File- Monetary Policy Issues-Exchange Rate Intervention – Part D

Reference MG-MAMC/D/0002/001

File begins 04/01/1988

File ends 22/04/1988

Pages 1-20

SECRET

43/8

FROM: MISS M P WALLACE
DATE: 4 January 1988

MR PERETZ

Ms Goodman
what is x?

May
5/1

cc Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Miss O'Mara
Ms Goodman
Mr Cropper

INTERVENTION IN ECUS

The Chancellor has seen and was grateful for your minute of 23 December. He would welcome advice on another dimension of this - how useable are ECU reserves (for example, if and when we had to support the pound)?

2. The Chancellor would also be grateful for Sir G Littler's observations on the original proposition. His hunch is that the market might respond better if there were a continuing demand for ECUs, and that this is the solution to the 1979 EMS agreement problem.

MPW.

MOIRA WALLACE

599/88

DZ 2

FROM: N I HOLGATE
DATE: 5 January 1988

MISS O'MARA

cc Mrs Ryding
Ms Goodman

GERMAN RESERVES AND BUDGET DEFICIT

I think you are right to say that fluctuations in the German reserves do not affect the budget deficit directly, but that profits on the reserves do.

2. The Bundesbank owns the foreign currency reserves (unlike the Bank of England) and is responsible for financing capital inflows. In the UK, intervention is financed by borrowing. In Germany, a commercial bank surrenders foreign currency to the Bundesbank and is credited directly with Deutschemarks.

3. The Bundesbank is obliged to transfer profits to the Federal Government after provisions and additions to reserves. I attach an extract from the Bundesbank Act. This comprises interest receipts on foreign currency assets and profits from the purchase and sale of foreign currency. This is counted as income to the Federal Government and reduces the General Government Financial Deficit. (The Federal Republic does not use the concept of a PSBR).

<u>EEA</u>

4. Interest on foreign currency investments does reduce the PSBR. Profits from the purchase and fall of currencies do not. The former are central government receipts. The latter are classified as financing the PSBR. HMG controls the EEA and it is therefore included in the CG accounts. This is because EEA assets are a financial portfolio; transactions do not reflect a policy decision to buy goods or services. Valuation changes in the reserves do not score until a cash transaction occurs, when it is treated as financing.

Interest on the reserves is included in interest and dividends from private sector and abroad in table 6.7 of the 1987-88 FSBR. MG1 appears to play a rather small role in these forecasts: PSF, Accounts and EA make assumptions about interest rates overseas and the level of the reserves. MG2 has developed a methodology for measuring profitability but is not involved in forecasting.

6. I hope this answers your main questions; I had some difficulty in pinning down the sequence of actions for the forecasters from the files and talking to other divisions. If you wish, I would happily minute round to get a more formal version of events, now that everyone is back in the office.

NIHolgate

N I HOLGATE

Extract from the Bundesbank Act (1957)
Part VI

4

which the Federal Court of Audit is to carry out. The audit report of the auditor, together with the comments of the Federal Court of Audit thereon, shall be communicated to the Federal Minister of Finance.[1]

27. **Distribution of profit**

The net profit shall be distributed in the following order:
1. twenty per cent of the profit or twenty million Deutsche Mark, whichever is the higher, shall be transferred to the legal reserves until they reach five per cent of the total amount of banknotes in circulation; the legal reserves may be used only to offset falls in value and to cover other losses; the fact that other reserves are available for this purpose shall not preclude their use;
2. up to ten per cent of the remaining net profit may be used to form other reserves; the total amount of these reserves may not exceed the Bank's capital;
3. forty million Deutsche Mark, and from the accounting year 1980 onwards thirty million Deutsche Mark, shall be transferred to the Fund for the Purchase of Equalisation Claims set up under the Act on the Redemption of Equalisation Claims until its dissolution;
4. the balance shall be transferred to the Federal Government.

