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Treasury Chambers, Parliament Street, SW1P 3AG
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3 October 1986

David Norgrove Esq
10 Downing Street
LONDON
SW1

Seen by P73/w.

Pamie Hunter²

JWS
6/10.

Dear David,

JWS

THE MARKETS

The Chancellor has now seen your letters recording the Prime Minister's meetings on markets earlier this week. There are three points he would like to add:

Loose drafting by me; pedantry on their part.

In your letter of 1 October you recorded "the swap with the Bundesbank had substantially helped market sentiment". The swap itself has not been activated, and what helped market sentiment was the Bundesbank intervening as the Bank of England's agent. *at top PT16*

Self-justification.

(ii) In the same letter you also recorded that "it would be useful to put an agreement of that kind in place earlier in any future period of pressure". The Chancellor has commented that the swap is now in place and we will be able to extend it so that it is available if needed in future. The agency agreement was already in place - we and the Bank had considered using it last week.

~~Review~~
Ticking off the Bank for talking to the press about the Bundesbank intervention.

(iii) In your second letter of 30 September you recorded the Prime Minister's view that it would not be helpful to make public the existence of the swap agreement with the Bundesbank. The Chancellor feels it is of the first importance that this swap is not revealed. We had never revealed the existence of the swap with the US Federal Reserve (though US legislation has meant that the US authorities have). It could in certain circumstances be useful for us to draw on the swap to smooth out the month to month changes in the reserves. But the value of this depends on its existence not being revealed. *at top PT15*

I am copying this to John Footman (Bank of England).

Yours
Alec

A C S ALLAN
Principal Private Secretary

ECON POL Domestic Monetary
Policy PR16



INSTITUTIONAL INVESTMENT

