

Add to PPS
541/1

SECRET

13. 7.83

EATG memo
12.7.83 - MP DOSS

THE GOVERNOR

12.7.83
Mrs Lomax's note
analysis of present position
read + agreed

in respect of Govt. being thought
not to be making great efforts
to meet intermediate objectives.

NOTE FOR MEETING WITH CHANCELLOR TONIGHT

no action is less + less of an option.

The Chancellor is likely to ask you to open the discussion. It is suggested that you need not say much about overall objectives; but you could stress that ~~it is important not to let matters drift.~~ ^{we are reaching a position where there is less less option to take reaction} (I sense a slight conflict here with what we say about interest rates.) We recognise that the Government has done as much as it can at present on the fiscal front, but the longer-term fiscal position is still unsatisfactory. ^{Markets suspect that savings of £3bn. may be necessary. Report that the B.R. had been revised up by forecast. But advise nothing more before autumn.}

90 day
pattern

On interest rates, you should draw attention to the current upward slope of the yield curve in the interbank and bill markets; this is in contradistinction to the flat pattern of rates at which we are presently conducting our bill operation. Thus there is a measure of tension - which could become quite severe. There is a danger of instability.

There appears to be no great wish in the money market for higher short-term interest rates; but experience tells the market that higher rates are in fact likely and this explains their desire to sell longer-dated instruments and move into very short paper. ^{in a situation like this}

Nevertheless

We recommend no action on the interest rate front for the time being. There is much to be gained from a period of consolidation - particularly after the breathing space won by yesterday's sales of the indexed convertible stocks. ^{prospect of sale of £500m in 2 tranches.} There is, however, a risk of the situation being upset by a rise in US rates - perhaps this weekend - in which case some compensatory action here might be necessary.

If the possibility of a new long tap is raised, we suggest leaving consideration of this for the time being. There is no urgent need for such a stock - and it can be conveniently discussed at the regular funding meeting next week.

You could acquiesce in any proposal for higher National Saving rates - but these are a Treasury responsibility and the Treasury is very protective of its authority here.

On BP, the Chancellor should be discouraged from making a statement before talking to the company.

*offer for sale
BP in Sept £500m
Try C & W
Strong case for announcement*

Governor's Office H0-P
13 July 1983

John Bartlett (4121)