28. **Return**

The Deutsche Bundesbank shall publish, as at the 7th, 15th, 23rd and last day of each month, a Return which must include the following particulars:

I. Assets
Gold
Balances with foreign banks and money market investments abroad
Foreign notes and coins, foreign bills of exchange and cheques
Domestic bills of exchange
Lombard loans
Cash advances to
(a) the Federal Government and its Special Funds
(b) the Länder Governments
Treasury bills and Treasury discount paper of
(a) the Federal Government and its Special Funds
(b) the Länder Governments
Securities

1 Amended by article 9 of the Act of March 18, 1975 (Federal Law Gazette I, p. 705).

5

From: Sir G.Littler
Date: 5 January 1988

CHANCELLOR

4218

c.c. Sir P.Middleton
Sir T.Burns
Mr Scholar
Mr Peretz
Ms Goodman

INTERVENTION

No immediate problem - we have enjoyed a respite on sterling and have not been pressed to join in concertation - but there is a question which we should address.

2. So far, since the G7 agreement of 23 December, there has been massive intervention by U.S., Japan, and Europe, in broad concertation. In Europe, the Bundesbank have done over $1bn and other central banks have done much the same in total. We have done only $25mn (DM/$) - which looks well below a normal 'share'. (Strictly, we have not been accorded a share - but when you and I discussed over the Christmas break how to respond to a demand on us to join a major operation, we thought we ought not to be forced above 10-15% of the non-German half of the European contribution).

3. I see no need for us to 'catch up' - our argument that we did more than our share in the past is still worth something. But I would be a little uneasy if it came to be thought that we were refusing to cooperate and 'standing out of the G7 agreement'. In practical terms I suggest we authorize the Bank to make another one or two token participations of $25mn - if during the next few days there are further rounds of substantial concerted action by other Europeans. Perhaps we could have a word tomorrow?

(Geoffrey Littler)

600/88

37/1 6

FROM: MOIRA WALLACE D2.
DATE: 5 January 1988

MR PERETZ

MG 1/6

cc EST o/r
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Scholar
Mr H P Evans
Mr R I G Allen
Miss O'Mara o/r
Ms Goodman
Mr Polin

RESERVES IN DECEMBER

The Chancellor has seen your minute of 4 January, and was content with the attached press notice and briefing, subject to the following amendments, which were passed to Mr Polin by phone this morning.

Defensive 4 - answer to read "matter of judgement. (see Chancellor's answer to TCSC)." We agreed that the final version of the briefing should attach a copy of Q171 etc from the Chancellor's evidence to the TCSC.

Defensive 9 - answer to read "G7 meets when it is useful to do so."

Defensive 17 - answer to read "no comment". Delete "if pressed" line.

Defensive 20 - in final sentence delete "current financial".

Defensive 21 - delete second sentence.

Defensive 22 - amend "stock market fall" to read "Black Monday" and add new sentence "primary responsibility for support of dollar rests with US".

MPW.
MOIRA WALLACE

565/88

7

From : D L C Peretz
Date : 6 January 1988

CHANCELLOR

41/8

cc Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Cassell
Mr Scholar
Miss O'Mara
Ms Goodman
Mr Cropper

INTERVENTION IN ECUS

You asked (Miss Wallace's minute of 4 January) a supplementary question about the useability of ecu reserves.

2. In part, the difficulties here are the mirror image of those in <u>acquiring</u> ecus described in my minute of 23 December.

- the market is not large, so there might be difficulties finding banks willing to buy significant quantities of ecus for sterling.

- since normally ecu transactions are into dollars or deutschemarks, the banks would probably want to go through a separate sterling/DM or sterling/dollar leg - adding to the complications of the operation.

3. There is a further complication. There may be some difficulty in investing ecus in a way that enables us to get our hands on them quickly in case of need. There is no equivalent to the US Treasury bill market. Of the $¼ billion of ecus we have at present, around $50 million worth are invested in ecu bonds (but the market is not large or liquid); $160 million worth in one month bank deposits and $40 million worth in two month bank deposits. We could no doubt place them on overnight deposit, but the Bank think we would not get very good terms. If we had very large amounts of ecus, of course, we could arrange our affairs so that a significant value of deposits matured every day and were available for intervention. But while we have only

60/88

modest amounts in total there will, I think, continue to be a problem about investing them in a way that ensures both a decent return and that significant amounts are available for use in intervention at short notice.

4. Of course, you are quite right to suggest that all such points amount to much the same message : the more we (and others, including other central banks) use the ecu market, and the more ecus we hold, the more the market will develop, and the easier we will find it to use ecus as an intervention currency (in both directions).

