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PRIME MINISTER

cc Sir A. Walters

BILATERAL WITH THE CHANCELLOR: 10 MAY

I have discussed with the Chancellor's office possible items for discussion at tomorrow's bilateral. Neither they or I are aware of any pressing matters, and I gather that the Chancellor would be content to forgo the meeting if you saw no need for it.

If you did see him, the main item for discussion would probably be the markets. Today's evening report is enclosed. You will see that the dollar has continued to be very strong, and that we undertook substantial intervention. This was carried out first thing this morning, following the decision by the Chancellor last night that some support would be appropriate. But as far as I am aware there is no plan to repeat the operation - not least because other central banks seem to have become disenchanted with the attempt (which has now failed) to keep the dollar below DM 1.90.

Content to drop tomorrow's bilateral with the Chancellor unless market developments tomorrow morning point to the need for a quick discussion?

Yes

acc.

Paul Gray

9 May 1989