

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 30th October 1981

A fairly active day in some markets with no decided trend as a number of conflicting factors were at play and a high degree of uncertainty abounded. Sterling was relatively quiet. Buyers were restrained by the prospect of a strike at British Leyland while seller held off for fear of potentially higher oil prices. The dollar began softer in continuation of yesterday's trends, turned firmer on substantial profit-taking, but finished on a downbeat as expectations of recession and lower interest rates in the United States began to harden. Sterling's ERI rose again from 88.5 to 88.7.

The pound touched 1.85 in New York yesterday before closing there at 1.8460, still over a cent better than at London's finish. The dollar was generally weaker as the bond market ended the day at its highest levels. This morning the dollar continued softer. Sterling however, opened no better than 1.8457, subdued no doubt by the prospects for British Leyland. After a quiet start a clutch of professional buyers moved in and sterling was swept up to 1.85. Thereafter, the pound was remarkably quiet and steady. Substantial short-covering in dollars then began, partly perhaps on month-end considerations, but largely out of sheer uncertainty for the future outlook. Sterling was marked back to around opening levels but fell no lower than 1.8435. This afternoon, New York took the dollar down at first and the pound recovered to 1.8515 but further short-covering in the dollar had sterling back in sympathy to 1.8455 at the close. Later, following the Saudi announcement of a one million b.p.d. reduction in oil output, the dollar weakened sharply. The movement owed as much to a further spurt in the US bond market - undeterred by the Federal Reserve's execution of matched sales with Federal Funds at 14 $\frac{1}{2}$ % - and the IMM were probably selling their native currency. Sterling was last quoted at 1.8587. Three-month Euro-dollar were $\frac{3}{8}$ % easier at 15 $\frac{3}{8}$ %, the sterling deposit 3/16% softer at 16 5/16%. The cost of forward cover widened to $\frac{3}{8}$ % p.a. only, so that sterling's intrinsic premium rose to 5/16%.

The pound regained $\frac{3}{8}$ % in Switzerland (3.41 $\frac{1}{4}$), was a touch firmer in France (10.46 $\frac{1}{2}$), a touch weaker in Germany (4.16 $\frac{1}{2}$). The dollar eased in these places to 1.8520 (later 1.8320), 5.67 and 2.2550 (later 2.2440). The Swiss franc thus reverted to 0.82 $\frac{1}{2}$ to the deutschemark. By London's close, the Danish krone (7.2475) had replaced the French franc at the top of EMS, 2 1/16% above the deutschemark. The French sold \$64mn. as their franc fell from 2.50 $\frac{1}{2}$ to 2.51 $\frac{1}{2}$ to the deutschemark. The Italians, too, sold \$73mn., the Germans \$7mn. and the Danes \$4mn. but the Dutch bought \$10mn. and \$51mn.-worth of deutschemarks. Elsewhere, the Swedes sold \$27mn. The yen firmed to 233.

Gold failed to hold yesterday's better levels in the US and traded without conviction in a narrow range today. Fixings were \$429 and \$427.

Operations:	Market	+	\$4mn.
	Iran	+	7
	Interest	+	7
	Sundries	-	3
			<u> </u>
		+	\$15mn.

The result for October is a fall in reserves of \$380mn. to a level of \$23,316mn., after net new public sector borrowing of \$95mn. and a repurchase under the IMF oil facility of \$76mn. The renewal of the ECU swap caused a reduction of \$174mn. in the value of the spot reserves while adding a like amount to the overbought forward position which was increased overall by \$32mn. to a level of \$1,244mn.

30th October 1981.

JGH