



S.H.

Pepper again.

I had a fairly hectic conversation not long after returning from the meeting. His points were

- (1) Rumours are circulating that M&A has been held down because of the PM's personal intervention [Rottell said so in today's FT].
- (2) He has heard a report at 3<sup>rd</sup> hand that <sup>at lunch with Bankers this week</sup> she has been lecturing them about the ineffectiveness of increasing interest rates, and blaming the banks for pushing short rates up. This rumour is causing great anxiety at several levels. The financial world are shocked that she will be the monetary outcast but will not appear to hear of the exchange rate means. And, as she has been held in such great esteem for the most part, the sense of disillusion is all the greater. Anderson.
- (3) Gordon reiterates that there is not a great deal of liquidity around, hence not a buyers' strike in the sense that there are vast sums being deliberately withheld. Funds will, of course be flowing into the institutions all the time, so the importance to get gold sales moving is not diminished by the fact that instant rate sales are out of the question.
- (4) The gilt market needs an event. Apart from the obvious trigger

of an MLR hike, he reckons what is needed is a new issue and a lender with a somewhat lower minimum price than would be normal (in view to the state of the market). It would not be appropriate to go for a completely unrestricted lender, as one might put the fear of the almighty into jobbers, brokers etc., whatever one said to reassure them about it e.g. being a one-off event.

(5) The corset should be continued - he agrees that to remove it would be quixotic at this juncture. But it must not be allowed to bite, & create more administrative difficulties.

(6) He is indeed slow to feel the Bank ought to be heavily criticised for not having got its call cut months, & those refusing requests to reopen the "tap" [i.e. at lower prices]. In his Bulletin on Thursday he may well criticise them, and press for publication of weekly money supply stats., on the ground that, armed with them, one can put monetary trends under a more searching & frequent scrutiny & avoid massive surprises such as were just had.

You may want the FSI or others to see this.

M. 8/11