

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

You will want to ask the Chancellor how he sees the prospects for interest rates now. The possibility of a reduction by the Germans or the Japanese seems to be receding. Rising long term interest rates in several of the major markets, including our own, are a disturbing factor and the sharply rising prices of gold is also a little worrying, though a good part of the increase must be due to the threat of a cut in South African supplies. The money numbers knocked the gilts market down by a  $\frac{1}{2}$  to  $\frac{3}{4}$  of a point today. On the less gloomy side, the UK's floating rate note issue was very well received. The amount was increased from \$3b. to \$4b. and the leaders of the issue said they could have raised as much as \$5b.

You might ask the Chancellor about the prospects for the IMF annual meeting and related events (G10, interim committee, etc). The expectation is that they will be quiet.

The Chancellor intends to suggest that the Governor should be made a Privy Counsellor.

DW

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