



Treasury Chambers, Parliament Street, SW1P 3AG
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4 May 1984

A Turnbull Esq
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Dear Andrew,

BASE RATES

Money market rates have been edging up this week to a point that puts pressure on the clearers' base rates. In particular the 3-month inter-bank rate is now above 9 per cent.

This hardening is scarcely surprising given the rise in US rates. Since the clearers' base rates were reduced after the Budget US short-term rates have risen by around 1 per cent. But the current nervousness in the money markets probably also reflects some worries about domestic monetary growth.

If the present level of money market rates persists the clearing banks will almost certainly seek to restore their margins by raising base rates (at the moment Barclay's rate is $8\frac{3}{4}$ and the others $8\frac{1}{2}$).

The April money figures, to be published on Tuesday, should help to relieve the market's immediate fears - £M3 up by $\frac{1}{2}$ per cent and M0 unchanged - though the high bank lending figure will be unwelcome. The recent firmer tone in sterling will also be helpful. But we cannot be sure how the markets, in their present nervous state will react. Next week could therefore be a rather difficult time, and the Chancellor feels that the Prime Minister ought to be aware of this.

Yours ever,
David.

D L C PERETZ
Principal Private Secretary

Prime Minister

To note. Alan Walters is here on Tuesday and Wednesday morning. I will arrange a meeting to discuss this.

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