

son (left) meets Sir David Nickson of the CBI yesterday (Photograph: Denis McKeown)

City confused by sharp shift in sterling policy

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By David Smith, Economics Correspondent

Remarks by the Prime Minister in the House of Commons ruling out interest rate cuts or foreign exchange intervention to hold down the pound added to the confusion in the City over Monday's shift in policy.

"It seems like the whole basis of policy for the past year and the run-up to what will be a well-received Budget has gone out of the window," said Dr Gerard Lyons, economist at SBCI-Savory Milln, the broker.

Mr Keith Skeoch, economist at James Capel, the broker, who expects sterling to rise to the \$2 level, said: "The pound will be driven up to a level where Britain is uncompetitive against the European currencies."

"We have seen a significant change of policy," said Mr David Simmonds, foreign exchange adviser at Midland

Bank. "The next resistance point for the pound will be at DM3.10."

The pound's sharp rise has come as a shock to industry, which had applauded the Chancellor's policy of holding the pound steady against the mark.

"Business is now concerned because there is uncertainty about what the Government's monetary and exchange rate policy is," said Mr John Caff, economics director of the Confederation of British Industry.

"If it remains at this higher rate it will be more difficult to sell into Europe and it will be easier for people to sell into this market - this is just what you don't want at a time when you are trying to interest people in 1992 and the Single European Market."

Chemicals and steel, electrical and electronic goods and

vehicles are key industries where sales and profits prospects for British companies could be hit by sterling's strength against the mark.

ICI confirmed that the rise of sterling against the mark could affect profit margins on much of the £2 billion of chemicals, paints and other products it sells to continental Europe where the three big German chemical groups are competitors.

Sterling dominated foreign exchange markets in New York for a second day.

"Sterling seems to be the apple of everyone's eye," said Mr William Doyle, vice-president for foreign exchange at Fuji Bank in New York.

Traders said Mrs Thatcher's remarks were well received given the market's enthusiasm for currencies offering relatively high interest rates.

