QUESTION IN LEGCO YESTERDAY, COPY IN MIFT, GIVES THE ADMINISTRATION'S LINE. LEGCO MEMBERS WERE CONCERNED ABOUT THE UNSATISFACTORY CLEARING SYSTEM OF THE EXCHANGE. I SAID THE EXCHANGE IS ENGAGING EXPERT ASSISTANCE TO DEVISE A FAR MORE SATISFACTORY CLEARING SYSTEM. ON THE QUESTION OF WHETHER THE FOUR-DAY CLOSURE WILL AFFECT HONG KONG'S IMAGE AS A FINANCIAL CENTRE, I MADE THE POINT THAT THE EVENTS OF THE PAST FEW DAYS WILL HAVE AN EFFECT WORLDWIDE ON INVESTORS' CONFIDENCE FOR SOME TIME TO COME BUT I DID NOT BELIEVE THAT HONG KONG WOULD SUFFER ANY MORE THAN OTHER MAJOR CENTRES. ON THE POSSIBILITY OF EARLY REOPENING OF THE EXCHANGE, OUR LEGAL ADVICE IS THAT GOVERNMENT HAS NO POWER TO INTERVENE TO REQUIRE THE EXCHANGE TO BE REOPENED EARLIER. THERE ARE ALSO NO RESTRICTIONS ON THE POWER OF THE EXCHANGE TO CLOSE, OTHER THAN THEIR OWN RULES.

2. BECAUSE OF SEVERE DROPS IN WORLD MARKETS ON TUESDAY, I BELIEVE THERE IS NOW GENERAL SUPPORT FOR THE DECISION TO SUSPEND TRADING ALTHOUGH THERE ARE OTHERS AIRING STRONGLY THE OPPOSITE VIEW.

3. WHEN THE MARKET WAS SUSPENDED ON TUESDAY, THERE WAS A RUSH OF UNIT TRUST HOLDERS TO REDEEM THEIR HOLDINGS. HOWEVER, THERE WERE NO DISORDERLY INCIDENTS. THE UNIT TRUSTS (EXCEPT ONE) VERY QUICKLY ANNOUNCED THAT THEY WOULD NOT REDEEM UNITS INVESTING IN HONG KONG STOCKS WHILE THE STOCK MARKET REMAINED CLOSED BECAUSE THEY WERE UNABLE TO QUOTE PRICES.

4. THERE WERE REPORTED ACTIVITIES IN THE GREY MARKET. AS OF YESTERDAY, TRADING WAS REPORTED TO BE AT PRICES AT 20-25 PERCENT, OR ABOUT 800 POINTS IN TERMS OF THE HANG SENG INDEX, BELOW MONDAY CLOSING. ACCORDING TO MARKET SOURCES, SOME BIG LOCAL PLAYERS INCLUDING K S LI WERE REPORTED TO BE BUYING AS A SIGN OF SUPPORT, MAINLY FROM UNIT TRUSTS TO ENABLE THEM TO MEET REDEMPTION

DEMANDS WHEN THE MARKET REOPENS.

5. THE GENERAL COMMITTEE OF THE SEHK WILL MEET LATER TODAY TO CONSIDER WHEN THE EXCHANGE SHOULD RESUME TRADING. RONALD LI, CHAIRMAN OF THE EXCHANGE, IS ADAMANT THAT THE EXCHANGE SHOULD NOT REOPEN BEFORE MONDAY ON THE GROUNDS THAT "MORE TIME IS REQUIRED TO ASSESS WHETHER IMPROVEMENTS IN OTHER STOCK MARKETS ARE ONLY TECHNICAL REBOUNDS", AND THAT SETTLEMENT OF MANY TRANSACTIONS REMAIN INCOMPLETE.

6. OUR PUBLIC POSITION IS THAT THE TIMING OF REOPENING OF THE STOCK MARKET IS A DECISION FOR THE EXCHANGE. WE ARE OF COURSE KEEPING CLOSE CONTACT WITH RONALD LI. THERE IS, HOWEVER, A GRAVE PROBLEM BESETTING THE FUTURES EXCHANGE, KNOWLEDGE OF WHICH IS NOW PUBLIC

AS A RESULT OF AN ARTICLE IN TODAY'S ASIAN WALL STREET JOURNAL.

THE FUTURES EXCHANGE

7. A TOTAL OF ABOUT 37000 HANG SENG INDEX FUTURES CONTRACTS ARE OUTSTANDING. IN A FALLING STOCK MARKET, THE "SHORTS" GAIN AND THE "LONGS" LOSE. MOST OF THE "SHORTS" ARE INSTITUTIONAL INVESTORS, LOCAL AND INTERNATIONAL, USING THE "SHORT" POSITION LARGELY TO HEDGE THE PHYSICAL STOCKS THEY ARE HOLDING. MOST OF THE "LONGS" ARE LOCAL INDIVIDUALS AND FIRMS BETTING ON A RISING STOCK MARKET. THEY STAND TO LOSE SUBSTANTIALLY IN PRESENT CIRCUMSTANCES.

8. SO FAR SIX MEMBER FIRMS OF HKFE HAVE NOT BEEN ABLE TO MEET MARGIN REQUIREMENTS AND THERE IS A SHORTFALL OF DOLLARS 64 MILLION ON AN ONGOING BUSINESS BASIS. IF A FURTHER DROP IN THE HANG SENG INDEX OCCURS WHEN THE STOCK MARKET REOPENS NEXT MONDAY, THERE COULD BE FURTHER SIZEABLE DEFAULTS. THE GUARANTEE CORPORATION, WHICH GUARANTEES PAYMENT ON ALL CONTRACTS EXECUTED ON THE HKFE, HAS A CAPITALISATION OF ONLY DOLLARS 15 MILLION AND RESERVES, WHICH WOULD PROBABLY ALLOW ACCESS TO AROUND DOLLARS 23 MILLION OF COVER FOR DEFAULTS.

