

TOP SECRET



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PRIME MINISTER

Handwritten initials "AA" and the number "22" with a flourish.

We are aiming to keep the sterling rate in line with the 2½% band of rates for the EEC currencies floating together ("the snake").

The markets have been quiet since they re-opened formally yesterday. The dollar has strengthened slightly, so the "snake" has moved down a little since Friday's close.

The sterling/dollar rate at noon today was 2.4648. The "snake" was fully stretched with the Belgian franc at the top and the revalued deutschemark at the bottom.

Taking this pattern as our starting point we shall assume sterling to have been at the centre of the "snake" at noon today. If the "snake" were to stay where it is, we should intervene to prevent sterling from falling below 2.4371 (1½% below our starting point of 2.4648).

/in fact

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In fact the "snake" will not remain stationary so the actual point at which we have to intervene to prevent sterling from falling below the "snake" will vary. But the principle will be that sterling will never be more than $1\frac{1}{8}\%$ below the mid point of the "snake". I do not think we need to be so prompt to intervene if by chance sterling were to go above the top of the "snake" because of the helpful effect of this on internal prices.

Intervention will be in US dollars, and so as to avoid our policy becoming known to the markets, will take place not only at the limit, but to some extent before the limit is actually reached. The importance of complete secrecy cannot be over-emphasised.

While the above sets out the clear objectives of our market tactics, I am sure that at this stage it would be wrong to be as rigid in the application of those tactics as would be necessary if we were defending a fixed parity. As I said in my minute of 15th March, we must take stock from day to day.

AB.

20th March 1973