

Jan

PRIME MINISTER

MARKETS

The pound has moved downward today, from an opening Index figure of 77.7 to closing of 77.3 (compared to the previous close of 77.9). The latest figure (1945) for the dollar rate is \$1.8170 (against an opening of \$1.8365) and for the Deutschmark a rate of DM 3.1390 (against an opening of DM 3.1652). Interest rates have already firmed with the 3 month inter-bank rate now standing at 8¹/₁₆.

The Chancellor is holding a markets meeting at 1000 tomorrow and may well wish to come to see you thereafter to seek agreement to a ½ percentage point increase in interest rates. As you know, the Treasury believe that the slight looseness in monetary conditions has been compensated for by the higher exchange rate, and obviously with the rate lower that tightening is removed.

My own view is that, subject to any changes in the market tomorrow morning, the Chancellor has a good case for a ½% interest rate increase in view of our priority for the anti-inflationary objective. It is possible to debate the timing of the increase, on the lines that we should permit the rate to fall to say DM 3.10 before moving the rate. But we might then be faced with the need for a 1% increase; and that might give the impression of "emergency" action. So a ½% now looks right subject to tomorrow's markets.

If the Chancellor wished to come to see you tomorrow, it would probably be between 1030 and 1130. The diary is free.

N.L.W.

Agreed - will be ready

(N.L. WICKS)

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1 June 1988