9. THERE ARE TWO OPTIONS. ONE IS FOR THE HKFE TO EXERCISE ITS RIGHT TO "CLOSE OUT" ALL OUTSTANDING CONTRACTS, I.E. REQUIRING THE CONTRACTS TO BE INVOICED BACK AT PRICES AS DETERMINED BY ITS MARKET DIVISION COMMITTEE. THIS WOULD CONTAIN LOSSES FOR MARKET MEMBERS WITH "LONG" POSITIONS MANY OF WHOSE CLIENTS HAVE WALKED AWAY FROM THEIR COMMITMENTS BUT BE SEEN INTERNATIONALLY AS RENEGING ON CONTRACTS DESPITE THE FACT THAT THIS IS LEGALLY PERMISSIBLE AND HAS BEEN DONE IN OTHER MARKETS NOTABLY THE LONDON METAL EXCHANGE. FURTHERMORE, IT WOULD LEAVE THOSE WITH "SHORT" POSITIONS ON THE HKFE WITH UNCOVERED "LONG" POSITIONS IN THE STOCK MARKET WHICH THEY WILL WISH TO LIQUIDATE WHEN THE EXCHANGE REOPENS. THE HONGKONG BANK GROUP HAS A PARTICULARLY LARGE EXPOSURE. THOSE AFFECTED ARGUE THAT THIS WOULD MEAN THE END OF THE FUTURES MARKET IN HONG KONG, BECAUSE THE HKFE, AND THE GUARANTEE CORPORATION THAT STANDS BEHIND IT, WOULD LOSE ALL INTERNATIONAL CREDIBILITY: THE BIG PLAYERS WOULD WITHDRAW: LENGTHY AND COSTLY LITIGATION AGAINST THE HKFE AND ITS DIRECTORS COULD FOLLOW. ADDITIONALLY, THE STOCK MARKET WOULD FALL HEAVILY WHEN IT OPENS UNDER THE WEIGHT OF THE SELLING BY THOSE WITH UNCOVERED "LONG" POSITIONS.

10. THE SECOND OPTION, ADVOCATED BY THE BIG PLAYERS LED BY HONGKONG BANK, IS FOR THE MARKET TO CONTINUE WITHOUT CONTRACTS BEING CLOSED OUT. THAT WOULD MEAN A SUBSTANTIAL NUMBER OF HKFE MEMBERS AND BROKERAGE FIRMS, PRACTICALLY ALL LOCAL, GOING BANKRUPT, AND A

SUBSTANTIAL RUN ON THE GUARANTEE CORPORATION. TO MEET THE RUN, A LIFEBOAT WOULD BE REQUIRED, WHICH THE BIG PLAYERS WOULD BE READY TO PUT TOGETHER, BY INJECTING SUBSTANTIAL CAPITAL (DOLLARS 1 TO 2 BN) INTO THE CORPORATION. THIS WOULD BE CONDITIONAL, HOWEVER, ON THEIR EFFECTIVELY TAKING OVER OF THE HKFE, AND CHANGING MANY OF THE RULES WHICH THEY ALLEGE HAVE CONTRIBUTED TO THE PRESENT DIFFICULTIES. THIS COURSE OF ACTION IS AT PRESENT STRONGLY OPPOSED BY THE PRESENT MANAGEMENT, INCLUDING KIM CHAM.

11. THE PRESENT BOARD AND MANAGEMENT OF HKFE ARE OF THE VIEW THAT IF THE ROUTE WERE TO BE FOLLOWED THERE WOULD BE KNOCK-ON EFFECTS IN THE STOCK MARKET FROM THE FAILURE OF HKFE MEMBERS WHO ARE ALSO BIG PLAYERS ON THE EXCHANGE. FURTHER IT IS CONSIDERED THAT THE BOARD OF THE HKFE WOULD BE LIABLE TO DAMAGES CLAIMS FROM ITS MEMBERS AS THE FAILURE TO CLOSE OUT POSITIONS WILL HAVE DIRECTLY CONTRIBUTED TO THEIR LOSSES.

PRESENT ACTION

12. IN AN ATTEMPT TO FIND MIDDLE GROUND WE HAVE ENGAGED HAMBROS TO ACT ON GOVERNMENT'S BEHALF. THEY ARE NOW ENGAGING IN ACTIVE DISCUSSION WITH ALL INTERESTED PARTIES. THEIR INITIAL VIEW IS THAT ANY SOLUTION MUST BE ACCEPTABLE TO THE INTERNATIONAL COMMUNITY IF HONG KONG'S CREDIBILITY AS AN INTERNATIONAL FINANCIAL CENTRE IS TO BE MAINTAINED BUT THEY RECOGNISE THAT THERE IS NO EASY OUTCOME. WE HAVE MADE IT CLEAR THAT IT IS EXTREMELY UNLIKELY THAT GOVERNMENT WILL BE ABLE TO CONTRIBUTE ANY FINANCIAL SUPPORT TOWARDS A SOLUTION, BOTH ON POLITICAL AND LEGAL GROUNDS.

13. WE ARE UP AGAINST A TIGHT TIME TABLE AS ANY SOLUTION MUST BE IN PLACE BEFORE THE STOCK MARKET RE-OPENS. IN THE CIRCUMSTANCES, RE-OPENING THE STOCK MARKET BEFORE THE WEEKEND IS NOW IMPRACTICABLE.

UNQUOTE

SEE MIFTS

FORD

YYYY

HMLNAN 0886

522

DAN 5918 HMLNAN 0884
CONFIDENTIAL
Z FCOLN
FM HOKON TO FCOLN
231030Z OCT
GRS 88

CONFIDENTIAL
FM HONG KONG
TO FLASH FCO
TELNO 4031
OF 231030Z OCTOBER 87

STRICTLY PERSONAL FOR HUM, HKD FROM DEPUTY TO THE GOVERNOR

CLOSURE OF STOCK MARKET AND FUTURES MARKET
YOUR TELNO 2802

I AM SORRY THAT YESTERDAY'S TELEGRAMS ON THE CLOSURE OF THE
STOCK MARKET AND FUTURES MARKET SENT TO THE GOVERNOR IN NEW YORK
WERE NOT COPIED TO YOU. FULL TEXT IN MIFTS.

