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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 4th September 1981

The impending Labor Day holiday in the USA made for another quiet day in the major currencies. Pound, dollar and yen weakened further, the Swiss and German currencies gained ground. The French and Belgian francs met increasing pressure, partly on traditional week-end fears of a realignment, but partly also due to the inherent strength of the deutschemerk and the peculiar problems in France and Belgium. Sterling's ERI fell from 90.8 to 90.5.

The pound improved slightly to 1.8500 yesterday in New York, although the dollar lost rather more ground against the "hard" currencies. The IMM were again sellers. This morning the dollar began a little better. Sterling opened at 1.8450 and traded quietly all morning around this level touching 1.8436 at worst. This afternoon, the dollar eased. The pound was marked up to 1.8505 but closed at 1.8455. Three-month Euro-dollars lost $\frac{1}{8}\%$ at 18 $\frac{9}{16}\%$. The forward premium was unchanged at 4 $\frac{1}{2}\%$ p.a. and the intrinsic discount rose to 3/16%.

The pound lost $\frac{3}{8}\%$ in Frankfurt (4.45 $\frac{1}{2}$), $\frac{1}{4}\%$ in Paris (10.68) and 1% in Zurich (3.87 $\frac{1}{2}$). The dollar was weakened by a surprisingly small (0.3%) increase in US Producer Prices in August and an increase in unemployment from 7.0% to 7.2%. It recovered, however, when the bond market failed to improve, only to fall after the close, as the IMM sold again. The Swiss franc (2.0995) advanced to 0.87 to the DM (after 0.86 $\frac{3}{4}$), despite a 1.5% rise in the latest inflation rate. The deutschemerk (2.4125) and Belgian franc (39.54) were 2 $\frac{3}{16}\%$ apart at either end of EMS. The Germans sold \$17mn., the Irish \$15mn. and \$9mn. of sterling and the Italians bought \$66mn. The French sold \$31mn. and \$156mn.-worth of deutschemarks. The Belgians spent deutschemarks worth \$119mn. The yen eased slightly to 230.17.

Gold touched \$445 in Hong Kong but could not maintain that level. Nonetheless the metal remained very firm, reflecting the tone of the dollar, and the price was fixed at \$440.25 and \$439.50.

Operations:	Market	-	\$1mn.
	India	+	9
	Ghana	-	8
	Sundries	+	4
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		+	\$4mn.
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	Overnight	-	\$24mn.
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