

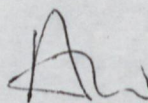
INTERVENTION

Last Tuesday the Bank intervened about \$185 million in trying to contain the rise of the US dollar. The main rise was against the Dmark which, because of the Bundesbank's past policy, has been particularly weak. No doubt because they have intervened heavily over past months to no avail, the Bundesbank did not intervene at all. Nor did the Bank of Japan. There was certainly no concerted intervention by the G5 countries.

I can see no justification for our intervention. It had no discernable effect on the out-turn of the market. Nor should one expect any substantial effect since, relative to transactions, the sums were trivial. (Incidentally, the media reported it as a \$300 million intervention.) But it may well have given a wrong signal to the market, namely that we have some sort of dollar/Dmark target. I believe it was a mistake.

As far as I can detect, there are no guidelines on intervention. Although there is a clear understanding that a policy of "large interventions" (e.g. over \$500 million) should be cleared with you, apparently there is no policy or strategy on our use of intervention. I suspect that, notwithstanding the "understandings", it could easily get out of control. To the player, intervention has many of the addictions of gambling - the feeling always that one only needs to stake a little more, and a little more, to make a big killing.

I advise that we put more explicit constraints on intervention - similar to those we employed in 1981-83. May I have your permission to explore this with the Treasury and Bank?



ALAN WALTERS