2. THE LATEST SITUATION IS DESCRIBED IN MY THIRD IFT WHICH HAS
ALSO BEEN SENT TO THE GOVERNOR IN NEW YORK.

3. GRATEFUL IF YOU COULD TAKE ACTION ON FINAL PARAGRAPH.

FORD

YYYY

HMLNAN 0884

CONFIDENTIAL

FROM: MRS R LOMAX
DATE: 23 October 1987

CHANCELLOR

Ch/ You may like to glance at this before you go. Mrs L. can then take immediate thoughts on board when she speaks to Loehnis.

cc: Sir P Middleton
Mr Cassell
Mr Peretz
Mr Ilett

Thanks. (W. has spoken with state of plan over the course of the day)

HONG KONG

25 23/10

I attach a bundle of telegrams from the Deputy Governor of Hong Kong to the Hong Kong Governor (who is currently in the US) reporting the present situation. In terms of hard news, they are not a great advance on Anthony Loehnis's report at your meeting this morning, but they do give a reasonably clear account of the present problem in the futures market, and the possible solutions that are being considered.

*Opinion (1)
(2)
Opinion (2)
E. Lohno
20/10*

Flagged

2. There is one point on which we shall need to take your mind later on today. In telno 4034, the Deputy is asking for contingent approval - from the Foreign Secretary - to use the resources of the Exchange Fund either to prop up the equity market, when it reopens on Monday or to contribute to a recapitalised guarantee corporation. The Foreign Office are consulting their lawyers urgently. At first glance, the exchange fund ordinance does appear to cover the purchase of "securities approved by the Secretary of State", which would appear to include equities. We are not sure whether the ordinance covers the second option.

3. The Foreign Secretary will certainly need advice from ourselves and the Bank. I will report further when I have consulted Anthony Loehnis.

Rh.

RACHEL LOMAX

LOMAX
to
CH/EX
23/10



Treasury Chambers, Parliament Street, SW1P 3AA
01-233 3000

OK; Sale of
Lair & wife
consequences of
much
will
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may have
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of will
authorities
to catch
for this?

Ch,

Hong Kong

Mrs Lamax telephoned. A package has now taken shape. It involves:

- (i) closing out the futures market, but at a lower level;
- (ii) persuading 'shorts' to rally round + provide credit to 'longs';
- (iii) getting local institutions to contribute to an enlarged Guarantee fund - with Government money at the back of the queue;
- (iv) putting the house in order.

(The 'bluechip' equities proposal is now unlikely to be pursued).

2. Mrs L. + Mr Loehnis think that the proposed purpose to which any Exchange fund monies would go is proper. If the HK authorities wish to use them for that purpose, they are inclined not to stand in the way. Content for them to advise FCO in this sense?

25 23/10

CONFIDENTIAL - MARKET SENSITIVE

BF 27/10

FROM: MRS R LOMAX
DATE: 23 October 1987

(Mrs L. ...)

PS/CHANCELLOR

cc: PS/Economic Secretary
Sir P Middleton
Mr Cassell
Mr Peretz
Mr Ilett
Mr Kelly

Ch/ To see. I have
posed in your questions to
Mrs L., but as her note implies (X) below
it has not yet proved possible to provide answers.
23/10

[Handwritten signature]

HONG KONG

Following our telephone conversation this afternoon, in which you told me that the Chancellor had accepted my advice, agreed with Anthony Loehnis, that we should leave use of the Exchange Fund to local judgement, providing the proposed uses were intra vires, the Foreign Secretary has given contingent authority as requested in the Deputy Governor's telegram no 4034. Foreign Office lawyers confirmed that it was proper to use the Exchange Fund to contribute to a recapitalisation of the guarantee corporation.

2. As I told you on the telephone, the emerging package seems to be on the following lines (according to the FCO):-

- i. the futures market will be closed out at a lower level, which will ensure that the speculators get their fingers burnt, but do not lose their shirts;
- ii. the "shorts" will be persuaded to rally round and provide credit for the "longs";
- iii. the authorities will aim to get local financial institutions to contribute to a recapitalised guarantee corporation, which the Government will top up (from the Exchange Fund);
- iv. clear undertakings will be given about reorganising the markets, with tighter rules.

LOMAX
to
PS/CH
23/10

3. The option of supporting the equity market on Monday by buying blue chip shares seems to have receded.

X (4. The broad intention behind the present package is to limit the gains of the shorts, who are largely foreign institutions, and persuade them to bale out the longs - local individuals, who have lost quite heavily. This much is implied by the analysis in paragraphs 9-10 of telno 4034. I discussed with the Foreign Office whether it would be possible to obtain a more considered analysis in response to the Chancellor's questions, before action falls to be taken, but we were forced to conclude that it was probably not. As noted at the Chancellor's meeting this morning, we are in the hands of the people on the spot, given our present state of knowledge.



RACHEL LOMAX

SECRET



10 DOWNING STREET
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	26 OCT 1987 ✓26/10
ACTION	MRS LOMAX
COPIES TO	EST
	SIR P MIDDLETON
	MR CASSELL
	MR PERETZ
	MR ILETT
	MR KELLY

23 October 1987

From the Private Secretary

Dear Alex,

HONG KONG

The Chancellor this morning outlined to the Prime Minister the problems faced by Hong Kong, particularly the heavy exposures and potential losses in the stock index futures market. The Prime Minister stressed to the Chancellor her very great concern about the possibility of severe financial difficulties in Hong Kong. This would strengthen the position of "the Left" in China and could put at risk the agreement with the Chinese Government about the future of Hong Kong.

No 10
To
ACSA
25/10

Yours,

David

DAVID NORRGROVE

Alex Allan, Esq.,
H.M. Treasury.

