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SECRET 3. 7.80

NOTE FOR RECORD

NOTE OF THE GOVERNOR'S TELEPHONE CONVERSATION WITH TIM LANKESTER (No 10) 6.00 PM ON THURSDAY 3 JULY

Post MLR reduction market situation

The Governor reported that the foreign exchanges were quiet with the following day being Independence Day in the US. The closing rate was \$2.3455, ERI 73.9 (low \$2.3350) - this represented a fall of about ¾ cent and ¾% in ERI terms. The market was quiet and orderly and there had been no need for significant official steadying. There had been good two-way business. New York had opened quiet; Chicago had been ready to sell, but had held its hand.

The gilt-edged market had been good before the announcement and, after a hesitation, had gone strongly ahead to close firm at best levels - +½ to +⅞. Net sales had been 327 - a lot of the 3% of 1985 had gone. The FT index had moved up by 8.4.

The Governor said that the press was hard to predict. The political strand would, of course, be played up by some. The Government's borrowing needs would also feature strongly.

In sum, the market reaction was everything that could have been hoped for. The Governor noted the need to bring more stock tomorrow and the need to relieve shortages. Lankester said that this was tiresome. The Governor said that the shortages were considerable, especially given calls on partly paid stocks.

* The Governor told Lankester of his trip to Basle and Hungary next week. The Hungarians had pressed him to go and he would be very interested to hear what they had to say about the general East-West situation and the Comecon economic position.

* I informed Wiggins also of the Governor's travel next week.

JB 4/7.

Governor's Office HO-G
3 July 1980

J S Beverly (4121)

JB