

PRIME MINISTER

MARKETS

Sterling opened this morning at 92.6/1.5740/3.1255. This was little changed in effective terms but with the dollar weak it was 1.5 cents up but 1 pf. down. This outcome was helped by \$100m. of intervention. The position remained the same until lunch-time when sterling weakened against both currencies reaching, at one point, DM3.1050. Further intervention brought the total for the day to \$270m. By the close the position had stabilised at 92.3/1.5722/3.1137.

Sterling remains vulnerable and sentiment is poor. In the immediate future much depends on the Bundesbank tomorrow. If they do not raise rates (which the Bank think is the most likely outcome) the pressure on the £ could ease and provide a good basis for intervention. If it raises rates sterling could come under strong pressure, with the Government facing the choice between letting the rate fall or raising interest rates still further.

The Chancellor is in Paris tomorrow morning until about 1800 hours and is out of London on Friday. You are tied up with President Bush until the early afternoon. I have put a slot in the diary for 1830 on your return from Dulwich should it be necessary for you to confer. But this will be activated only if necessary.

AT

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Andrew Turnbull

31 May 1989

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