SECRET

SECRET

054422
MDHIAN 2688

cc Mr. Pech

[Handwritten signature]

[Red checkmark]

cc PPS

B/EST
Sir P. Middleton
Mr. Corbett
Mr. Kelly
Mr. Harte

[Handwritten signature]

SECRET AMENDED DISTRIBUTION 26-10-87
FM PEKING
TO IMMEDIATE FCO
TELNO 1823
OF 240855Z OCTOBER 1987

MARKETS IN HONG KONG:

DAVID LI (CHAIRMAN BANK OF EAST ASIA) SPOKE TO THE SECRETARY OF STATE THIS MORNING IN BEIJING TO MAKE SOME POINTS ABOUT THE HONG KONG STOCK MARKET :-

- (A) HIS OWN VIEW WAS THAT THE FUTURES MARKET WAS AT CRISIS POINT. CURRENTLY CLOSED, IN HIS VIEW, IT WOULD NEVER REOPEN.
- (B) IN HIS VIEW, HONG KONG STOCK EXCHANGE AUTHORITIES HAD ACTED UNWISELY IN CLOSING EXCHANGES SO PRECIPITATELY. STRONGER HANDLING WOULD BE REQUIRED IN FUTURE.
- (C) HE SAID HONG KONG AUTHORITIES (IN WIDEST SENSE) HAD BEEN INEFFECTIVE AND SHOULD NOW ASSERT THEMSELVES. IN HIS VIEW, GOVERNOR'S ABSENCE WAS REGRETABLE. HE SHOULD CONSIDER RETURNING FOR REOPENING OF THE MARKET.

2. LI WENT ON TO MAKE POINTS ABOUT ONE WELL-KNOWN HONG KONG BANK. IT HAD BEEN TOO HEAVILY INVOLVED IN FUTURES MARKET AND WAS NOW DANGEROUSLY OVEREXPOSED. HE SAID THE BANK HAD APPROACHED THE HONG KONG AUTHORITIES SEEKING HELP FROM GOVERNMENT RESERVES. LI SAID THAT BANK OF CHINA (WHO OWN 5% OF HIS BANK) HAD TOLID HIM IN BEIJING TODAY THAT THEY WERE OPPOSED TO THIS SOLUTION. IN LI'S VIEW, THE GOVERNOR'S PRESENCE WAS CALLED FOR.

COMMENT:

3. SOME OF THESE POINTS MAY HAVE BEEN OVERSTATED BY LI AND WHAT HE SAID MAY NOT BE NEW. NEVERTHELESS, SECRETARY OF STATE THOUGHT IT RIGHT FOR THESE VIEWS TO BE PASSED TO CHANCELLOR AND GOVERNOR OF THE BANK OF ENGLAND.

4. SEE MY IFT.

EVANS

SECRET

054422
MDHIAN 2688

YYYY

DISTRIBUTION

18

MAIN 15

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HD/HKD
HD/ECONOMIC ADV
PS

PS/PUS
MR GILLMORE
MR MCLAREN

ADDITIONAL 3

MR LOEHNIS BANK ENGLAND
MR J LOMAX HMT

GOV HK VIA HKD

NNNN

cc Mr Perch

SECRET

054425
MDHIAN 2689

SECRET AMENDED DISTRIBUTION 26-10-87
FM PEKING
TO IMMEDIATE FCO
TELNO 6314
OF 240910Z OCTOBER 1987

MIPT: MARKETS IN HONG KONG.

- 1. THE BANK REFERRED TO (MIPT, PARAGRAPH 2) WAS THE HONG KONG AND SHANGHAI BANKING CORPORATION.

EVANS

YYYY

DISTRIBUTION 18

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MR GILLMORE
MR MCLAREN

ADDITIONAL 3

MR LOEHNIS BANK ENGLAND
MR J LOMAX HMT

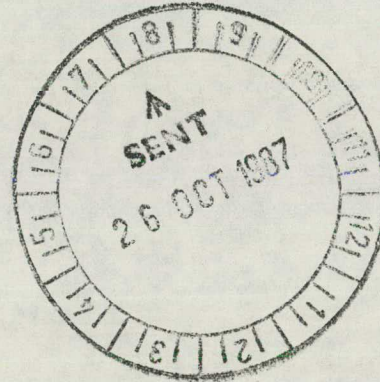
GOV HK VIA HKD

NNNN

251522Z

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HMLNAN 0940
CONFIDENTIAL
DD 251700Z FCOLN
DD 260100Z PEKIN
FM HOKON TO FCOLN
251415Z OCT
GRS 1000



CONFIDENTIAL
FM HONG KONG
TO DESKBY 251700Z FCO
TELNO 4046
OF 251415Z OCTOBER 87
AND TO DESKBY 260100Z PEKING

RESIDENT CLERK PLEASE PASS TO SIR D. WILSON, PRIVATE SECRETARY TO SECRETARY OF STATE AND HUM, HONG KONG DEPARTMENT FROM DEPUTY TO THE GOVERNOR.

SIR D. WILSON IS AT BROWN'S HOTEL 01-493-6020 HIS PRIVATE SECRETARY RICHARD HOARE, IS IN ROOM 74.

YOUR TELNO 2813 (NOT TO PEKING) STOCK AND FUTURES MARKETS

THE PROBLEMS IN MY TELNOS 4030-4 (NOT TO PEKING) WERE DISCUSSED BY EXCO ON THE MORNING OF 25 OCTOBER. THE COUNCIL WERE INFORMED OF THE ASSESSMENT BY THE GOVERNMENT'S ADVISERS. HAMBROS AND OF THE LATTER'S PROPOSALS FOR ACTION.

