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1982/38

FOREIGN EXCHANGE AND GOLD MARKETS

Week ending 22nd September 1982

Markets were generally quieter and more stable despite uncertainty resulting from the collapse of Chancellor Schmidt's coalition and from events in the Lebanon, and confusion over the implications of Fed policy. Sterling generally remained on the sidelines and the ERI was unchanged at 91.7.

Sterling closed in New York on Wednesday at 1.7042 as the dollar moved up sharply following action by the Fed to tighten liquidity in their domestic market. On Thursday after opening at 1.7040, sterling fell back to 1.7022 but, in light trading, recovered to close in London at 1.7053 and in New York, as the dollar weakened, to 1.7125. After touching 1.7156 in early business on Friday, sterling encountered some heavy selling from the Indian sub-continent during the morning and the rate fell back to 1.7060. However, as the order was absorbed, sterling rose to close at 1.7133 with the ERI unchanged on the day. For the rest of the week, sterling returned to the sidelines, trading between a low point on Tuesday afternoon of 1.7095 and a high point on Wednesday afternoon of 1.7175. The pound closed the week at 1.7160 having gained $\frac{1}{8}\%$. Sterling was $\frac{1}{8}\%$ lower against the deutschemark (4.28) and French franc (12.09 $\frac{1}{4}$) and against its notional central rate against the ECU (1 $\frac{1}{8}\%$ premium). However, sterling rose by 3/16% against the Swiss franc (3.66). Three-month Euro-dollars declined by $\frac{1}{2}\%$ to 11 $\frac{1}{2}\%$ and with the sterling interbank rate 1/16% lower at 10 $\frac{1}{8}\%$, the forward premium narrowed to $\frac{7}{8}\%$.

The Fed's action on Wednesday tightening liquidity caused some confusion and moved interest rates and the dollar higher. However, the Fed's subsequent explanation, that the move had been necessary due to an earlier error in their forecasts for the week, and their subsequent actions, reassured the market, and as confidence returned, interest rates declined and the US Treasury market moved up to new highs. The dollar, nevertheless, remained in demand, and despite the fall in rates, was little changed over the week. The EMS had a quieter week with the French franc (7.0475) and the Danish crown stabilising in the middle of the band and with the deutschemark (2.4945) reacting little to the news of the collapse of Chancellor Schmidt's coalition. The Belgian franc came under some pressure and despite the Belgians selling \$100mn., the franc moved to the bottom of the EMS, 1 $\frac{1}{2}\%$ below the Irish punt. The Italians sold \$160mn. Elsewhere, the Swedish general election, resulting in a socialist victory, necessitated a further \$170mn. support for the Swedish crown and the Norwegians sold \$110mn. The yen came under pressure on Tuesday closing in Tokyo at 265, after sales of \$200mn. by the Bank of Japan, but recovered to 262.60 on Wednesday, a rise over the week of $\frac{3}{8}\%$. With the Canadian dollar generally firm, the Canadians bought \$220mn.

Following the fixing on Thursday at \$447.25, gold weakened despite the tense situation in the Lebanon, to a low of \$420 on Monday. Wednesday, however, saw a revival of interest and the final fixing was at \$443.75.

22nd September 1982.

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