

Domestic Mon  
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PRIME MINISTER

We are observing the tilt in the money market yield curve which often takes place when there is uncertainty about the exchange rate which in turn generates uncertainty about interest rates. The rates for periods over 3 months rise while those for shorter periods fall.

This occurs because those with money to deposit go short in the hope that rates will rise and they will be able to re-invest later at these higher rates. Conversely, borrowers try to extend the time period of their borrowing.

This phenomenon can be troublesome to deal with. The Bank's first response is to "overdo the help", i.e., by buying in more bills than are strictly necessary they keep liquidity plentiful. This often works if it is accepted as a signal that the authorities wish to maintain the level of interest rates. But it can backfire in more extreme circumstances if the market believes that the authorities are not going to succeed. All that is then achieved is that the more plentiful liquidity helps the exchange rate on down.

AT  
We must discuss with Alan Walters.  
When is he due here again?

MS.

12 December, 1983.

BF 19.12.83

~~To check with AT  
whether a meeting with  
Aps will take place.~~

Andrew -

has a date been fixed  
to discuss the money  
market yield curve with  
Alan Walters?

Jusam

19.12.83

This has been done

AT

19/12