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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 14th September 1981

Sterling suffered another wretched day, declining substantially against a dollar which itself was a good deal softer. This afternoon, the Bank's action to raise interest rates in the money market brought a swift recovery, although there was no stampede to cover short positions and the rate did not surpass this morning's opening levels. The ERI fell from 87.5 to 86.6 at mid-day, recovering to 87.0 by the close.

The pound gained nearly a cent to 1.7970 on Friday in New York, where the dollar finished much softer following a weak performance in US Retail Sales and a decline in the monetary aggregates. This morning, however, with the dollar easier still, sterling opened at 1.7907 and could not better 1.7920 on the early exchanges. Professional selling, which seemed to emanate from Paris, took the pound into decline from mid-morning and a further round of offerings had the rate back to 1.7750 by mid-day. Early this afternoon a final push from the Continent drove the pound down to 1.7671 and the market nervously awaited the return of the Americans. Perhaps surprisingly, US operators left sterling alone and preferred to focus on the dollar. The news that the Bank were not bidding for bills but would instead lend overnight made little initial impact, since the newswires took an inordinate time to carry the story. Nonetheless short-covering in dollars and pounds had sterling recovered to 1.7765 when it was announced that the Bank had lent to the Market at 13½%. The pound was immediately marked up to 1.78 and traded quickly up to 1.7885 before closing at 1.7845. Shortly after sterling was again marked up to 1.7947. In all this, however, the level of activity was modest and few short positions can have been fully covered. Three-month Euro-dollars were over ¼% softer (17½%), comparable sterling deposits ¼% firmer (14½%). The forward premium narrowed by ½% to 3 9/16% p.a. so that a small intrinsic discount still remained.

Despite its recovery, sterling still lost 1½% to the deutschemark (4.23%, after 4.18%), 1½% to the French franc (10.16%) and 1½% to the Swiss franc (3.62%). The dollar weakened by almost as much against these currencies, closing respectively at 2.3757, 5.6960 and 2.0320. EMS suffered early problems but, after some official intervention, narrowed to finish at 1½% in width between the deutschemark and Belgian franc (38.83). The Dutch bought \$45mn., but the French sold \$104mn. (of which \$37mn. in deutschemarks), the Italians lost \$92mn., the Danes spent \$61mn., the Belgians \$22mn. (half of which in florins) and the Irish \$12mn. The Swedish krona was devalued early this morning by 10% against its basket of currencies and a package of measures was introduced to support the move. The Swedes recouped \$412mn. of their earlier losses. The yen advanced to 230.27.

Gold was strongly bid this morning as the dollar weakened and was fixed at \$456. This afternoon it failed to hold its gains when US debt markets opened easier and, after fixing at \$451.25, the metal was sold down to \$448. Later, however, it recovered forcefully to close around \$454.

Operations:	Market	-	\$99mn.
	Sundries	+	3
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		-	\$96mn.
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