2. THREE OPTIONS HAD BEEN IDENTIFIED BY HAMBROS. THESE WERE TO DO NOTHING. TO CLOSE OUT AT AN ARBITRARY PRICE OR A COMMITTED DRAWING FACILITY OF UP TO HK DOLLARS 2 BILLION TO ENABLE THE GUARANTEE CORPORATION TO MEET ITS COMMITMENTS. THE COUNCIL RECOGNISED THAT THE OVER-RIDING REQUIREMENT WAS TO PRESERVE HONG KONG'S REPUTATION AS AN INTERNATIONAL FINANCIAL CENTRE, TO PROTECT THE ECONOMY AND TO RELIEVE THE PRESSURE ON THE EXCHANGE RATE. ONLY THE THIRD OF THESE OPTIONS WOULD ACHIEVE THIS, BUT IN AGREEING TO IT SOME MEMBERS EXPRESSED CONCERN THAT THIS MIGHT BE SEEN AS A BAIL OUT USING PUBLIC FUNDS TO PROTECT THE POSITION OF THOSE, RICH LOCAL SPECULATORS WHO HAD GONE LONG IN THE FUTURES EXCHANGE, AND THAT IN PARTICULAR SOME OF THOSE CONCERNED MIGHT TAKE REFUGE BEHIND SHELL COMPANIES IN ORDER TO ESCAPE THEIR LIABILITIES. IT WAS POINTED OUT TO MEMBERS THAT IN THE TIGHTLY KNIT COMMUNITY OF HONG KONG IT WOULD BE VERY DIFFICULT FOR THOSE CONCERNED TO DEFAULT ON THEIR COMMITMENT IN THIS WAY AND TO REMAIN IN TOWN. OTHER MEMBERS THOUGHT THAT WHATEVER HAPPENED THE GOVERNMENT WAS LIKELY TO COME IN FOR SEVERE CRITICISM. GENERALLY MEMBERS MADE IT CLEAR THAT THE PRICE OF THEIR SUPPORT WAS A VIGOROUS EFFORT TO CLEAN UP BOTH EXCHANGES.

3. MEMBERS BRIEFLY DISCUSSED THE PROPOSAL BY 'THE BIG PLAYERS' (PARTICULARLY MR LI KA-SHING) THAT THE TAKE OVER RULES AND RULES FORBIDDING SHARE PURCHASE IN THEIR OWN COMPANIES SHOULD BE WAIVED IN ORDER TO ENABLE THEM TO PROP UP THE MARKET. THEY EXPRESSED RESERVATION ABOUT APPROVING THESE MEASURES BEFORE THERE HAD BEEN AN OPPORTUNITY TO CONSIDER THEIR IMPLICATIONS IN FULL. GENERALLY THEY NOTED THAT THE MOST EFFECTIVE WAY TO HELP THE RECOVERY OF THE STOCK MARKET WOULD BE TO WITHDRAW RIGHTS ISSUES NOW PENDING.

4. MEMBERS WERE IN FAVOUR OF USING THE EXCHANGE FUND AT THE APPROPRIATE MOMENT TO BUY INTO THE MARKET. THEY WERE ALSO IN FAVOUR OF RESTRICTED TRADING OVER THE NEXT WEEK IN ORDER TO LIMIT THE FALLS FROM DAY TO DAY. THEY NOTED THAT THERE MIGHT BE A CASE FOR DEFERRING THE OPENING OF THE STOCK MARKET TOMORROW BUT RECOGNISED THAT IT WAS TOO EARLY TO TAKE A DECISION ON THIS.

5. ON THE BASIS OF EXCO'S DECISION DISCUSSIONS WERE HELD TODAY WITH HKFE PARTICIPANTS AND LEADING INVESTORS. THIS HAS ENABLED US TO AGREE A PACKAGE AS FOLLOWS -

(A) THE FORMATION OF A SUPPORT FACILITY FOR THE HONG KONG FUTURES GUARANTEE CORPORATION (HKFGC) TO ENABLE THE LATTER TO MEET ITS GUARANTEE COMMITMENTS AND TO UNDERWRITE NEW GUARANTEES:

(B) THE FACILITY WILL HAVE A LIMIT OF HK DOLLARS 2,000,000,000. THIS WOULD PROVIDE COVER, ON A WORST CASE SCENARIO, FOR A FALL OF APPROXIMATELY 1050 POINTS IN THE HANG SENG INDEX FROM THE CLOSE ON 19 OCTOBER 1987:

(C) THE PARTICIPANTS WILL BE -

(I) UP TO HK DOLLARS 1,000,000,000 : THE MAJOR PARTICIPANTS IN THE HKFE AND SHAREHOLDERS OF HKFGC:

(II) UP TO HK DOLLARS 1,000,000,000 : THE HKG (ON A LAST IN-FIRST OUT BASIS). (THIS WILL COME FROM THE EXCHANGE FUND.):

(D) REPAYMENTS ARE TO BE OVER 5 YEARS MAXIMUM, WITH RECOURSE LIMITED TO THE PROCEEDS OF -

(I) A LEVY ON FUTURE HKFE CONTRACTS:

(II) A NEW LEVY ON ALL FUTURE CONTRACTS ON THE HONG KONG STOCK EXCHANGE:

(III) RECOVERIES SUBSEQUENTLY RECEIVED BY HKFGC FROM DEFAULTING CLEARING MEMBERS OF THE HKFE:

(E) RESTRUCTURING OF THE FUTURES EXCHANGE INCLUDING THE APPOINTMENT OF A NEW CHAIRMAN AND INJECTION OF NEW MEMBERS. THE CHAIRMAN IS TO BE WILFRID NEWTON, CHAIRMAN AND CHIEF EXECUTIVE OF THE MASS TRANSIT RAILWAY CORPORATION, WHO IS AN ACCOUNTANT BY PROFESSION AND HIGHLY REGARDED:

(F) AGREEMENT WITH HOLDERS OF "SHORT" POSITIONS IN THE FUTURES EXCHANGE NOT TO REALISE LONG POSITION IN THE STOCK MARKET DURING THE PERIOD OF THEIR FUTURES CONTRACTS.

6. IN ADDITION WE HAVE BEEN IN TOUCH WITH A NUMBER OF BIG INVESTORS SEEKING THEIR BROAD SUPPORT IN AVOIDING PANIC SELLING ON THE STOCK EXCHANGE.

7. ON THIS BASIS BOTH THE HONG KONG STOCK EXCHANGE AND THE FUTURES EXCHANGE WILL OPEN AT 1100 HONG KONG TIME ON 26 OCTOBER.

