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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 6th October 1981

The assassination of President Sadat wrought havoc on exchange and bullion markets. Earlier the market had settled into a not uncomfortable pattern. The dollar tended easier from the start as euro-dollars turned substantially softer again. Sterling was firm. Later, some reflux of funds from Germany into France brought a turn for the dollar and sterling's relative steadiness attracted professional selling. The shooting of Sadat sparked a run into the dollar and gold. The pound fared better than most, given even the faint possibility of disruption to Middle East oil supplies. Federal funds opened considerably easier, the dollar softening in consequence, but an uncertain bond market tilted the balance and the dollar closed on an upbeat. Later still, confirmation of Sadat's death sent the dollar sharply higher for a moment but the status quo was as quickly restored. Sterling's ERI rose from 88.1 to 88.2, after 88.4 this morning.

The pound met some demand in New York yesterday and closed firmer there at 1.8565. This morning, with the dollar on an easier tack, sterling opened at 1.8555 and quickly advanced to around 1.86, rising eventually to 1.8660 before the dollar turned, albeit on little business. Sterling's new-found robustness attracted the attention of a familiar iron-clad bear, who proceeded to hammer the pound and gather deutschemarks. Any decline, however, was cushioned by the reflux of EMS funds and the pound established a level around 1.8550 before a second salvo from behind the curtain took the rate back to 1.8517. First word of the assassination in Egypt sent the pound through 1.85 but, after touching 1.8440 it quickly steadied and early American demand saw a rebound to 1.8557. Thereafter sterling traded comfortably around 1.85 and only in the closing stages, as the dollar turned up again did it decline to 1.8420 before finishing at 1.8430. Later, the confirmation of Sadat's passing saw the pound traded briefly down to 1.8380 but it quickly recovered and was last seen around 1.85. The three-month forward premium was either side of par for most of the day. With eurodollars, however, a further  $\frac{1}{2}\%$  off at  $16\frac{1}{2}\%$  and sterling deposits only  $\frac{1}{8}\%$  easier at  $16\frac{1}{2}\%$ , the intrinsic premium remained at  $9/16\%$ .

The pound gained  $\frac{3}{8}\%$  in Switzerland ( $3.51\frac{1}{2}\%$ ),  $\frac{1}{8}\%$  in both France ( $10.39\frac{1}{2}\%$ ) and Germany ( $4.15\frac{1}{2}\%$ ). The Swiss franc eased to 1.9075 and the French franc to 5.6425. The deutschemark closed at 2.2540, after 2.2110, but was later briefly at 2.29. The French franc and deutschemark spanned EMS for most of the day and it was fully extended for much of the session. Firm rates were hard to come by at London's close but the Danish krone and Irish punt were somewhere in the upper regions with the franc, while the guilder nestled with the deutschemark at the bottom of the band. The French bought \$174 mn.-worth of deutschemarks and \$12 mn.-worth of guilders, the Dutch sold \$21 mn.-worth of French francs and a very few Danish kroner. The Bundesbank sold French francs worth \$146 mn. but bought \$24 mn. to clear out and close their fixing in the immediate aftermath of the shooting of Sadat. The Italians sold \$133 mn. but the Irish took in \$8 mn. and \$8 mn.-worth of deutschemarks. The Danes bought \$5 mn. and, elsewhere in Scandinavia, the Norwegians gained \$60 mn. and the Swedes \$69 mn. The yen eased to 230.30.

Gold eased in New York overnight and, after a better start in London, continued to attract sellers in the fixing at \$435. The price was fixed at \$434.95. The Egyptian shooting took the metal firmer, though with no great conviction, and the later fixing set a level of \$443. Later, however, there was a sharp run-up to \$455, before the market closed around \$450.

Operations: Market - \$16 mn.  
Interest + 11  
- \$5 mn.

*Jm*  
6th October 1981.

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