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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 8th September 1981

Heavy and widespread professional selling of sterling took place this morning in the face of a modestly firmer dollar. The overt excuse was some further speculation by Yamani on softer oil prices but the underlying motivation was no different: the pound was still seen as an easy sell for a sure profit, especially against the European currencies. The ERI fell from 89.5 to 88.7, after 88.6 this morning.

Sterling opened over a cent cheaper at 1.8055 this morning, the dollar somewhat better. The rate advanced to 1.8080 on the early exchanges but soon drifted back, although the dollar remained very steady. As Yamani's message came over the tapes, sterling approached 1.80. A wave of selling was encountered from Europe's leading players. The official hand, perhaps to the surprise of some, was strengthened to cushion the pressure and a fascinating battle of wits was enjoined either side of 1.80. A period of uneasy calm ensued while forces were regrouped. Another onslaught was unleashed but the official reserves were not now to be found. The pound retreated fast to 1.7945 only to meet renewed support from the centre when least expected. Sterling steadied. Action was disengaged. Midian's forces withdrew to rethink. Attention was diverted elsewhere as Leutwiler's latest protestation of counter-inflationary rectitude strengthened his franc and other Europeans against the dollar. Behind the scenes sterling steadily advanced as some quietly took what profit was left while others cut their losses. The rate settled around 1.8050. This afternoon, the dollar recovered strongly, Polish developments being the prime consideration. Sterling was marked back but, with many a short position clearly still to be covered, obstinately refused to fall much below 1.80. The rate touched 1.7985 before finishing the day at 1.8010. Three-month Euro-dollars (18 7/16%) were a touch easier, sterling deposits rather firmer. The forward premium narrowed accordingly to 4 9/16% p.a. so that a small intrinsic discount was maintained.

The pound shed a further 7/8% in France (10.46%), Switzerland (3.79%) and Germany (4.37%, after 4.34%). The dollar finished fractionally firmer in these territories at 5.8120, 2.1075 and 2.4315 respectively. EMS widened to 2 1/2% between the deutschemark and Belgian franc (39.83). The Irish sold \$15mn., the Germans \$17mn. and the Italians \$71mn.; the Danes took in \$44mn. The yen weakened to 232.07.

Gold retreated to \$432 in the Far East this morning, while consolidating its recent gains. A featureless first fixing found a level of \$434.25. This afternoon New York returned from holiday to bid the precious metals back up. Gold was fixed at \$439.

Operations:	Market	-	\$60mn.
	Ghana	-	8
	Pakistan	+	6
	Interest	+	5
	Sundries	-	3

- \$60mn.

Overnight - \$9mn.

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