

FILE PMZALIN
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From the Private Secretary

21 August 1989

SUBJECT CC MASTER

Dear Jonathan

As you know, the Chancellor came in to see the Prime Minister this morning to discuss the likely market reaction to the trade figures. The Chancellor noted that the figures were extremely difficult. Car imports in July ahead of the G registration (and the diversion of UK exports to meet home demand) were obviously a factor. The market had already discounted the dock strike and indeed had expected it to have a slightly favourable effect on the trade figures, so Wednesday's figures would come as a greater shock. The July seasonal adjustment was always a large one. That factor would disappear in next month's figures.

The Chancellor felt that the markets would react very badly. He had agreed the intervention strategy with the Bank, which the Prime Minister said she fully endorsed. The Chancellor agreed to contact the Prime Minister if there were significant exchange rate problems or if he felt that, contrary to both their hopes, a rise in interest rates was necessary. Both noted that, with the exception of this set of trade figures, all the other indicators in the economy pointed to it slowing down at the right rate and it would be a great pity to bring about too sharp an adjustment to the economy on the strength of one set of figures against all the other indicators.

Yours ever

Dominic

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