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Prime Minister (2) 39



Nothing new here

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Michael Scholar, Esq  
Private Secretary  
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19 May 1983

Dear Michael,

The Chancellor thought that the Prime Minister might like to see a short note on the markets, which are currently very quiet, with a general reluctance to take out new positions ahead of the Election.

Hopes of an early cut in interest rates receded after the Election announcement; there was concern about the April CGBR and money supply figures, and fading hopes of lower US rates in the near future. Interbank rates firmed slightly in line with the expectation of unchanged interest rates; there is no suggestion in the market of any expectation of a rise in base rates. Market rates closed a little easier yesterday, and sterling was a touch firmer last night and this morning, as Euro \$ rates respond to reassuring noises from the Fed (about M1).

The April CGBR and money supply figures, together with the prospect of rather high public sector borrowing over the coming few months, point to a need to keep a particularly close eye on the public spending and borrowing figures. But we are unlikely to have a much clearer picture of the prospects for the year as a whole ahead of the full reassessment that will be done as part of the June forecast. The immediate prospect of a rise in building societies' mortgage rates has receded, and the slightly better inflows in calendar April are helpful. It may not be possible to gauge the extent of the underlying strength of sterling until after the market has had a chance to digest the Election result.

A continued period of quiet markets and steady interest rates between now and the Election would be very satisfactory, and, with the aim of keeping rates broadly unchanged, we would expect to do a modest amount of "leaning into the wind", whichever direction it comes from (and it is not easy to predict now which is the more likely). But heavy market pressures in either direction would be a different matter,

/and the Chancellor

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and the Chancellor would review the situation again if they were to develop.

*Yours ever,*

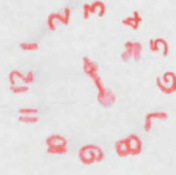
*J O Kerr .*

J O KERR  
Principal Private Secretary

CONQUEROR

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19 June 2003



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