

SECRET

PS/NO 10
Jenkins Street

SECRET

FM WASHINGTON 290200Z SEP 81
TO IMMEDIATE UKDEL MELBOURNE
TELEGRAM NUMBER 001 OF 28 SEPTEMBER
INFO IMMEDIATE F C O (PERSONAL FOR CHIEF SECRETARY, WASS, RYRIE,
JENKINS, MIDDLETON (TREASURY) AND LANKESTER (NO.10))

FOLLOWING PERSONAL FOR PRIME MINISTER FROM CHANCELLOR OF THE
EXCHEQUER.

1. MY ASSESSMENT OF THE U.S. SCENE, AND ITS SIGNIFICANCE FOR US, REMAINS AS IN MY REPORT OF 27 SEPTEMBER (WASHINGTON TELNO.2 TO KUWAIT), THOUGH I HAVE SINCE HAD TALKS WITH REGAN AND VOLCKER.
2. YOU WILL HAVE HEARD THAT THE LONDON EQUITY MARKET FELL A FURTHER 17 POINTS TODAY (MONDAY) AND THAT THERE WERE FALLS ALSO IN NEW YORK, TORONTO AND PARIS. IN NEW YORK, HOWEVER, THE SHARP FALL WAS MORE THAN RECOVERED DURING THE DAY, AND IN LONDON THE POSITION WAS SLIGHTLY BETTER BY THE CLOSE. INTEREST RATES IN LONDON MOVED UP A LITTLE IN THE MARKETS, WITH 3-MONTH RATES RISING 3/8 TO 16 5/8 AND 7-DAY MONEY CLOSING AT 14 7/8.
3. I HAVE HAD DISCUSSIONS WITH LEON BRITAN IN LONDON AND WITH THE GOVERNOR, WHO IS SIMILARLY IN CLOSE TOUCH WITH HIS PEOPLE AT HOME. IN THE LIGHT OF THE MOVEMENTS IN THE MARKET, I AGREED TO MOVE THE LIMITS, WITH WHICH YOU ARE FAMILIAR, UP BY ONE POINT. THIS GIVES THE BANK THE NECESSARY ROOM FOR THEIR OPERATIONS. IN THE PRESENT CIRCUMSTANCES NONE OF US SAW SCOPE FOR RESISTING THE MARKET MOVEMENTS.
4. ON THE EXCHANGES WE STARTED THE DAY IN LONDON AT 85.9 EFFECTIVE AND ENDED AT 86.4. I HAVE AUTHORISED THE BANK TO CONTINUE OPERATING IN CASE OF NEED IN THE EXCHANGE MARKETS AT A SCALE BROUGHT IN LINE WITH WHAT WE HAVE AGREED IN THE PAST.
5. THE TURMOIL IN THE LONDON MARKETS IS WORRYING. BUT THE SLIDE HAS BEEN WORLD-WIDE, WITH ITS PRINCIPAL CAUSES, AND POTENTIAL REMEDIES, LYING ON THIS SIDE OF THE ATLANTIC. THE UNDERLYING PROSPECTS FOR THE RECOVERY OF THE UK ECONOMY HAVE NOT CHANGED. NOR OF COURSE SHOULD OUR POLICY COURSE: WE MUST HOLD TO IT, AND BE SEEN TO DO SO.
6. I AM KEEPING CLOSELY IN TOUCH WITH THE SITUATION AND EXPECT TO BE BACK IN LONDON LATE ON WEDNESDAY EVENING.

HENDERSON

LIMITED
HD/ERD
HD/ESID

COPIES TO:-

(PERSONAL FOR) PS/NO 10 DOWNING ST. ✓
CHIEF SECRETARY }
SIR D WASS }
MR W S RYRIE } H M TREASURY
MR JENKINS }
MR MIDDLETON }
MR LANKESTER } NO 10 DOWNING ST.

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