DLCP

D L C PERETZ

38/8

From: Sir G.Littler
Date: 8 January 1988

MISS M.P.WALLACE

c.c. Economic Secretary
Sir P.Middleton
Sir T.Burns
Mr Scholar
Miss O'Mara
Ms Goodman
Mr Cropper

INTERVENTION IN ECUS

Your minute of 4 January and earlier exchanges.

2. On the market for ECUs, I would share the Chancellor's hunch that it might respond better if there were a substantial and continuing demand - and this could make it easier for us to deal in larger amounts. Primarily I would expect more professional intermediation (i.e. mobilising/demobilising between ECU and all or the main ECU components); whether there would be a significant further build-up of private holdings of ECU assets/liabilities is more doubtful.

3. I can see nothing in the 1979 EMS Agreement to constrain us in dealing in ECU/£ either way - indeed communautaire symbolism would be entirely on our side. So I could see such a development as being useful in two ways, although very much within limits:

- as a way of dealing to some extent in DM/£ in spite of the Bundesbank;
- as a way of opening up possibilities of amending the EMS Agreement, in the direction of widening technical choice of tactics and, more importantly, trying to undermine the intransigeance of the Bundesbank.

602/87

4. I would like to pursue the second point with Trichet, in the context of attempting to develop a joint Anglo-French position in favour of more freedom of manoeuvre, although I shall also want to explore with him more direct arguments against the Bundesbank. Trichet will be quick to see and eager to help elaborate ideas that dealings against ECU could be a communautaire approach to equilibrating ERM currencies and a way to build up the ECU in both official and private hands in parallel!

5. On the first point, ECU/£ operations are likely to be a second-best tactic compared with DM/£ operations - in terms of the impact on the DM/£ exchange rate. Crudely:

- if we buy DM for £100mn: we weaken sterling by supplying £100mn extra and strengthen the DM by siphoning out of the market, say, DM298mn - the general impact on both currencies is most marked where it applies twice, i.e. on the DM/£ cross-rate;
- if we buy ECU for £100mn: the net extra sterling supplied is, say, £86mn, while the contraction of DM (only its part of the ECU) is, say, DM100mn only.

On this basis we get only 60% of the impact on the DM/£ rate, or would have to buy ECU for £167mn to achieve the same effect as in buying DM for £100mn. Obviously this is schematic: in practice the response of market rates may vary - even arbitrarily - but I can see no reason for hoping they would be less unfavourable to ECU/£ than these sums suggest, indeed I suspect the contrary.

(Geoffrey Littler)

124/1

FROM: H P EVANS

DATE: 8 January 1988

SIR T BURNS

cc Mr Peretz
Mr Matthews

MAMC : D2

LETTER FROM MR GUAY

You sked for comments on the system issue in Mr Guay's letter, and we discussed some of this yesterday. I have only a couple of points to add to David Peretz's comments:

(i) Given a very high degree of capital mobility, it is not clear that a system based largely on one reserve currency has an inherent instability that a system based on two or three currencies would not - quite apart from the problems that would arise within a multi-reserve currency system from the need/desirability of stabilising exchange rates among reserve currencies.

(ii) The charge, in the second paragraph on page 2, that the Fed's behaviour is "remarkably similar to their behaviour during 1931" seems remarkably wide of the mark in current circumstances when we are revising up our expectations of both output growth and inflation, and worrying more about the laxity than about the tightness of Fed policies.

(iii) The Chancellor's call for a system of international indicators many of which eg commodity prices would be denominated not in dollars but in, say, SDRs is relevant to the final paragraph of Guay's letter, to the extent that I understand the point being made.

M. Grice cc Miss O'Mara

There is quite a lot of interest in doing some IF/MG/OMP work on reserve currencies, new role for the SDR, etc — looking at the old G20 work as a starting point. It is for Mr Evans to start the ball rolling: but we shd have a [illegible] contribution to make.

DL P 11/1

a. Ellen
pp H P EVANS

35/G 035/064/MDG

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11/1

File 12

Mrs Ryding
The problem with x is that we are deliberately wanting to use the exchange rate as a handle against inflation (and also sound!), so we are prepared to pay a price. (There's not much that we can use at the moment)
MOM 11/1

FROM: H C GOODMAN
DATE: 11 January 1988

MR PERETZ

cc Mr Grice
Miss O'Mara
Ms Symes

DZ

EXCHANGE RATE TARGETS

You asked whether we ought to be targeting the ERI or £/DM. Surely the answer depends on what function we think targets have?

