

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 9th September 1981

Sterling remained very soft today. While much of the session was nervously quiet, further bouts of intense bear selling drove the pound down another 1% and more in most places, the ERI falling from 88.7 to 87.7, a new low.

Sterling was actively sold in New York again yesterday and closed there at 1.7832. The dollar continued to firm. This morning in the Far East, the pound was sold down to 1.77 $\frac{3}{8}$  but, with the dollar failing to hold its better levels, it began the day at 1.7827 in London. Having touched 1.7805, the pound advanced steadily to 1.7905, with modest demand on oil company account and short-covering by a few Americans in London. The dollar meanwhile continued to backtrack and the market stabilised with sterling around 1.7850. Early this afternoon there was another wave of professional selling, with Middle Eastern, European and early American traders all involved. The pound fell to 1.7767, despite official resistance. Later, however, with New York fully operational the dollar strengthened and sterling met short-covering, rising to 1.7875 before relapsing again to close at 1.7807. The three-month forward premium was 4 $\frac{1}{2}$ % p.a. Euro-dollars firmed by  $\frac{1}{8}$ % and the adverse covered differential rose to around  $\frac{1}{8}$ %.

Sterling lost 1% in France (10.36 $\frac{1}{2}$ ), 1 $\frac{1}{4}$ % in Germany (4.32 $\frac{3}{8}$ ) and 1 $\frac{3}{8}$ % in Switzerland (3.73 $\frac{3}{8}$ ). The dollar eventually finished firmer in Paris (5.8187), a touch softer in Frankfurt (2.4295) and rather easier in Zurich (2.0982). EMS widened to 2  $\frac{3}{16}$ % between the deutschemark and Belgian franc (39.82). The Irish sold \$24mn. The yen weakened again to 232.55.

Gold lost ground in New York yesterday but recovered this morning and was thereafter fairly steady. Fixings were \$436.25 and \$436.75.

Operations:	Market	-	\$47mn.
	IDA	+	23
	Sundries	+	<u>5</u>
		-	<u>\$19mn.</u>

*JGH* 9th September 1981.

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