

PS  
PS/PDS  
PS/MR LUCE  
~~MR WILSON~~  
| HD/PED  
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PS | LADY YOUNG  
SIR W HARDING  
~~RESIDENT OFFICE~~

COPIES TO:  
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MR COLLES, NO. 10 DOWNING ST  
MR ROBERTS, NEWS DEPT  
SIR PERCY CRADOCK  
*Mr Fifoot Legal Adviser*

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ADVANCE COPY  
IMMEDIATE

SECRET

DESKBY 061130Z BOTH  
FM HONG KONG 061040Z JUL 84  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 1854 OF 6 JULY  
INFO IMMEDIATE PEKING

FUTURE OF HONG KONG

1. A SPATE OF RUMOURS HAS TRIGGERED A SHARP FALL IN THE VALUE OF THE HONG KONG DOLLAR. THE DOLLAR BROKE THROUGH THE PEG LIMITS AND WAS QUOTED AT DOLLARS 7.94 TO THE U.S. DOLLAR. THE ASSOCIATION OF BANKS HAVE JUST ANNOUNCE THAT THEIR BEST LENDING RATE WILL RISE BY 3.25 PERCENT TO 17 PERCENT WITH IMMEDIATE EFFECT AND DEPOSIT RATES BY 3 PERCENT. THE RUMOURS BEGAN TO CIRCULATE AFTER THE STOCK EXCHANGE HAD CLOSED. THE HANG SENG INDEX CLOSED AT 822.82 (DOWN ONLY 6.11 POINTS).

2. A WIDE VARIETY OF RUMOURS IS CIRCULATING. THE BEST PICTURE WE CAN PUT TOGETHER OF THE REASONS FOR THE SLIDE IS THAT PEOPLE WERE ALREADY NERVOUS BECAUSE OF EVERBRIGHT'S WITHDRAWAL FROM PROPERTY DEALS: THE CHINESE LEAKS ABOUT THE JOINT GROUP MADE PEOPLE AFRAID THAT THERE WOULD NOT EVEN BE 13 YEARS OF SOUND GOVERNMENT WITHOUT INTERFERENCE FROM PEKING: REPORTS IN THE U.K. PRESS, REPLAYED HERE, THAT THE PRIME MINISTER WAS IN 'FALKLANDS MOOD' STARTED RUMOURS THAT THE BRITISH SIDE WOULD BREAK OFF THE TALKS. FOR NO APPARENT REASON, IT WAS RUMOURED THAT THE GOVERNOR WOULD BE MAKING AN IMPORTANT ANNOUNCEMENT AT A PRESS CONFERENCE BEFORE HIS DEPARTURE AND PEOPLE SEEM TO HAVE LEAPT TO THE CONCLUSION THAT HE WOULD ANNOUNCE THE SUSPENSION OF THE TALKS. IT WAS ALSO SUGGESTED THAT THE HONG KONG GOVERNMENT WOULD NOT INTERVENE TO SUPPORT THE DOLLAR IN PURSUIT OF THE SUPPOSED CHANGE IN NEGOTIATING TACTICS. ANOTHER SUGGESTION WAS THAT THE HK GOVERNMENT WAS ABOUT TO CHANGE THE RATE AT WHICH THE DOLLAR IS LINKED TO THE U.S. DOLLAR.

3. WE ARE TAKING THE LINE THAT RUMOURS OF DRAMATIC DEVELOPMENTS IN THE TALKS ARE WITHOUT FOUNDATION. WE ASSUME YOU WILL RESPOND SIMILARLY TO ANY ENQUIRIES.

BRAY