2. If we want the best indicator of the external position to use in our internal assessment of the "fundamentals", we should go for the oil-adjusted ERI. The problem with publishing targets for this would be that:

a. it would be difficult to present - a lot of people simply would not understand it; and

b. it would be difficult to take well-focussed action to influence it.

Miss O'Mara suggests that the ERI gives too high a weight to the dollar and would allow policy to slacken inappropriately. I do not agree with her on this! The $ may be falling too fast, but that is an argument for not targeting the $/£ rate, not for ignoring the fact that there is an effect on us of the $ fall. It may be that the ERI is not the best index. The new IMF MERM gives the dollar a smaller weight, but there are two problems with this:

a. the IMF calculations completely exclude trade in oil, which seems somewhat arbitrary and in the case of the UK positively misleading; and

b. a new index would lack credibility in presentation.

3. If the point of targets is to have a clear nominal framework, which can be easily understood, influenced and presented then obviously £/DM is best. But if we think that German monetary policy is too tight (and I think

A this is still our position), we ought to go for some declining path for £ against DM. I suppose in effect the best way to do that would be to join the ERM, which would bring a variety of other benefits at the same time.

HC Goodman

H C GOODMAN

pa2/19M

SECRET

FROM: MISS M P WALLACE
DATE: 11 January 1988

14
95/8
A31

SIR G LITTLER

cc Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Peretz
Miss O'Mara
Ms Goodman
Mr Cropper

INTERVENTION IN ECUS

The Chancellor has seen and was grateful for your minute of 8 January, and Mr Peretz's minute of 6 January. He thinks it would be very helpful if you could pursue this with Trichet as soon as you can. He is also content for the Bank of England to be further involved, as you consider appropriate.

MPW.

MOIRA WALLACE

603/88

15

FROM: H C GOODMAN
DATE: 12 January 1988

MR PERETZ

cc: Mrs Lomax
Mr Ilett
Miss Sinclair
Miss O'Mara
Mr Riley
Mr Carr
Mr Holgate

DZ

TAX TREATMENT OF EXCHANGE RATE FLUCTUATIONS

I have nothing to add to Mr Riley's excellent note.

2. On drafting Miss O'Mara has pointed out that paragraph 36 is not clear; fluctuations would be more likely to encourage swaps and that paragraph 44 overstates the problem of not adopting the GC proposals. In addition the paper does not address the question of whether transitional arrangements are needs, as G9 suggest they might be.

3. However, I am not convinced that it does not matter if this problem is not tackled at a relatively early date, see the attached article from today's FT. The Revenue estimate nbps foreign currency borrowing at £50 million and the CBI say 87% of firms surveyed hedge foreign borrowing, so in effect we are talking about the effect of fluctuations on about £7 billion - a not insignificant amount.

4. Mrs Lomax held a meeting last week to discuss the current interpretation of hedging and trading, which I understand Mr Holgate attended. They covered mainly the interest of investment not trading companies.

5. Finally, on our narrow ECS point the Revenue are now offering a different interpretation, <u>because</u> the changes are not fees, but represent the difference between actual and notional payments

on NLF debt. So we may find our own position eased considerably. Nonetheless, that does not reduce by one tiny jot the justice of the general case we have been representing to the Revenue.

HC Goodman

H C GOODMAN

Airbus wants aircraft prices based on basket of currencies

BY PAUL BETTS IN PARIS

AIRBUS INDUSTRIE, the European aircraft consortium, is proposing to negotiate contracts for aircaft sales on the basis of a basket of major currencies rather than on the US dollar alone, in an effort to cover itself and its airline customers from the impact of a volatile dollar.

The consortium, which is also urging its industrial partners to cut costs by between 30 and 35 per cent in an attempt to boost competitiveness, has launched the idea at a time when aircraft manufacturers are being squeezed by sharp falls in the value of the dollar.

Mr Jean Pierson, president of Airbus, said yesterday that the British, West German, French, Spanish consortium had already started selling aircraft on a multi-currency basis. It is hoped that the basket, comprising equal amounts of the dollar, sterling, the D-Mark and French franc, will be widely accepted and Airbus has begun talks with its main competitors on the topic.