PUBLIC ANNOUNCEMENT

8. A STATEMENT BY GIS COVERING THE PACKAGE WILL BE MADE AT 2215 HONG KONG TIME (1415 GMT) TONIGHT 25 OCTOBER.

INFORMING THE CHINESE

9. THE POLITICAL ADVISER HAS INFORMED NCNA TONIGHT OF THE PACKAGE BEFORE THE ANNOUNCEMENT. HE EMPHASIZED THE IMPORTANCE WHICH THE GOVERNMENT ATTACHES TO THE SUPPORT OF THE CURRENCY AND THE MAINTENANCE OF HONG KONG'S POSITION AS A FINANCIAL CENTRE.

10. A SEPARATE BACKGROUND TELEGRAM HAS BEEN SENT TO PEKING, WHO MAY WISH TO DRAW ON THAT AND MATERIAL IN THIS TELEGRAM IN EXPLAINING THE POSITION TO CHINESE GOVERNMENT INTERLOCUTORS.

FORD

YYYY

HMLNAN 0940

FINANCE 9

RESIDENT CLERK	
HD/ECONOMIC ADVISERS	
PS	
PS/LORD GLENARTHUR	
PS/PUS	
MR GILLMORE	
MR MCLAREN	
A LOEHNIS, BANK OF ENGLAND	
MRS G R LOMAX, TREASURY	

UNCLASSIFIED



FROM: N G FRAY

DATE: 26 October 1987

Paul

MRS LOMAX

STOCK MARKET: MORNING & EVENING REPORT

The Chancellor has seen and was grateful for your two minutes of 23 October.

Nigel Fray
N G FRAY

FROM: N G FRAY
DATE: 26 OCTOBER 1987

MRS LOMAX

STOCK MARKET: MORNING & EVENING REPORT .

The Chancellor has seen and was grateful
for your two minutes of 23 October.

N G FRAY

MG NOON REPORT

FINANCIAL MARKETS

Monday 26 October 1987

Opening 10 AM			NOON	Oil Price (10 AM)	
73.8	73.9	£ERI	74.1	Nov	\$18.85
1.6835	1.6870	\$/£	1.6935	Dec	\$18.95
2.9907	2.9905	DM/£	2.9975	Jan	\$19.00
1.7765	1.7727	DM/\$	1.7700		
141.90	141.65	Yen/\$	141.45		

UK interbank £			Eurodollars	
9 3/8	*	7 day	6 7/8	(-1/16)
9 11/32	(-9/32)	1 month	7	(-1/16)
9 3/16	(-7/32)	3 month	7 11/16	(-1/16)
9 7/16	(-3/32)	12 month	8	(-1/4)

Figures in brackets show change since previous market close

MARKET COMMENT In the foreign exchange market the dollar fell sharply in New York on Friday evening on a rumour of a G5 meeting at the weekend (denied by US Treasury). It firmed in the Far East this morning after the Tokyo stock market fall, but eased on profit taking to close little changed. It has continued to ease this morning in a nervous London market. Sterling is sharply up on the weaker dollar by about 3 cents and has continued firm.

The Japanese and Hong Kong equity market closed down, Nikkei at 22202 -1096 and Hang Seng 2241.69 -1120 a drop of 33% since last opening. The US market closed little changed from Thursday at 1950.76 +0.33. The FTSE100 opened at 1685.5 -109.7 and at 12.11 it was 1669.7 -125.5. The gilts market opened well above Friday's close. And went higher. For much of the morning longs were 3 points up on the day until profit taking took it off its best before noon.

R. McRobbie

MARKET INTERVENTION (\$m)

OTHER COUNTRIES INTERVENTION (\$m)

Overnight	+103\$	New York
Today so far	+150\$	
Total	+253\$	

GILTS

	Latest market movements	Price change since previous close	Gilt Sales since market opening
Shorts	Better	+39/32	-£6.6 million
Mediums	Better	+73/32	All Indexed linked
Longs	Steady	+88/32	

Futures (Long Contracts) +83/32 (Vol:23154)

NAME: Miss R J McRobbie, MG1 Division
TEL NOS: 270 5557/5560

S E C R E T

prep



FROM: P D P BARNES
DATE: 26 October 1987

PS/CHIEF SECRETARY

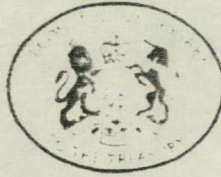
cc Sir P Middleton
Sir T Burns
Mr Cassell
Mr Peretz
Mr A C S Allan
Mr R I G Allen
Mrs Lomax
Mr Cropper

CRASH OF 87 AND THE 1929 ANALOGY

The Economic Secretary thought that the Chief Secretary and copy recipients might also like to see the attached minute.

hs

P D P BARNES
Private Secretary



FROM: ECONOMIC SECRETARY
DATE: 23 October 1987

CHANCELLOR

CRASH OF 87 AND THE 1929 ANALOGY

For what they are worth, I elaborate below the ideas I mentioned at the markets meeting this morning.

2. History does tend to repeat itself, albeit neither exactly nor deterministically. We have the power to prevent events unfurling as they did after the crash of 1929 if we learn from that (and subsequent) experience.

3. One lesson has been learnt - and that is the crucial importance of preventing bank failures. Friedman concluded that the banking collapse and consequent reduction of the money supply by one third turned what would have been a severe recession into an unprecedented depression. Deposit insurance in the USA, coupled with the willingness of central banks to act as lenders of last resort, should prevent a repetition. (Nonetheless, we need to consider whether the high level of securitisation means a security market collapse can have a direct impact without bank failures. Also, banks can contract the global money supply without failures by calling in loans. Given their existing exposure to sovereign debt they may be very tough on a new set of creditors, rendered dubious risks by the collapse of the securities market).

4. However, even if we know how to prevent a recession becoming a depression, I am less certain that we know how to prevent a major market collapse initiating a severe recession.

5. There is no doubt that a fall in securities markets will have a severe effect on demand and growth in the real economy via several channels:-

- (i) the wealth effect on consumer spending/borrowing,
- (ii) the equivalent effect on company investment intentions,

- (iii) contraction of bank lending/recalling loans to dubious risks
- (iv) ripple effects to housing market.

