

Prime Minister 8


 ABJ
 Duty Clerk.
 24.10.

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

24th October, 1979

Dear Tim,

EXCHANGE MARKET REACTION TO EXCHANGE CONTROL ABOLITION

The Prime Minister may like to have a brief account of the initial reaction of the exchange markets to yesterday's announcement of the abolition of exchange controls.

the Sterling had already fallen yesterday from \$2.15 at Monday's close to \$2.13 by the time of my statement in the House. This fall partly reflected the sharp rise in US interest rates on Monday. The dollar had a good day against all currencies. However there were also rumours in the market here that the Chancellor would be making a statement in the afternoon. Following the statement there was some fairly heavy selling of sterling but no panic. The Bank intervened to preserve orderly markets and to moderate the fall in the rate. By the close last night the rate was down to \$2.11½ and the Bank had spent \$300 million on the day, of which \$90 million had occurred before the announcement. The effective rate fell over the day from 68.9 to 67.9 (i.e. by 1½ per cent, compared with nearly 2 per cent fall on the dollar).

Overnight there was some selling of sterling in the Far East and the rate opened lower here at \$2.10¼. This morning it fell initially to \$2.09½ but has since recovered on two-way business and at close today was back to last night's London closing level of \$2.11¼. Today the Bank have so far spent about \$50 million (net) and have operated both ways in the market. The effective rate at today's close was 67.7.

The market may remain nervous for a time but I think we can be satisfied at the way things have gone so far. The rate is lower, as was to be expected, but the Bank have

/been able

 T. Lankester, Esq.,
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been able to maintain orderly conditions in the markets without having to provide very heavy support.

I am sending copies of this letter to John Beverly and Martin Vile.

Y ev,

MA

(M.A. HALL)
Private Secretary

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