The suggested benefit of the system is that it would provide a more stable balance-sheet value of aircraft assets for aircraft manufacturers and the airlines.

Mr Pierson yesterday sought to play down the impact of the current dollar weakness on the consortium, pointing out that commercial aircraft programmes involved long cycles of between 20 and 25 years. He noted that between 1972, the year of the first Airbus flight, and the end of last year, the US currency had held on average at about FFr 5.50 – which was also its current level.

The Airbus president said 1987 had seen a record for Airbus with a total of 327 new orders and options worth between \$20bn (£10.9bn) and \$21bn. He said his target was to see Airbus report first profits in 1995.

Mr Pierson acknowledged that Airbus and the four European governments backing the consortium were considering possible changes in the legal status of the aerospace group, but he appeared to rule out the imminent entry of new shareholders into the consortium. However, he did not exclude the possibility of sub-contracting deals between existing shareholders and other manufacturers.

Mr Pierson attacked what he saw as aggressive efforts on the part of the US to undermine the European consortium and prevent it from further penetrating the US market. He said the US was attacking Airbus on the grounds of unfair government subsidies without taking in[to] account the indirect state su[p]port US airlines received fr[om] Washington.

To ease the mounting tensio[n] between the US and the Eu[ro]pean Community over Airb[us] financing, the consortium h[as] come under increasing pressu[re] from European governments [to] consider collaboration w[ith] McDonnell Douglas, the US a[ir]craft manufacturer, especial[ly] on a stretched version of t[he] Airbus 320, a 150-seater a[ir]liner due to enter commerci[al] service this year.

However, Mr Pierson emph[a]sised that any co-operati[on] with a large US competitor [or] any Far East partner wou[ld] have to be based on a balanc[ed] agreement profitable to ea[ch] party, and a co-operative pr[oj]ect which did not compe[te] directly with existing product[s].

While British Airways h[as] not so far placed any aircra[ft] orders with the consortium, [Mr] Pierson noted that BA wou[ld] soon be flying an Airbus und[er] its own colours.

Following its merger wi[th] British Caledonian, BA wou[ld] be taking over the first fo[ur] Airbus A-320s ordered by BC for delivery this spring, [he] said.

Airline flies through turb[u]lent merger, Page 8

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Our Industrial Staff examine problems caused by exchange rates

Companies get the dollar jitters

BRITISH COMPANIES have a more acute bout of dollar jitters than many are prepared to admit.

Their reticence to spell out the potential pitfalls of wildly fluctuating exchange rates is understandable given the vicious mark-down last month in the share prices of those companies deemed to be most exposed to dollar earnings.

Another consideration is that companies cannot predict the impact of the dollar's volatility on their earnings, particularly those with a spread of subsidiaries and worldwide markets.

Some say that it is swings and roundabouts. GEC points out that the decline in the dollar has benefits for some of its US businesses. Its Cleveland medical equipment interests, for instance, have won export orders in the Far East on price.

The group's exports from the UK are mainly capital goods and systems, which are less vulnerable to price than consumer goods. For some UK-produced items sold to the US, such as Marconi's head-up displays for military aircraft, there is no comparable alternative product.

Behind the search for the silver lining, however, British companies are nervous. The exchange rate is one concern, although for companies with considerable US exposure and which have tended to sign up dollar deals six to nine months ahead, worry is not immediate.

The dollar has moved much further than anybody expected. There are fears about the wider implications of such movements, not just for the US market but also for markets in the European Community which are three times more important for UK exports.

The Confederation of British Industry says exchange rates have emerged as the main factor influencing business confidence in its talks with companies as it prepares its Budget submission.

At the individual company level, a few are highly exposed. British Aerospace says it is preparing to make "substantially larger financial provisions for future years" to cover possible trading losses from the fall in the dollar, since all civil aircraft sales are valued in dollars.

BAe lost £49m on its civil aircraft side in the first half of 1987, which it attributed to the dollar's fall. The second half loss will be higher. Most of its deliveries for 1988 have been covered by forward currency purchases, but the company admits it is difficult to decide on hedging for future years. Negotiations are being held with suppliers to try to persuade them to price materials in dollars.

However, companies which rely heavily on the US market refuse to be down-hearted, whatever the stock market has been saying. The US accounted for nearly half of Jaguar's total sales in 1987, and US targets for the current year have been set higher. The company predicts continuing buoyant demand for its products.

