



10 DOWNING STREET

From the Private Secretary

I do not think
Prime Minister 2 we need be perturbed
by such stupidity
This silly piece is the
Chancellor's revenge for the Good
Housekeeping article on taxation of
husband and wife.

But, intended or not, the article
does I fear illustrate the dangers of
saying almost anything about the
exchange rate.

Your argument was symmetrical for
depreciation or appreciation, mutatis
mutandis, but the author chooses
not to recognise that.

DRV
19/6.



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Sean David

The Chancellor's eye was caught by this article which appeared in the June issue of de Zoete and Bevan's Exchange Rate Monitor.

Yours ever
Rachel

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Exchange Rate Monitor

Thatcher prepared to let pound collapse

In a Commons statement this week the Prime Minister rejected EMS membership again. This time though she gave the reason.

The January '85 sterling crisis forced the authorities to abandon the old policy of benign neglect of sterling. But recently a bias towards lower interest rates & a lower exchange rate seems to be re-emerging.

We rate the £ as high risk now that interest rates have fallen too far to offset the negatives of oil, a likely outflow of excess money & politics (see page 4). The statement warns of a return to "benign neglect". The government will not step in if the £ slides.

A GOVERNMENT WEALTH WARNING

"When you get speculation against sterling there are two ways if you have joined to deal with it, using up precious reserves, which can only be done to a limited extent, or by sharply putting up interest rates.

It denies the option of taking the strain on the exchange rate. I do not think it is right to deny us that option."

POUND SPOT S SUPPORT
 RATES 1pm R RESISTANCE
 12 June '86 T TARGET
 DAILY TOPIC COMMENT, PAGES 1680/90

US\$	1.5250	S	1.45	T	1.55
		R	1.55		
DM	3.37	S	3.32	T	3.20
		R	3.45		
YEN	253.3	S	248	T	248
		R	260		
SWFR	2.79	S	2.76	T	2.70
		R	2.85		
FL	3.80	S	3.74	T	3.62
		R	3.85		
FRFR	10.75	S	10.60	T	10.30
		R	11.10		
LIRA	2320	S	2270	T	2240
		R	2360		
CAN\$	2.11	S	2.04	T	2.20
		R	2.20		
AUS\$	2.22	S	2.10	T	2.30
		R	2.30		

SHORT - TERM
TECHNICAL VIEW

The \$ is still holding its long term downward trend against the DM & the £. Fundamentals also imply another downward leg for the \$ - probably the last.

A discount rate cut could trigger that fall.

Our short-term targets are the last \$ lows at \$1.55, DM2.15 and Yen160.

£/ DM failed at 130day average & resistance around DM3.42.

Target: DM3.32 and then DM3.20.

Aus \$ is testing supports at A\$2.22 against the £ & US\$68c.

We may be seeing the final sell off on the Aus\$ which could hit A\$2.30 & US\$65c before turning.