

PRIME MINISTER

## MARKET REPORT

You will see from the attached Evening Report that the markets were in a slightly rocky mood this afternoon. This reflected a combination of:

- adverse reaction to the money supply - and in particular the bank lending - figures;
- a surprise move by the Germans to push their interest rates up by 1/2 per cent;
- reaction to the news that the latest North Sea accident could have a significant balance of payments effect.

In the equity market, all this caused quite a sharp reversal, with the FT-SE 100 moving to some 30 points down on the day, having started the day up.

On the foreign exchanges, the DM strengthened and sterling initially held with it. But then after a period, with growing reports of the possible need for a further UK interest rate increase, we weakened a bit to under DM 3.17. But we remained stronger on the day against the dollar. The overall effective drop was only about 0.3.

Tomorrow's figures on consumers expenditure in the first quarter (reported in a separate note in the box) may help to ease the stories of pressures for a UK interest rate rise. We have also had good news today of a reduction in the earlier estimate of imports and the trade deficit in March; see separate note in the hot box.

R.C.G.

PAUL GRAY  
20 April 1989  
 EL3DMP