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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

9 November 1987

MARKETS

Lord Stevens, Chairman of United Newspapers and MIM Britannia Limited, called to see the Prime Minister this morning. Some of the discussion concerned the markets, and Lord Stevens made a strong attack on the performance of the Stock Exchange over the past few weeks. The markets had been thin and it had often proved extremely difficult to deal. The market capitalisation of MIM had been moved on occasion by tens of millions of pounds on the basis of a selling order of a few tens of thousands of pounds. Market makers had widened their spreads and at one stage one major broker had tried for an agreement under which market makers would widen their spreads to 10 per cent. Lord Stevens also said that broker had sent MIM no statement since February this year. It was difficult to see how they could know what their profits were when they had not reconciled their dealings with customers. At one point he had told MIM's dealers to turn off their Stock Exchange screens. Wall Street in contrast had coped with record volumes.

I am sure the Prime Minister will want to return to this subject in the next few days, and she may well feel inclined to discuss it in her Guildhall speech on Monday. I should be grateful for your urgent comments. Among other things, it would be helpful to have an analysis of turnover in London and New York over the past few weeks in relation to movements in the stock indices, and how turnover has compared with more normal times. Lord Stevens also argued that UK institutional investors are short of liquidity, and it would be useful if this could also be covered.

I am copying this letter to Tim Walker (Department of Trade and Industry).

David Norgrove

Alex Allan, Esq.,
H.M. Treasury.

SA