

20 December 1984

PRIME MINISTER

THE STERLING-DOLLAR EXCHANGE RATE

Sterling has been under considerable pressure, particularly against the dollar, in the last week.

The overriding reason is concern that OPEC will not be able to hold the oil price at their forthcoming conference.

There is nothing the UK Government can do about this.

Energy have now abandoned their unrealistic hopes of pegging the oil price through BNOC, and it would be foolish to try and defend the pound against these substantial pressures. There is no reason to put up interest rates, and even less reason to buy foreign currencies.

There will come a point when the pound is oversold, when the Bank may well want to buy pounds, selling foreign currencies from the reserves in order to squeeze those who are short of the currency. The point has not yet been reached when this would be a good idea.


JOHN REDWOOD

Don't mention
Pajon

ELO POL
Exchange Rate PK 2