Jaguar has bought dollars forward for 1988 at an average rate of \$1.54. For the first half of 1989, the purchase rate averages around \$1.65. If the dollar continued to fall during the current year, the company would delay decisions on buying currency beyond the middle of next year.

The Rover Group, which went back into the US market nine months ago, shares Jaguar's view that the market is still buoyant. For the current year, it is covered by currency bought forward: but it would be difficult for the group to pull out and retain credibility with dealers and customers if the dollar continued to slide.

Dawson International, the Scottish textiles group, is highly oriented towards the US. It hopes to increase the volume of its sales of luxury knitwear to compensate for the impact of the dollar on its earnings. At the same time, it intends to develop products for more expensive, less price- sensitive sectors.

The declining dollar does not benefit only US exporters. Low cost producers of textile and clothing in the Far East, their currencies linked to the dollar, are taking advantage of the lower rates to accelerate exports.

Mr Richard Jeffrey, economist at Hoare Govett, says stock market reaction to companies with dollar exposure has been overdone. "Companies will find it harder to export and dollar profits will be worth less. But I d[o] not think US demand fo[r] imports will be affected quickl[y]. And the alternatives, i.e. dolla[r] stabilisation, would have to b[e] higher interest rates in the UK."

Share prices in the pharmaceu[]ticals sector, which derives [a] good part of its earnings from U[S] sales, have been hit hard. Ye[t] Glaxo, with a third of its sales i[n] the US, maintains that the cur[]rency effect is "mainly presenta[]tional." The company says tha[t] prescription drugs, its only prod[]ucts, are generally little affecte[d] by price movements.

However, exports are not th[e] only consideration. Many Britis[h] companies have been big inves[]tors recently in the US. Th[e] Hawker Siddeley engineerin[g] group has spent \$200m (£111m[)] in the past two years. Earning[s] per share will be hit by th[e] translation of dollar profits int[o] sterling. "But we still believ[e] that the purchases were right,[']" says Mr David Bury, financ[e] director. "What shareholder[s] should be concerned about i[s] that the acquisitions are health[y] and profitable."

Mr Fred Smith, chief executive of APV, the food and beverage processing machinery group which has taken over Baker Perkins, admits: "It was not pleasant to have sterling at parity to the dollar or at \$2 to the pound." However, it emphasises the strength to the group of its spread of manufacturing sites and markets."

Silent copies: 19
Mrs Lomax
Mr Ilett
Miss O'Mara
Mr Carr
Mr Holgate

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D L C Peretz
Under Secretary

M A Keith Esq
Inland Revenue
Somerset House
Strand
LONDON WC2R 1LB

12 January 1988

DZ

Dear Mr Keith,

EXCHANGE RATE FLUCTUATIONS

I am sorry to have missed your 8 January deadline for commenting on the attachment to your letter of 23 December.

2. Let me say, first, that the new draft struck me as a great improvement on the earlier version. I also agree that the right way forward is to publish a consultation paper, after which it should become rather clearer what the points are that really bother companies most.

3. I am attaching a minute from Chris Riley that makes a number of comments on the draft submission, to which I have little to add other than on the specific issue of the treatment of the cost of cover. Here I was particularly glad to see the conclusion in paragraph 36 that you accept that there is a case for legislation to deal with swaps. Even if companies have found a way of dealing with this by using offshore subsidiaries, it seems pretty ridiculous that they should be forced to use such a round about route.

4. By the way, the third sentence in paragraph 36 seemed to me to be the wrong way round : surely the unpredictable effect of exchange rate fluctuations would tend to encourage companies to cover foreign currency loans by using swaps, not to discourage them?

5. No doubt you are making whatever links are necessary, within the Inland Revenue, between this subject and the subject

that your colleagues discussed separately with Rachel Lomax last week on the tax treatment of other forms of financial hedging.

6. Finally, I thought the submission might acknowledge somewhere that interest in this subject is likely to be a good deal stronger at a time, like now, of large fluctuations in exchange rates. You might make this point in paragraph 44.

7. I am copying this letter to David Mallett at the Bank, and to Carolyn Sinclair, Chris Riley and Helen Goodman here.

G Engledow

p.p. **D L C PERETZ**