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

8th June, 1979

Dear Tim,

TRADE FIGURES AND EXCHANGE MARKET INTERVENTION BEFORE
THE BUDGET

The Prime Minister expressed an interest in the approach to exchange market intervention which the Bank of England will be adopting, in the period between the publication of the trade figures at 3.30 pm today and the Budget on Tuesday afternoon. The Chancellor has asked me to let you know the tactics which the Bank intend to follow, and which he has approved.

We start from the probability that the trade figures we shall publish are significantly worse than the market is expecting. The main market activity is likely to be in New York on Friday, where there will be several hours trading after the publication of the figures in London; and in London and elsewhere on Monday. We would not expect much activity on Tuesday ahead of the Budget.

We intend in principle to let the rate take the strain. There is no question of trying to dig in or peg on any particular rate. We would want to avoid large erratic movements resulting from speculation in a thin market. But, on the other hand we would not want the idea to take hold that we wished to take advantage of this opportunity to get the rate down. The Bank would naturally have to show its presence in the market, but would also allow the rate to fall, adjusting intervention progressively with the extent of the fall.

I am copying this letter to John Beverly .

Yours etc,

This is handy Munnings! Mat
M.A. HALL

T. L. Lankester, Esq.,

etc,

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