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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 7th September 1981

The markets were not active today due to the holiday in the United States. Sterling, however, was sold and the undertone remained quite soft. Dealers now see the pound considerably cheaper against the Continental currencies by end-year and find nothing on the horizon to turn the tide in sterling's favour. The dollar meanwhile gained ground in most centres following the latest increases in the US monetary aggregates. Sterling's ERI fell from 90.5 to 89.5.

The pound was heavily sold in the United States during London's twilight hours on Friday and it closed in New York over a cent easier at 1.8340 against a dollar which, where changed, was itself softer. This morning, however, the dollar began firmer. Sterling opened at 1.83 and quickly retreated to establish a range around 1.8250 which persisted through the early morning. Professional and commercial sellers in London then combined to drive the pound down to 1.8172 in mid-morning and, although the rate had topped 1.82 again by midday, a bear raid from a clutch of Continental European operators brought further uneasiness early this afternoon. Thereafter the market was quieter and sterling reflected the dollar's gyrations, rising to 1.8240 as the latter eased, only to recede to 1.8190 again by the close. Euro-dollar and sterling deposits were both a touch softer. The three-month forward premium, however, widened slightly to 4 13/16% p.a. so that the adverse covered differential fell close to interest parity.

The pound again fell sharply on the Continent, losing  $\frac{3}{8}\%$  to the deutschemark (4.41 $\frac{1}{2}\%$ ) and  $1\frac{1}{8}\%$  to each of the Swiss (3.83) and French (10.56 $\frac{1}{2}\%$ ) francs. The dollar recovered against these currencies to 2.4290, 2.1060 and 5.8075. The deutschemark's relative softness owed much to the Bundesbank's swapping in \$1,240mn. (creating DM 3bn. of domestic liquidity). They also sold \$41mn. EMS, in consequence, narrowed to 2% between the deutschemark and Belgian franc (39.73). The Italians bought \$55mn. The yen eased to 230.80.

Gold was quiet, although the undertone remained quite firm. Fixings were \$437.25 and \$436.50.

Operations:	Market	-	\$1mn.
	Iraq	+	16
	India	+	9
	Sundries	+	3
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		+	\$27mn.
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*Jem* 7th September 1981.

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