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FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 16th September 1981

Sterling remained quite firm today and survived American attempts to sell it down. The market's focus, however, shifted back to the dollar which weakened sharply late in the day as perceptions hardened in the US of a softer economy and some further decline in short-term interest rates. Sterling's ERI rose from 88.5 to 88.6, after 88.8 at mid-day.

The pound closed at 1.8412 in New York yesterday with the dollar much softer across the board. This morning sterling opened at 1.8392 and initially traded in sympathy with the dollar, falling to 1.8365 on an otherwise easier dollar. Dealers were clearly rearranging positions in sterling against deutschemarks, since the trend was reversed before long. As profits were taken, the pound advanced strongly to around 1.8450 and the dollar, too, gained ground on the Continent. The 2% increase in Clearing Bank Base Rates, though widely anticipated, gave an additional fillip to the rate which touched, 1.8495 on professional buying from Germany and commercial demand in London. Positions were soon squared but, with UK average earnings figures quite supportive, sterling had reasserted itself around 1.8450 by early afternoon. The dollar's increasing softness, however, gave sterling a natural support. US Industrial Production was seen to have declined by 0.4% in August. Federal Funds opened comfortably below 16% and the Federal Reserve took no action in the domestic market. Both Sprinkel and Regan forecast lower interest rates in the foreseeable future and Volcker, having restated his commitment to a firm monetary policy, pointedly reminded the Senate Budget Committee that the Discount Rate (with surcharge) was high in relation to market interest rates. This last remark was widely taken to presage an imminent reduction in the surcharge and American dealers sold the dollar heavily. Sterling advanced to close at 1.8455 and went on in the twilight hour to touch 1.85. Three-month Euro-dollars were unchanged (after technical adjustment) at 17 3/16%. The sterling deposit was 1/2% firmer at 14 13/16% but the forward premium narrowed rather more to 2 11/16% p.a. so that the covered differential turned modestly in London's favour.

The pound lost 1/8% to the Swiss franc (3.66%), 1/2% to the French franc (10.27%) and 1/2% to the deutschemark (4.27%). With bullish forecasts coming out of Germany, the deutschemark led the assault on the dollar, gaining nearly 1 1/2% to 2.3177 (later 2.3050). The Swiss Franc (1.9890) was 7/8% firmer. In EMS, both the French franc (5.57 1/2) and lira (1174 1/2) closed within an ace of the Belgian franc (37.95), which finished 2 1/2% from the deutschemark at the bottom of the band. The French sold \$312mn. and \$29mn.-worth of deutschemarks, the Belgians turned out \$27mn. of deutschemarks and \$5mn. of Swiss francs, the Danes spent \$30mn. and the Irish \$18mn. The Dutch bought \$50mn. to keep the florin from rising to the top of the band. Elsewhere, the Swedes took in \$63mn. The yen firmed to 226.90.

After profit-taking again in New York yesterday, gold fell back through \$450 in London this morning and traded uncertainly for much of the day. The fixings set levels of \$449.75 and \$449 but towards the close the metal responded to the weaker dollar and again topped \$450.

Operations:	Market	+		\$4mn.
	Iraq	+		9
	BIS	+		8
	Iran	+		5
	Interest	+		5
	Sundries	+		2
				2
		+		\$33mn.

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