6. If anything these effects are likely to be greater now than in 1929 since financial wealth is proportionately greater.

7. Unfortunately we face the same dilemma as in 1929:

- expansionary measures have little effect because confidence has been punctured (Keynes rightly said monetary relaxation was like pushing on a string),
- the measures necessary to restore confidence are themselves contractionary - e.g. reducing the US budget and trade deficits.

8. Even with the benefit of nearly 60 years of hindsight, I have never seen a convincing analysis of how this dilemma could have been resolved in 1929 to avoid a severe recession. So I am not optimistic that there is a ready means of avoiding a repetition now.

9. But we can avoid what commonsense suggests were three failings in governments' response then which aggravated the problem:

(i) Lack of vigour. Governments then were so bemused they seemed to react with too little too late and not to press home such initiatives as they did take. In part this clearly sprang from their recognition of the dilemma outlined above. Maybe monetary relaxation did feel as ineffectual as pushing on a string. But if that is the main anti-deflationary measure available maybe we just have to push harder.

Likewise they probably recognised that cutting deficits was both necessary to restore confidence and deflationary. As a result they went about trying to restore balance in a half-hearted way. This got the worst of both worlds. It reduced nominal spending without restoring confidence. The lesson for Reagan should be clear. Apparently half-hearted attempts to cut the deficit will not restore confidence,

but will reduce spending power. Cuts must either be credible or not at all. Best of all they should be credible but offset by relaxation overseas.

(ii) Lack of Unity. Because governments did not coordinate their actions effectively they were less effective than they could have been. Uncoordinated steps - particularly in easing monetary conditions - will have little effect since markets will assume they will be undermined by contrary action (e.g. higher interest rates) elsewhere. What is needed now is obviously a reduction in both short term interest rates and long term funding in Germany, Japan and UK which is seen to be coordinated. Maybe a G7 meeting, properly prepared and with concrete decisions to announce, would be helpful.

(iii) Loss of Initiative. Because governments reacted like rabbits before a stoat in 1929 and were seen to be 'doing nothing' the initiative moved elsewhere. So politically they lost the initiative to protectionist pressures and the markets sensed a lack of leadership which further weakened confidence.

(iv) Failure to recognise that the collapse eclipses its original cause. There is a danger now as then that governments will remain mesmerised by the problems which initiated the collapse and fail to recognise that the main problem progressively becomes the financial collapse itself. It may have been inflationary fears which unsettled Humpty Dumpty (ie confidence) but it is the fall itself which finally shatters him.

Indeed it is only a slight exaggeration to say that, though inflationary fears caused the collapse, the collapse has cured inflation. Increasingly, if it continues, the problem is likely to be the financial collapse itself.

To be more precise a 10% interest rate may have been barely adequate to contain inflationary pressures last week. Today 9½% is at least adequate. And I can readily foresee further cuts (preferably coordinated with Japan and Germany) without

reigniting inflationary flames.

Unfortunately there are fewer lessons for this for the UK than for the other major countries since we are not really part of the imbalance which has sparked it off.

Peter Lilley

PETER LILLEY

(composed by the Economic Secretary
and signed in his absence).

CONFIDENTIAL - MARKET SENSITIVE

FROM: MRS R LOMAX
DATE: 26 October 1987

MR KELLY

cc: PPS
PS/Economic Secretary
Sir P Middleton
Mr Cassell
Mr Peretz
Mr Ilett
Mr Board

HONG KONG

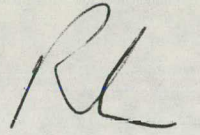
I attach a further telegram outlining the emergency package that has now been put in place. Brian Quinn, who kept me in touch over the weekend, reported some difficulty in getting two of the foreign banks to sign up until the last minute. In the event, however, the authorities not only got their package: they also secured the undertaking from major institutions not to offload stock referred to in paragraph 6.

2. But it remains very doubtful whether the package has done the trick. After a "good" morning, there was a strong wave of selling in the afternoon, and the Hang Seng Index closed 1126 points down, off 33%. Brian Quinn's contact sounded understandably gloomy during their early morning chat.

3. The fall in the index is rather more than allowed for in setting up the facility, so there must be some question about whether it will prove adequate. But it is too early to tell. The facility has not been drawn down at all yet. As far as I can make out, this is because the market works on next day settlement for margins, so that margin calls will only crystallize tomorrow. There is also a certain amount of accumulated past margin "in the kitty" which can be used before tapping the facility. Finally, the net position of individual brokers and institutions is still extremely uncertain. There are three futures contracts, and market participants may be on different sides of different contracts. The shortest dated contract is due to fall in tomorrow.

LOMAX
TO
KELLY
26/10

One way and another, therefore, tomorrow is likely to be an important day in Hong Kong. As luck would have it, both Lord Young and the Governor of Hong Kong are due to speak at the Hong Kong trade centre here in London. DTI will be clearing Lord Young's speech with us and the Bank during the course of today, and they will be very anxious to hear an up-to-date report of the state of play early tomorrow morning.



