

Fed Subsequently  
 intervened by \$15 ← sterling  
 at 19/2

FROM: R LAVELLE  
 DATE: 19 February 1985

CHANCELLOR

cc Sir P Middleton  
 Mr Cassell  
 Mr Hannah

#### EXCHANGE MARKETS

The Bank rang me at about 6pm to report an offer by the Fed to buy sterling. In response the Bank had expressed gratitude, and they said they would of course welcome such a purchase. But if the Fed offer was rationed, they had said they wondered if it might best be put on ice until an intervention looked more propitious in market terms. The Fed saw the force of this and there matters rest for the moment.

2. The background is another day in which the dollar has shown exceptional strength against the deutschemark. It currently stands at DM 3.32. Sterling has been on the sidelines all day, holding its own against the dollar - at a level of \$1.0950 or so - and strengthening against the deutschemark and in effective terms. At 6.30pm we were at DM 3.63½ with an estimated ERI of 71.7.

3. In these circumstances the Bank felt this was not the optimum moment for a Fed intervention. They also would prefer, as and when the moment comes, to spend (say) \$20 m themselves and conduct a joint pincer movement.

4. There seems good tactical market sense in this. However it seems not unlikely that the Fed action reflects political promptings immediately ahead of the Prime Minister's visit. I asked the Bank, therefore, if they were sure their response would not be regarded in any way as a rebuff. They gave me that assurance.

SECRET

5. The Germans have spent \$300 m today without evident effect: the Italians \$70 m and the French \$20 m. We have not intervened so far.

*R*

R LAVELLE

19 FEB 1985

