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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 24th September 1981

The dollar continued to strengthen today as, with the Federal Reserve having apparently placed a floor beneath short-term interest rates, operators were encouraged to book profits on oversold positions before the end of the quarter. President Reagan's forthcoming television appearance tonight was also cause for great expectations. Sterling was sold in New York yesterday and again in some force today, the debacle in the equity markets doubtless colouring sentiment for the worse. The ERI fell from 86.8 to 85.7, another new low.

The pound fell to 1.8025 by the close in New York yesterday under pressure from persistent small sellers. The dollar there was substantially firmer. This morning sterling opened at 1.7967 and, as the dollar continued to forge ahead, sellers of pounds quickly appeared. After touching 1.7982 the rate receded to 1.7830 on the early exchanges on heavy-handed Swiss professional selling before settling around 1.79. Middle Eastern and other European sellers, too, were seen but with the oil companies good buyers of pounds and one or two Central Banks small takers as well, the pound traded steadily through the morning, hitting 1.7957 again at one stage. The Bundesbank's injection of DM 5bn. of liquidity into their domestic system was also helpful and enabled the pound to keep within distance of the Continental currencies. Further Swiss selling, however, had sterling back around 1.7850 by early afternoon and the IMM, too, were perhaps early sellers. Finally, a large commercial offering in London contrived a late slide to a closing level of 1.7760. Later, however, the IMM sold dollars and bought some sterling and the pound recovered to 1.7880. Three-month Euro-dollars were  $\frac{1}{2}\%$  firmer at  $17\frac{3}{8}\%$  while comparable sterling deposits gained  $\frac{3}{8}\%$  at  $15\frac{13}{16}\%$ . The forward premium widened by  $\frac{1}{4}\%$  to  $1\frac{1}{8}\%$  p.a. and a substantial intrinsic premium remained.

The pound ceded  $\frac{1}{4}\%$  to the French franc (9.87 $\frac{1}{2}\%$ ),  $\frac{3}{8}\%$  to the deutschemark (4.14 $\frac{1}{4}\%$ ) and  $1\%$  to the Swiss franc (3.51 $\frac{1}{2}\%$ ). The dollar closed near best levels against these currencies, respectively 5.5605, 2.3360 and 1.9805. EMS was relaxed,  $1\frac{1}{8}\%$  spread between the deutschemark and Belgian franc (38.08), with the punt and lira hovering slightly above the franc at the bottom of the band. The Italians sold \$17lmn., the Dutch \$40mn., the Germans \$5mn. and the Irish \$17mn. and sterling equivalent to \$10mn. The Swedes took in \$36mn. The yen was  $1\%$  easier at 229.42.

Gold retreated before the advancing dollar and was fixed at \$450 $\frac{1}{2}$  and \$446 $\frac{1}{2}$ . Later, once the dollar turned, the metal recovered to close around \$450.

Operations:	Market	-	\$70mn.
	Merseyside CC		
	(PSB G'teed)	+	5
	Sundries	+	<u>1</u>
		-	<u><u>\$64mn.</u></u>

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