

PRIME MINISTER

MARKETS → RA

I attach today's Evening Report.

Sterling started to come under serious pressure in the second half of the afternoon. That is continuing this evening. The latest intervention figure I have is some \$300 million. At one stage sterling had dropped below DM3.03, but it is currently (at 1915) at DM 3.032. Having been around \$1.56 for most of the day, it is now only just over \$1.54. The current effective rate is probably around 90.

No particular factor seems to be responsible. But sterling is now looking vulnerable.

The Chancellor has convened an urgent Markets meeting with Treasury and Bank officials first thing tomorrow morning. He will be considering the full range of options, including another move on interest rates. If he decided he wanted to move rates, he would obviously need to have an urgent word with you. I have therefore told his office he should be in a position to come to see you at 0915, before Mr. de Klerk arrives at 0930. Amanda or I will let you know in the morning if he does want to come.

You will obviously want to judge the position as it looks tomorrow morning. Alan is now back in the United States for a period, but I know he would strongly oppose another interest rate move and any mechanical notion that a weakening of monetary conditions via the exchange rate requires a tightening through interest rates. On the other hand, you have been concerned hitherto not to let the exchange rate run out of control, with all that could mean in the short term for the RPI.

1 don't think another rise in interest rates would help at all. As the Budget
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22 June, 1989. Sunday's report reveal a sharp reduction in monthly deposits in the last month, the increase in mortgages another 1/2 could trigger would be the worst of all worlds