

The exchanges experienced a wild and hectic session with frequent, wide and erratic fluctuations in rates. Beneath it all, the dollar continued its weaker trend, only to kick back with a vengeance in the dying moments of the day. By far the biggest factor today, however, was the increasing speculation on an EMS realignment, which itself contributed to the weakness of the dollar, as dealers backed the deutschemark with every cent and more. Sterling, like the yen, was largely ignored in all the turmoil but inevitably suffered substantial losses against the European currencies. As a result, the ERI fell from 88.6 to 87.7.

The pound soared to 1.8650 (and the DM to 2.29) in New York yesterday as the dollar eased considerably, only to close at 1.8550 (and the DM at 2.30) as positions were squared. The morning in London began around these same levels with sterling at 1.8517 continuing to trade narrowly around that point through a quiet first hour. The dollar was then sold on the Continent. Sterling rose in sympathy to 1.8555, retreating again to 1.8470 as the dollar regained opening levels. Pressure was redoubled on the dollar but this time, with the deutschemark so heavily bid and most other EMS currencies dragged up by the force of Central Bank support, the pound was reluctant to move much beyond 1.85. The occasional seller appeared, where hitherto modest two-way commercial business had prevailed, but a brief appearance from the official watchdog had nervous marauders running for cover and the pound was hoisted to 1.8570. The deutschemark strode on, but sterling was back below 1.85 by the time Americans returned to usher in one of the wildest afternoons on record. The pound jumped from 1.8480 to 1.8572 in a matter of moments as the dollar took another dive, only to recede to 1.8450 as the dollar bounced back. Even the usually gregarious IMM were reportedly buying and selling sterling at the same time! Eventually a last mad rush for deutschemarks, as Europe closed, saw the pound marked up to 1.8527 before finishing at 1.8477. The ensuing hour, however, capped all that had gone before. In the thinnest of American markets, everything was sold for deutschemarks. Sterling fell to 1.8365 as the DM touched 2.26. Then the US Treasury announced details of forthcoming sales of GSA stockpiled silver. The white metal crashed to \$10.75. Gold shed \$10 and fell below \$450 in sympathy. The dollar rebounded violently, regaining DM 2.30, and thus erasing all the day's losses, in less than half an hour. Sterling fell to 1.8175 and was last seen around 1.8250. Three-month Euro-dollars were a little firmer at 17 9/16% after eliminating yesterday's technical adjustment. The forward premium, however, narrowed to 2 3/8% p.a. and a small intrinsic discount reappeared.

The pound lost 2% in France (10.06 1/2) and Germany (4.19 1/2, after 4.17 1/2), 2 1/8% in Switzerland (3.59). The dollar shed rather more than 2%, closing in these countries at 5.44%, 2.2685 and 1.9430 respectively. The Belgian franc (37.19) finished 2 3/16% from the deutschemark in EMS but the lira (1154) ended the day in London below the floor of the 2 1/2% band (Italian centres having already closed). The Bundesbank stirred themselves to buy \$12lmn., having earlier fuelled the flames in their monthly report by advocating no swift reduction in German interest rates. The Dutch took in \$50mn. The French spent \$473mn. (of which \$8lmn. in DM), the Italians lost \$103mn., the Belgians sold a mixed bag worth \$93mn. and the Danes shelled out \$94mn. The Irish sold \$13mn. Elsewhere the Swedes gathered in another \$183mn. The yen dragged its heels, firming only to 225.50.

Reflecting the easier dollar, gold began better this morning and was fixed at \$456. Later, as the dollar weakened further, the metal toyed twice with \$460 before being fixed at \$459. Later in the day the price eventually topped \$460, only to fall sharply to \$447 as the GSA silver sales were announced. Thereafter gold fluctuated nervously around \$450.

Operations:	Market	-	\$26mn.
	Iran	+	20
	Interest	+	5
	Sundries	+	4
		-	\$3mn.

17th September 1981.

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