

15.10.82.

2/2 +
G.F.E.
M.C.
THE GOVERNOR'S PRIVATE SECRETARY

Copies to: Mr. Loehnis
Mr. Gill

FOREIGN EXCHANGE AND GOLD MARKETS
4TH-15TH OCTOBER 1982

An unexpected increase in the US M1 on Friday, 1st October moved the dollar to further all-time highs on 5th October. Subsequently, Volcker's statement, interpreted as implying temporary abandonment of the Fed's monetary targets, and the Fed's discount rate cut, set the scene for further sharp falls in US interest rates. However, the dollar weakened little - on expectations that the interest rate falls would be matched in Europe and partly on the weakness of some other currencies.

Sterling saw heavy turnover with some large selling orders absorbed with little impact on the rate. As the dollar strengthened on 4th and 5th October, sterling moved down - to touch a new six-year low of 1.6821 - but not by as much as other currencies, and the ERI rose. Subsequently, the pound moved closely in line with the major Continental currencies despite the cuts in base rates. The ERI rose further, to 92.7 tonight, but mainly on account of the 16% devaluation of the Swedish crown and the associated weakness of other Scandinavian currencies.

In EMS signs of renewed pressure began to emerge following the Swedish action. The Danish crown moved down sharply, from near the top, to trade, at times, at the bottom of the EMS. The French franc, Belgian franc and the Italian lire also required substantial support. The yen, after a five-year low on 5th October, strengthened, following measures to stimulate their economy, but again turned weaker yesterday. The Swedes have substantially rebuilt their reserves.

Gold was an active and volatile market. Initially declining below \$400 as the dollar strengthened, the price subsequently rallied to above \$450 on the interest rate falls, before falling again to \$432.50 at the final fixing tonight.

15th October 1982.

OP 00

MAIN EXCHANGE RATES

	<u>1.10.82</u>	<u>15.10.82</u>
	c.o.b.	c.o.b.
<u>£</u>		
\$/£	1.6975	1.7020
£/DM	4.27 $\frac{1}{8}$	4.28 $\frac{5}{8}$
£/SF	3.68 $\frac{1}{2}$	3.67 $\frac{1}{8}$
£/FF	12.10 $\frac{5}{8}$	12.13 $\frac{1}{2}$
ERI	91.6	92.7
<u>\$</u>		
\$/DM	2.5210	2.5185
\$/SF	2.1710	2.1572
\$/FF	7.1315	7.1300
\$/yen	268.55	269.77

Main Intervention Abroad

France	-\$1,410mn. (of which \$520mn. in DM)
Norway	-\$1,030mn.
Japan	-\$740mn.
Italy	-\$660mn.
Denmark	-\$510mn.
Belgium	-\$200mn.
Sweden	+\$1,540mn.
Canada	+\$360mn.
U.S.	-\$80mn. (against yen and DM)

EEA Operations

+\$247mn. (o/w market +\$129mn.)