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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 13th October 1981

Sterling's recent weakness persisted this morning with widespread selling, now largely professional in nature, again the order of the day. The dollar once more tended firmer, partly on sterling's weakness, but partly now on Kaufman's latest prognostications on US interest rates. Sterling's ERI fell from 88.5 to 88.2.

The pound was traded down to 1.8710 in London's closing moments yesterday as London banks squared long positions. This morning the dollar began firmer and sterling opened at 1.8657, quickly moving into free fall. Selling was general, though largely professional, with Swiss, German and London banks (Americans prominent amongst them) offering pounds. Sterling fell to 1.8485 before official support induced some steadying and a consequent turn in the dollar. Several banks had sold in anticipation of another wave of commercial sellers and, when this did not transpire in any size, some moved to cover, comforted additionally by the official pressure. Sterling improved steadily to 1.8697 by mid-morning, gaining ground also on the Continental currencies. Further buying of dollars, however, from Switzerland especially, depressed the rate again to 1.86 by mid-day. The pound had established a level around 1.8650. The afternoon showed no decided trend for the dollar, with many different conflicting factors. Federal Funds opened steadily and traded as low as 14½%. The bond market, however, was depressed by Kaufman's comments. Several major US banks reduced Prime Rate to 18% but the Federal Reserve drained funds from the system. Amongst all this, Barclays reduced their base rate to 15½% from 16% without causing too much difficulty for sterling. The pound was bid up to 1.8765 at one stage only to be sold back to 1.86 from Germany and the United States before closing at 1.8630. Three-month Euro-dollars hardened by ½% to 15½%, sterling deposits also added ½% at 15 11/16%. The forward premium was unchanged at ¼% p.a. and sterling retained its modest intrinsic premium.

The pound was a touch firmer by the close in Switzerland (3.44½), ½% better in both France (10.32) and Germany (4.11½). The dollar appreciated in these countries to 1.8495, 5.5390 and 2.2090 respectively. The Swiss bought \$10mn. EMS finished 2½% in width between the French and German currencies. The Bundesbank sold \$7mn.- worth of French francs, while the French took in \$3lmn. and \$146mn.- worth of deutschemarks. The Italians sold \$56mn. The yen weakened to 228.35.

Gold lost ground in New York overnight but traded steadily today at the lower levels. Fixings were \$443.90 and \$443.25.

Operations:	Market	-	\$63mn.
	Electricity Council	+	100
	(PSB G'teed)		
	Iraq	+	11
	Sundries	+	3
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		+	\$51mn.
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Jan 13th October 1981.

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