RACHEL LOMAX

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OF 260900Z OCTOBER 87

FOR HUM, HKD
PLEASE PASS TO GOVERNOR

REPORT ON THE STOCK/FUTURES MARKETS

STOCK MARKET

THE STOCK MARKET RESUMED TRADING AT 11.00 AM AFTER A SUSPENSION OF 4 TRADING DAYS. HEAVY SELLING SENT SHARE PRICES TUMBLING WITH THE HANG SENG INDEX OFF 20 PERCENT TO 2700 IN THE FIRST FIFTEEN MINUTES OF TRADING. CONSISTENT HEAVY SELLING CONTINUED AND BY 11.45 AM, THE HANG SENG INDEX REACHED A LOW OF 2480, DOWN 26 PERCENT FROM THE CLOSE OF LAST MONDAY. SOME BARGAIN HUNTERS APPEARED IN THIS LEVEL AND IN THE LAST HALF HOUR OF THE MORNING SESSION, THE HANG SENG INDEX FLUCTUATED WITHIN THE RANGE OF 2500 TO 2550. IT CLOSED THE MORNING AT 2517.35, DOWN 845.04 POINTS (25 PERCENT) FROM THE PREVIOUS CLOSE OF 3362.39. TRADING WAS HECTIC WITH A TURNOVER OF HKD 2,265 MILLION IN ONE AND HALF HOURS OF TRADING. SELLING PRESSURE INCREASED IN THE AFTERNOON AND THE MARKET CLOSED AT 2242, A FALL OF 1120 POINTS (33 PERCENT) COMPARED WITH THE PREVIOUS CLOSE ON MONDAY, 19 OCTOBER. THE TOTAL TURNOVER WAS DOLLARS 3.82 BILLION. REUTERS REPORT A BANK OF CHINA SPOKESMAN AS SAYING THAT P.R.C. ENTITIES HAVE BEEN BUYING SHARES IN 'OWN COMPANIES' SEMICOLON SHARES IN KA WAH BANK UNION GLOBE DEVELOPMENT AND WAH SHIN TOYS CERTAINLY FALL BY LESS THAN AVERAGE.

2. THE HANG SENG INDEX IS NOW BELOW THE 2568 MARK IT REACHED AT THE END OF 1986.

FUTURES MARKET

3. THE FUTURES MARKET ALSO RESUMED TRADING THIS MORNING. A TEMPORARY RULING WAS IMPOSED TO BAN ALL SELLING EXCEPT FOR LIQUIDATION. DEALINGS OF THE NOVEMBER AND DECEMBER CONTRACTS WERE OFF IN THE FIRST FIFTEEN MINUTES AFTER FALLING BY 150 POINTS, THE LIMIT DOWN OFFER. SPOT MONTH TRADING RE-OPENED AFTER STOP-TRADING TWICE IN THE FIRST HALF HOUR. OCTOBER CONTRACTS PLUNGED TO 1975 AT THE CLOSE OF THE AFTERNOON SESSION WITH A TOTAL TURNOVER OF ABOUT 13000 CONTRACTS. THIS REPRESENTS A FALL OF 1554 POINTS COMPARED WITH THE PREVIOUS CLOSE ON 19 OCTOBER. TRADING OF THE NOVEMBER AND DECEMBER HSI FUTURES CONTRACTS WAS AGAIN SUSPENDED AT 2.40 PM AFTER FALLING ANOTHER 150 POINTS.

GENERAL

4. THE EXCHANGE RATE WAS STABLE, DESPITE THE CUT IN INTEREST RATES, EFFECTIVE TODAY. THERE WAS NO INTERVENTION TODAY, BUT THE EXCHANGE HAD TO SELL A SUBSTANTIAL AMOUNT OF US DOLLARS LAST WEEK TO PREVENT THE EXCHANGE RATE FROM WEAKENING.

5. THE TAKEOVERS COMMITTEE OF THE SECURITIES COMMISSION MET THIS MORNING AND DECIDED THAT FOR A PERIOD OF ONE MONTH, THE TRIGGER POINT, OR CREEPER PROVISION, AS THE CASE MAY BE, UNDER THE HONG KONG CODE ON TAKEOVERS AND MERGERS, WILL BE WAIVED SUBJECT TO -

(A) A REQUIREMENT TO PLACE OUT ANY SHARES ACQUIRED WHICH EXCEED THE MAXIMUM PERMISSIBLE UNDER THE CODE, WITHIN 12 MONTHS, SUBJECT TO AN EXTENSION OF THAT PERIOD IF THE TAKEOVERS COMMITTEE, ON APPLICATION, AGREE THERETO SEMICOLON AND

(B) THAT ANY PURCHASER OF SHARES UNDER (A) ABOVE MUST PUBLISH DAILY THE NUMBER OF PRICE OF SHARES BOUGHT AND SOLD.

THIS CONCESSION IS OF GENERAL APPLICATION AND WILL ENABLE K S LI AND OTHER BIG PLAYERS TO BUY SHARES IN THEIR OWN COMPANIES IN SUPPORT OF THE MARKET.

6. THE COMMISSIONER OF BANKING HAS ALSO URGED BANKS TO TAKE A SYMPATHETIC AND CONSTRUCTIVE APPROACH IN RESPECT OF FACILITIES USED TO FINANCE SECURITIES HOLDINGS PROVIDED THAT THE OVERALL CREDIT-WORTHINESS OF THE BORROWER IS ACCEPTABLE.

FORD

YYYY

HMLNAN 0996

CONFIDENTIAL MARKET-SENSITIVE

Paper
Prel
for JT
mg

FROM: C W KELLY
DATE: 26 October 1987

MRS LOMAX

cc: PPS
PS/Economic Secretary
Sir P Middleton
Mr Cassell
Mr Peretz
Mr Ilett
Mr Board

KELLY
TO
LOMAX
26/10

HONG KONG

I attach a further telegram recording developments today.

2. The Hong Kong authorities are now close to a decision to introduce a further package to support the futures market, by adding to the facility of HK\$2 billion already established to enable the guarantee corporation to meet its commitments.

3. The proposal is to add a further HK\$2 billion. Of this, HK\$1 billion would come from the Exchange Fund, HK\$250 million each from Standard Chartered and the Hong Kong and Shanghai Bank and the remaining HK\$500 million from the Bank of China. Standard Chartered and the Hong Shai are said to be signed up already. They are still talking to the Bank of China. They think it important to ensure that the package is in place by tomorrow morning, Hong Kong time.

4. They have also decided that they did not need the authority of the Secretary of State to use the Exchange Fund for the first package, nor therefore for the second, in the light of the form the package eventually took. The Foreign Office are consulting their lawyers, but seem at present disposed to agree.

5.. This is perhaps just as well. We still lack sufficient information here in London to make it sensible for us to try to second guess Hong Kong, even if we wanted to; and it is difficult to find out any more from Hong Kong at present because all those concerned are still tied up in meetings.

CWK
C W KELLY

enc