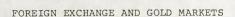
THE DEPUTY GOVERNOR



Thursday, 10th September 1981

Sterling enjoyed a more comfortable day. The dollar turned decidedly easier as political pressure - now also from the Hill - was intensified against the Federal Reserve in an attempt to induce some reduction in interest rates. Sterling's ERI rose from 87.7 to 88.5.

With Wednesday's Federal Funds trading very cheaply (down to 3% at one stage), the dollar weakened in New York yesterday and sterling advanced l½ cents to 1.7950 before closing there at 1.7935. This morning the dollar began yet easier but fluctuated in a fairly narrow range through the morning. Sterling, however, opened only at 1.7907 and, having touched 1.7925, settled in a tight band around 1.79. There were certainly sellers around, both commercial and professional, but the pound was clearly underpinned by persistent short-covering. Early Americans sold sterling, the rate dipping to 1.7862, but the mood in New York was soon for a softer dollar as the debt markets responded to Congressional anxieties with a burst of enthusiasm. Sterling had gained a cent by mid-afternoon when the IMM launched a savage attack on the dollar and the pound was rushed up to close at 1.8070. Soon after profits were taken in the dollar and sterling receded to 1.7950. Three-month Euro-dollars were nearly ½% easier at 18½%. The forward premium, however, narrowed only slightly to 4 5/16% so that the adverse covered differential was all but eliminated.

. The pound was modestly firmer against the deutschemark (4.33 $\frac{1}{8}$), gained $\frac{1}{4}$ % against the French franc (10.43 $\frac{1}{8}$) but lost $\frac{1}{2}$ % to the Swiss franc (3.71 $\frac{1}{4}$). The dollar lost nearly 2% in Switzerland (2.0585) and over 1 $\frac{1}{4}$ % in Germany (2.3975). By London's close, the Belgian franc (39.45) had drifted well beyond its $2\frac{1}{4}$ % limit with the deutschemark. The Belgians sold \$40mn. and \$31mn.—worth of deutschemarks. The French spent \$113mn. and \$42mn.—worth of deutschemarks. The Irish sold \$20mn., the Danes bought \$13mn. The yen improved to 231.25.

Gold gained \$10 in New York yesterday. This morning the metal remained firm but failed to pass the \$450 level and was fixed at \$448. This afternoon, however, the fixing set a level of \$451.50 and the price later advanced to \$454.50 before profits were taken.

Operations: Market - \$lmn.
Finland - 9
Sundries + 4
- \$6mn.



10th September 1981. JGH