

SUBJECT

cc Ops
Masters

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CABWTN 001

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T6/85

O 151420Z JAN 85
FM CABINET OFFICE LONDON
TO THE WHITE HOUSE
BT

S E C R E T
MESSAGE FROM THE PRIME MINISTER
TO THE PRESIDENT OF THE UNITED STATES

THIS MESSAGE IS PARTICULARLY SENSITIVE AND WE REQUEST THAT IT
BE GIVEN THE MOST LIMITED POSSIBLE DISTRIBUTION.

DEAR RON,

''WE HAVE BEEN THROUGH A PERIOD OF INTENSE PRESSURE ON STERLING
IN THE PAST FEW DAYS ALTHOUGH THERE IS NO JUSTIFICATION FOR MARKET
WORRIES ABOUT OUR POLICIES OR THE PERFORMANCE OF OUR ECONOMY. THE
ECONOMY IS GROWING WITH NO SIGN OF AN UPTURN IN INFLATION. WE HAVE
MADE CLEAR OUR DETERMINATION THAT PUBLIC EXPENDITURE AND BORROWING
WILL BE KEPT UNDER CONTROL DESPITE THE PRESSURES RESULTING FROM
HIGHER UNEMPLOYMENT.

WE HAVE RAISED OUR INTEREST RATES BY TWO AND ONE HALF PER CENT SO
THAT THEY NOW STAND AT 12 PER CENT OR OVER COMPARED WITH AROUND
EIGHT AND ONE HALF PER CENT IN THE UNITED STATES. I HAVE DONE AS
MUCH AS CAN BE ASKED TO TIGHTEN POLICY. BUT WE ARE FACED WITH
CONTINUED DOLLAR STRENGTH. THIS LED TO DISORDERLY MARKETS YESTERDAY
CARRYING THE DOLLAR TO LEVELS WHICH HAVE BEEN MAINTAINED TODAY. IT IS
NOT JUST A QUESTION OF STERLING. THE DOLLAR IS STRONG AGAINST ALL
CURRENCIES - IT IS AT RECORD LEVELS AGAINST THE SWISS FRANC, FRENCH
FRANC AND ITALIAN LIRA, AND AT A 12-YEAR HIGH AGAINST THE DEUTSCH-
EMARK.

WHEN THERE WERE SIMILAR CONDITIONS IN THE SUMMER, THE GERMANS
INTERVENED STRONGLY WITH SOME US HELP. THIS TOOK THE EDGE OFF
DOLLAR STRENGTH AND CALMED THE MARKETS. WE HAVE INTERVENED ON
ONLY A LIMITED SCALE AS EXPERIENCE INDICATES THAT COUNTRIES
ACTING INDIVIDUALLY CAN HAVE LITTLE IMPACT ON THE MARKET.

THE FINANCE MINISTERS OF THE GROUP OF FIVE MEET IN WASHINGTON ON
THURSDAY AMID WIDESPREAD EXPECTATIONS THAT THEY WILL TAKE SOME
ACTION. COULD YOU CONSIDER WITH SECRETARY REGAN AND YOUR ADVISERS
WHETHER THE US CAN JOIN WITH THE OTHERS IN A COLLECTIVE ATTEMPT
TO RESTORE REALITY TO THE MARKETS ON FRIDAY OF THIS WEEK?

I AM NOT ASKING THE US TO DO ANYTHING WHICH COULD CAUSE A PRECIPITATE
FALL IN THE DOLLAR - NOR DO I CONTEMPLATE ANYTHING WHICH WOULD
ADVERSELY AFFECT THE MONETARY OBJECTIVES OF THE COUNTRIES CONCERNED.
BUT SUCH ACTION COULD MAKE A SIGNIFICANT CONTRIBUTION TO EASING THE
DIFFICULTIES FACED BY THE UK AND OTHER EUROPEAN COUNTRIES. IN THE
CIRCUMSTANCES WE FACE, IT IS IMPORTANT THAT WE CONCERT OUR ACTIONS.''

YOURS SINCERELY
MARGARET THATCHER

NNNN

INT QSL AT 151514Z ????