

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR: 19 APRIL

Having talked to the Chancellor's Office, I suggest two items for the agenda:

- (i) The position in the markets. Sterling has been very strong again today, as shown on the attached Market Report. You will see that after hours, the Fed did \$50 million intervention on the Bank's behalf. I gather the Chancellor is have a meeting with the Bank tomorrow before he comes to see you. I am told one option being considered, which some in the Bank favour, will be to engage in a heavier bout of intervention.
- (ii) A report on the meeting in Washington last week. I enclose ^{to} ~~an~~ G7 communiqué.

ALCG

PAUL GRAY

18 April 1988

PMMAWK

April 13, 1988

Statement of the Group of Seven

1. The Finance Ministers and Central Bank Governors of seven major industrial countries met today to conduct multilateral surveillance of their economies pursuant to the economic policy coordination process adopted at the 1986 Tokyo Summit and strengthened at the 1987 Venice Summit. The Managing Director of the IMF participated. They discussed the medium-term objectives and projections for each of their economies and for their countries as a group, together with prospects for short-term performance, as a basis for assessing current economic trends. As part of their continuing efforts to strengthen coordination, they agreed to develop for inclusion in the set of existing indicators a commodity price indicator as an additional analytical instrument. In this context, they agreed to consider ways of further improving the functioning of the international monetary system and the coordination process.
2. The Ministers and Governors reviewed economic and financial developments since their statement of December 22/23, 1987. They noted that their renewed cooperation has provided a basis for improvements in their economies that will strengthen economic performance. They reaffirmed the validity of the policy directions and commitments set forth in that statement, which are contributing to continued growth with low inflation. Furthermore, they welcomed the additional evidence that the correction of external imbalances is underway, as well as the increased stability in exchange rates. They also agreed that greater attention will be given to structural reforms to increase the flexibility of their economies and to improve growth and adjustment.
3. The Ministers and Governors expressed their determination to continue to coordinate economic policies to strengthen the underlying fundamentals and thereby reinforce the conditions for exchange rate stability. They reiterated that either excessive fluctuation of exchange rates, a further decline of the dollar, or a rise in the dollar to an extent that becomes destabilizing to the adjustment process, could be counterproductive by damaging growth prospects in the world economy. The Ministers and Governors also reemphasized their common interest in stable exchange rates among their currencies and agreed to continue to cooperate closely in monitoring and implementing policies to strengthen underlying economic fundamentals to foster continued stability of exchange rates. In addition, they agreed to continue to cooperate closely on exchange markets.

4. The Ministers and Governors noted that other countries also have responsibilities for supporting the global adjustment process. In particular, while noting that certain newly industrialized economies have performed remarkably well, they called upon their authorities to accept greater responsibility for ensuring an open trade and payments system and correcting global payments imbalances. Toward this end, they urged them to continue to take actions to reduce trade barriers and to allow their currencies to reflect fully the underlying strength of their economies.
5. The Ministers and Governors stressed their strong opposition to protectionist measures as a means of responding to global imbalances. They reaffirmed their determination to continue to resist protectionism and to promote an open world trading system. In that connection, they emphasized the importance of early progress in the Uruguay Round towards trade liberalization by all participants.
6. The Ministers and Governors reaffirmed their full support for the current case-by-case debt strategy as the only viable and realistic approach for overcoming international debt problems. They welcomed the progress being made by some debtor countries in achieving increased growth and reduced payments deficits through the implementation of sound macroeconomic and structural policies. They noted that a major contribution to the financing of indebted developing countries has been made through Paris Club rescheduling of public credit. They emphasized the important role commercial banks have in supporting debtor countries' reform efforts through adequate and appropriate financing options under the menu approach. The Ministers and Governors reiterated their strong opposition to global debt-forgiveness proposals that transfer risks from the private sector to the international institutions or creditor governments. They urged the IMF and the World Bank to continue to work with debtor countries on a case-by-case basis to support debtor countries' reform efforts and to catalyze needed external financing through techniques consistent with the evolving, growth-oriented debt strategy.

Prime Make
Feb 6, 1984

SECRET

FOREIGN EXCHANGE MARKETS

MG EVENING REPORT

Monday 18 April 1988

Previous close		Today		since Plaza	Xchange \$/currency since Paris	since 16 October 1987
		opening 8.30am	close 4.00pm			
78.3	£ERI	78.5	78.7	-4.0	13.9	6.9
1.8880	\$/£	1.8935	1.8967	38.0	24.1	14.0
3.1350	DM/£	3.1398	3.1495	-19.3	12.8	5.1
1.5100	ECU/£	1.5122	1.5153			
92.1	\$ERI	-	92.1	-34.0	-11.4	-8.1
1.6605	DM/\$	1.6582	1.6605	71.1	10.0	8.4
123.75	Yen/\$	123.75	124.17	92.1	23.7	15.0

May \$16.92 Jun \$16.95 Jul \$16.92 Spot Brent May \$17.40 Jun \$17.42 Jul \$17.37

UK RESERVE TRANSACTIONS (\$million)

(a)	Today	This month so far	Total since 1 Apr 88	(b)	Estimated end-month position *
	7	332	332	Market intervention	436
	-8	-217	-217	Off-market transactions	-183
	-1	115	115	TOTAL	253
				Net borrowing	-230
				Valuation changes (EMCF swap)	52
				TOTAL CHANGE IN RESERVES	75
				MOD forward foreign currency needs	-262

(a) Spot and forward transactions on a done date basis.

