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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 19th October 1981

The pound displayed considerable latent strength today. Selling orders approaching £200mn. in total were comfortably digested by other willing buyers without any marked impact on the rate. The dollar tended easier in response to a number of sizeable sellers, despite the obstinate firmness of short-term interest rates. Sterling's ERI rose from 87.4 to 88.0.

The pound advanced smartly to 1.8395 on Friday in New York where the dollar was generally easier. This morning the dollar began a little better but quickly retreated to New York's closing levels as Euro-dollars opened a touch softer. Sterling started at 1.8332 and moved up to 1.8395 on some early Far Eastern demand before settling into a range around 1.8375. Later there was some firming in Euro-dollars and the dollar moved ahead again as one operator bought pounds for Continental currencies. Sterling remained remarkably steady, even tending firmer for choice, despite persistent offerings arising from the conversion of a very large acceptance credit. The pound traded up to 1.8460 in mid-morning as two large buyers - and doubtless others smaller - outweighed the seller. This afternoon sterling traded around 1.84 for much of the session. The dollar hardened a little as Federal Funds ticked up to 15 $\frac{1}{2}$ % and the pound came back to 1.8372. Further offering of dollars, however, brought a weak close for the American currency and left sterling at 1.8430. Later, after the Federal Reserve had supplied funds to the banking system, the bond market nonetheless wilted. The dollar was marked higher and sterling was put down to around 1.8350. Both three-month Euro-dollar and sterling deposits closed at 16 $\frac{3}{16}$ %, the former unchanged, the latter a touch firmer. The forward premium, and thus the intrinsic premium as well, finished at $\frac{1}{2}$ p.a.

The pound gained $\frac{1}{8}$ % in Switzerland (3.43 $\frac{1}{2}$), $\frac{1}{8}$ % in Germany (4.11 $\frac{1}{2}$), $\frac{1}{2}$ % in France (10.32 $\frac{1}{2}$). The dollar eased to 1.8617, 2.2320 and 5.6005 respectively in these countries. EMS was 2 $\frac{1}{16}$ % spread between the French and German currencies. The French bought \$50mn. and deutschemarks worth \$82mn. The Germans sold \$25mn. and French francs worth \$73mn. The Swedes spent \$18mn. The yen weakened further to 232.10.

Gold turned softer still, despite the dollar's tone. Fixings were \$440.75 and \$436.70.

Operations:	Market	+	\$7mn.
	Iran	+	13
	Interest	+	10
	Fife	+	8
	(PSB G'teed)		
	New Zealand	-	28
	Ghana	-	7
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		+	\$3mn.
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	Overnight	-	\$11mn.
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