

21 March 1985

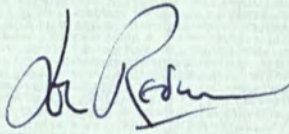
PRIME MINISTERCURRENCY MARKETS

Following my note of 19 March, and our conversation about the likely weakness of the dollar and the strength of sterling, you may be interested in the following points.

1. The tightness of our money policy is now more generally recognised in the City.
2. The events of the last 2 weeks have lost some Corporate Treasurers and exchange speculators money. That was always the first precondition for making them reluctant bears of sterling and bulls of the dollar.
3. News of a slowdown in American economic growth fuelled dollar weakness today, as it is another indicator that would suggest (as does the Ohio banking crisis) easier money and lower interest rates in the States.
4. Eddie George of the Bank of England has confirmed that many traders are more nervous of having exposed positions. Any reduction in the amount of leading and lagging in favour of the dollar by the large movers of money will help sterling.

Conclusion

I still think we may now be out of the woods on the dollar-sterling rate. It is encouraging that bad news from the dollar is now being taken bearishly by the Market. We have not seen this for many months.



JOHN REDWOOD