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FM HONG KONG 231050Z SEP 83
TO IMMEDIATE PEKING
TELEGRAM NUMBER 552 OF 23 SEPTEMBER
INFO IMMEDIATE FCO

FOR GOVERNOR FROM DEPUTY GOVERNOR
FUTURE OF HONG KONG
YOUR TELNO 142

OBVIOUSLY YOUR PROPOSED SPEAKING NOTE HAS BEEN DRAFTED AGAINST THE BACKGROUND OF TODAY'S SESSION, THE CONTENT AND OUTCOME OF WHICH I AM AS YET, OF COURSE, UNAWARE. BUT I FEEL BOUND TO EMPHASISE THAT MARKET (AND FOR THAT MATTER PUBLIC) SENTIMENT HERE IS CURRENTLY RUNNING SO STRONGLY AGAINST US THAT WHAT YOU SAY WILL BE LISTENED TO WITH RAPT ATTENTION AND PORED OVER WORD BY WORD. THAT IS AN ARGUMENT, OF COURSE, FOR CHOOSING YOUR WORDS EVEN MORE CAREFULLY THAN USUAL. BUT IT IS ALSO, ON THIS OCCASION, AN ARGUMENT FOR INSINUATING SOMETHING OF COMFORT INTO WHAT YOU SAY. THE ATMOSPHERE HERE TODAY HAS BEEN AS NEAR TO PANIC AS I CARE TO THINK. (NEXT TWO WORDS UNDERLINED) INTER ALIA THERE HAS BEEN A SPATE OF RUMOURS ABOUT THE CONDITION OF 4 - 5 BANKS. THE FACT THAT A DATE HAS BEEN SET FOR THE NEXT ROUND OF TALKS IN THIS PHASE IS ONLY GOOD NEWS IN THE SENSE THAT, IF A DATE HAD NOT BEEN FIXED, IT WOULD HAVE BEEN BAD NEWS.

2. IF YOU CANNOT SAY ANY MORE ABOUT THE TALKS, IT MIGHT POSSIBLY HELP IF YOU WERE TO ADD, ALMOST CASUALLY BEFORE YOU MOVE OFF THAT:

- (A) YOU HAD BEEN DISTRESSED TO HEAR THAT THE MARKETS, PARTICULARLY THE FOREIGN EXCHANGE MARKET, HAD BEEN SO VOLATILE THESE PAST FEW DAYS AND ON SUCH A WEAKENING TREND:
- (B) THAT YOU CANNOT UNDERSTAND WHY THIS SHOULD HAVE BEEN SO:
- (C) THAT IT ALL SEEMS VERY UNREASONABLE TO YOU, GIVEN THAT A STRONG EXPORT-LED UPSWING WAS UNDER WAY:
- (D) THAT, WHEREAS YOU SYMPATHISE WITH PEOPLE'S ANXIETIES, FOR UNCERTAINTY TENDED TO BREED SUCH ANXIETIES, THERE ARE REALLY NO GROUNDS FOR THE PESSIMISTIC MOOD THAT SEEMS CURRENTLY TO PREVAIL:

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(CE)