(b) Spot transactions only on a value date basis, as in published figures.

* On conventional assumption of no further market intervention.

OTHER COUNTRIES MARKET INTERVENTION (\$million equivalent)

Belgium -	Germany -	Italy -	-231DM
Denmark -	Holland -	Japan	+40\$
France -	Ireland +32\$	US	-

MARKET COMMENT

The dollar firmed slightly in New York on Friday night on pre-weekend short covering but it eased in bearish Far East markets this morning with dealers reluctant to push it too far downwards for fear of BOJ intervention. Today the dollar has traded around DM1.66 with post trade figure blues and Gulf activities the main factors influencing traders.

Sterling began today in demand with a firmer oil price caused by the Gulf tensions. It rose further in late afternoon trading on oil and other factors. Around 5.15PM the Fed. sold \$50Mn on the Bank's behalf. This figure is not included in today's score.

Rates at 5.55PM : \$1.9005 DM3.1533 DM/\$1.6592 Y/\$124.17

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HONG KONG	Previous	Today	Change
Hong Kong dollar	7.8065	7.8105	-0.004
Hang Seng Index	2598.95	2551.96	-46.99
3 month interbank rate	4 5/8%	4 1/2%	DOWN 1/8%

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SECRET

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MONEY MARKETS

Monday 18th April 1988

INTEREST RATES

	£ Interbank		Eurodollar	
	Today	Change	Today	Change
7 days	8 3/16	1/16	6 7/8	1/16
1 mth	8	-1/32	7 1/16	1/8
3 mth	7 31/32	-5/32	7 3/16	1/16
12 mth	8 21/32	-5/32	7 13/16	1/16

BILLS

	Today	Change
3 Month Treasury Bills	7 9/16 -	7 1/2 -3/16

BANK MONEY MARKET OPERATIONS

	Purchases/Sales £ m	Rates	Discount Rate on Eligible Bank Bills
Band 1 (0-14 days)	213	7 7/8	8 - 7 7/8
Band 2 (15-31 days)	23	7 7/8	7 13/16 - 25/32
Band 3 (32-63 days)			7 11/16 - 21/32
Band 4 (64-91 days)			7 5/8 - 19/32
TOTAL BILLS	236		
Repurchase	247	unwinding on 11 May at 7 15/16%	
Lending	365		
TOTAL OPERATIONS	848	against shortage £ 950 m	

US RATES

	3 month CDs		10 yr Tsy Bond		20 yr Tsy Bond	
Today/Change	7.00	0.02	8.74	0.06	8.99	0.05

STOCK MARKET

	FT Ind-Ord		FTSE		Gilt index	
Today/Change	1419.8	4.1	1787.8	9.2	91.46	0.11

MARKET COMMENT

GILTS opened 3/16 better through the list, and were never far from this level until late in the session. Although underpinned by the strength of sterling, the market showed little sign of advancing until the pound was well beyond \$1.90. At the close shorts and longs were up 1/4, mediums were up 1/8.

INDEX LINKED opened up 1/8, and met sporadic demand later in the day. Both tranches were supplied by the authorities, and the sector closed up 3/8.

EQUITIES were strong in the morning, with the FTSE up 24 points at 11-30, but prices closed off the best on Wall Street's weaker opening. Exporting companies were dull on the exchange rate.

Step C Bank

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S E C R E T

GILT-EDGED MARKET

Monday 18th April 1988

Transactions basis, cash values (£m); sales + purchases -

ISSUE DEPARTMENT: MARKET TRANSACTIONS

		Today	April
	Gross sales shorts		143.1
	Gross sales mediums		20.9
	Gross sales longs and undated		
	Gross sales index-linked	76.1	308.2
	Part paid calls		0.1
	Buying in non-next maturities		-72.1
	CRND: Market transactions	0.1	-15.7
	TOTAL 'GROSS' SALES	76.2	384.5
	Buying in of next maturities		-305.8
	Redemptions	-0.6	-117.2
	TOTAL TRANSACTIONS WITH MARKET	75.6	-38.5
			+-----+
			Future calls
			400
			+-----+
Sales required to meet	April target of	£ 300 m	-484
		=====	+-----+

PRICES/YIELDS OF GILT-EDGED STOCKS

	Yesterday's close		Change from yesterday's close	
	Par yield (per cent)		Price (£/32)	Yield (%)
Shorts	8.558		6	-0.05
Mediums	9.079		7	-0.04
Longs	9.034		8	-0.03

REPRESENTATIVE STOCKS

	Price (£/32)		Yield (per cent)	
	Today	Change	Today	Change
8% Treasury 1992	98 10	8	8.50	-0.08
8 3/4% Treasury 1997 'C'	98 18	8	8.97	-0.04
11 3/4% Treasury 2003/07	121 8	8	9.33	-0.02
2 1/2% Index-Linked 2016	97 30	10	3.70	-0.01
3% Treasury Loan, 1992	86 14	7	6.80	-0.07
8% Treasury Convertible 1990	101 28	3	7.07	-0.05

GILT FUTURES

		Open	Close	Volume
Long Contract	June	123.04	122.30	11936
Medium Contract	June	98.18	98.19	47

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