

PRIME MINISTER 2

MARKETS

The Chancellor discussed with the Bank this afternoon tactics in the markets. The Bank were nervous about the scale of today's intervention. They are increasingly feeling that either the exchange rate should be allowed to rise or interest rates should be further reduced.

The Chancellor persuaded them that intervention should continue as necessary into next week, pointing out that the markets may be calmer once the reality of an Election is in progress.

The Bank will be prepared to intervene in Tokyo over Sunday night to keep sterling down and to give it if possible a somewhat weaker start to the week.

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David Norgrove

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