

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR: 4 JULY

After discussion with the Chancellor's Office I suggest the following agenda for tomorrow's bilateral.

1. Markets

As you already know, things turned out much better than expected in the markets today. The Dollar opened significantly weaker against all currencies, and Sterling was also a bit stronger against the DM. That position has been maintained throughout the day, with even the 1130 figures for retail sales and credit not having any impact.

Today's evening report is attached at Flag A.

Unless there are any major developments overnight, there should be no need for much discussion at tomorrow's bilateral; you will recall that on Wednesday you have a further meeting with the Chancellor, Peter Middleton and Terry Burns.

2. Legal Reforms

At last week's bilateral there was no time to discuss the latest position on the legal reforms. You may therefore like to have a brief word with the Chancellor tomorrow, in advance of his chairing the E(CP) discussion on Thursday (Cabinet will be taking the subject on Wednesday of next week).

You may like to glance at the summary sections of the Lord Chancellor's paper which has been circulated to E(CP) (Flag B). This does not add much of substance to what the Lord Chancellor has already told you, but there is a useful summary in his covering note at Annex A.

Public Expenditure

You are having a separate talk later tomorrow morning with the Chancellor and Chief Secretary about the remit for next week's Cabinet discussion on Public Expenditure.

*Rec.*

PAUL GRAY

3 July 1989

DASAWB