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PRIME MINISTER

EVENING REPORT

Tonight's Evening Report (attached) confirms the continuing strength of sterling today in the light of the Budget.

You may however be surprised to see market intervention of \$111 million recorded. I have enquired into the background to this. Apparently, this was action undertaken by the Bank without reference to the Treasury. It is said not to have been any sort of attempt to hold the rate down. The Bank say they were approached by market operators wishing to sell them dollars in order to close out some contracts that remained open following the intervention ten days ago when the Bank were selling dollars. Given the movement of the rate since then, this presented the Bank with an opportunity to close out their earlier position at a significant profit. They decided to take this opportunity, both to make a trading profit and to use it as the opportunity to acquire part of the regular \$300 million buying programme to finance our German defence obligations.

This sounds more or less plausible, and the operation does not seem to have become known to the market.

Paul Gray

PAUL GRAY
15 March 1989

Duty Clerk.