

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 1st September 1981

Increasing uncertainty over the future course of the dollar left the exchanges without any decided trend today and currencies tended to move in response to peculiar factors. Sterling was soft for much of the day, in reaction to a Saudi forecast of continuing weakness in oil prices, and the ERI fell to 91.0. Elsewhere, the Swiss franc was considerably easier and the authorities responded by raising interest rates to record levels.

The pound closed at 1.8347 in New York yesterday. Despite substantial declines in the monetary aggregates, U.S. debt markets were in very poor shape and the dollar responded by firming somewhat. This morning sterling opened at 1.8385 and touched 1.8413 in the early exchanges. The Saudi prognostication on oil prices soon provoked professional offering, however, and, with the dollar only marginally firmer elsewhere, sterling fell in short order to 1.83. This, afternoon saw a similar pattern. The pound was bid up to 1.8385 on the backwash of a buying order from the Middle East, was sold down to 1.8292 as the dollar hardened again, only to close comfortably at 1.8377. Three-month eurodollars were a little firmer (18 13/16%). The forward premium was 4 15/16% p.a. and the covered differential barely favourable towards London.

Over the last two days the pound gained $\frac{3}{8}\%$ on a weak Swiss franc (3.96 $\frac{1}{2}$) but lost $\frac{1}{4}\%$ to the deutschemark (4.51 $\frac{1}{8}$ after 4.49 $\frac{1}{2}$) and $\frac{1}{8}\%$ to the French franc (10.79 $\frac{1}{4}$). The Swiss franc weakened to around 0.88 to the deutschemark yesterday and prompted the National Bank to raise Discount and Lombard Rates by 1% to 6% and 7 $\frac{1}{2}\%$ respectively. Against the deutschemark the franc made little headway but on the dollar it firmed to 2.1470 before closing at 2.1575. EMS was 2 1/16% spread between the deutschemark (2.4572) and Belgian franc (40.23). The announcement of a sizeable increase in the German trade surplus made no marked impact on the currency. The French franc (5.8727), however, was buoyed by the passing of another weekend without devaluation. The French took in \$144mn.-worth of deutschemarks over the two days. The Italians bought \$15mn. (net); the Danes bought \$19mn. and the Irish sold \$12mn. The yen weakened to 232 in New York yesterday where the Japanese sold \$30mn. It closed today at 230.90.

Having traded up to \$431 in Europe yesterday, gold relapsed today and was fixed at \$422.50 and \$421.50.

Operations:	Market	-	\$24mn.
	Interest	+	7
	Sundries	+	1
		-	<u>\$16mn.</u>

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