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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 27th October 1981

An active but much more stable day on the exchanges. The dollar was firmer overnight as the US bond market fell towards all-time lows but today it failed to make any further gains, restrained by Bundesbank intervention and by strong demand for the Swiss franc. Sterling was a good two-way market, remaining very firm against the continental currencies. Firm sterling inter-bank rates and expectations of an increase in base rates, together with a possible rise in North Sea oil prices following the forthcoming OPEC meeting were the main factors helping the pound. The ERI rose 0.2 to 88.3.

Sterling encountered some good buying from a German source in New York last night and moved up to close at 1.8132 (DM 4.19 $\frac{3}{4}$ ). This morning the rate opened at 1.8105 but soon started to fall back under the weight of some professional selling from Switzerland. In the early going the pound fell to 1.8047 before some good commercial buying from the Far East and some official demand brought about a recovery and the rate settled to trade between 1.81 and 1.81 $\frac{1}{2}$  for the remainder of the morning. Shortly after noon the rate rose to 1.8175 but early New Yorkers sold sterling and it reverted to the 1.81-1.81 $\frac{1}{2}$  range for the balance of the day. Some sizeable professional selling from an East European source was seen but there were also a steady stream of commercial buyers. Sterling closed at 1.8140. After the close, as the Fed entered the domestic market to drain funds from the system and the dollar strengthened generally, sterling fell back briefly to 1.8060. Three-month eurodollars at 16  $\frac{7}{16}$ % were  $\frac{1}{8}$ % higher over the day. Sterling's forward discount narrowed to 3/16% and the intrinsic premium to  $\frac{1}{8}$ %.

Sterling was a little firmer in both Germany (4.17 $\frac{5}{8}$ ) and France (10.48 $\frac{3}{8}$ ) but easier in Switzerland (3.45 $\frac{1}{2}$ ). The dollar, too, closed significantly weaker in Zurich (1.9060), where there were rumours of an expected sharp drop in the inflation rate, but only a little softer in Frankfurt (2.3022) and Paris (5.7810). The Bundesbank, who seemed to be defending a level of 2.31, sold \$73mn. and the Swiss bought DM worth \$43mn. EMS was under no pressure: the Danish krone (7.4025) regained top position 2% above the mark. The Italians bought \$106mn. Elsewhere, the Swedes sold \$23mn. The yen firmed a little without support from the Bank of Japan; it closed at 235.05 in London.

Gold was a quiet and depressed market. Fixings were at \$426.80 and \$427.40.

Operations:	Market	-	4mn.
	B.I.S.	+	40
	Sundries	-	3
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			+ 33mn.
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