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TO IMMEDIATE FCO

TELEGRAM NUMBER 564 OF 18 FEBRUARY

THE DOLLAR

WEEKEND PRESS REPORTS INDICATE THAT TREASURY SECRETARY BAKER HAS SOME DISQUIET ABOUT THE RECENT RISE IN THE DOLLAR. BUT HE SUGGESTS THAT INTERVENTION IS BEST CONFINED TO QUOTE DISORDERLY MARKETS. UNQUOTE

DETAIL

BAKER IS REPORTED IN THE WASHINGTON POST AND NEW YORK TIMES TO HAVE CALLED THE RECENT G5 MINISTERS' AGREEMENT A QUOTE MODERATION OF TONE UNQUOTE OF THE INTERVENTION GUIDELINES. HE BELIEVED THAT REDUCING THE FEDERAL BUDGET DEFICIT WOULD BE MORE EFFECTIVE IN THE LONG RUN IN SLOWING THE DOLLAR'S RISE THAN INTERVENTION. QUOTE I THINK THE POSITION IS BASICALLY THAT IT'S OUR VIEW THAT OPEN SQUARE BRACKET INTERVENTION IS CLOSE SQUARE BRACKET BEST DONE AND MORE PROPERLY DONE ONLY IN THE CASE OF DISORDERLY MARKETS. UNQUOTE AT THE JANUARY 17 MEETING QUOTE WE AGREED TO TAKE A LOOK AT IT WHEN TO DO SO WOULD BE HELPFUL. THAT'S A RATHER VAGUE STANDARD. WE HAVE DONE THAT SINCE THEN. WITHOUT GETTING INTO MORE DETAIL, WE HAVE INTERVENED, AND WE HAVE IN FACT DONE SO SINCE I'VE BEEN HERE. UNQUOTE IN ANSWER TO QUESTIONS ABOUT THE SUCCESS OF THE INTERVENTIONS, BAKER REPLIED QUOTE I THINK THAT THERE WAS SOME EFFECT BUT THE DOLLAR CONTINUED TO RISE NOTWITHSTANDING THOSE INTERVENTIONS. WHAT I CAN'T TELL YOU IS HOW MUCH MORE IT WOULD HAVE RISEN IF WE HAD NOT INTERVENED. UNQUOTE AN UNNAMED SENIOR OFFICIAL IS REPORTED AS SAYING QUOTE THERE'S BEEN SOME INTERVENTION IN CASES, NOT LIMITED TO DISORDERLY MARKETS. UNQUOTE ACCORDING TO THE NEW YORK TIMES, BAKER INDICATED THAT THE REAGAN ADMINISTRATION IS MUCH LESS CHEERED BY THE RISE OF THE DOLLAR THAN IT WAS A MONTH OR TWO AGO AND WAS PARTICULARLY CHAGRINED BY THE RECENT STRETCH DURING WHICH THE DOLLAR GAINED DAY AFTER DAY.

FCO PLEASE ADVANCE TO PS/PRIME MINISTER, PS/CHANCELLOR, LITTLER AND LAVELLE (HMT), BRAITHWAITE (FCO), LOEHNIS (BANK).

WRIGHT