

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 18th September 1981

Speculation on a realignment of EMS dominated activity on the exchanges today. The dollar gradually gave up the ground regained late yesterday, but almost entirely as a result of its vehicular role into the deutschemark. This was underscored by some \$2bn. of support for the EMS currencies. The markets were not as frantic as yesterday, although movements were still somewhat erratic, especially this afternoon. Sterling was again sidelined, for the most part. Sellers were encountered at times, however, and the pound inevitably yielded further to the Continental currencies. The ERI fell from 87.7 to 87.0.

Sterling closed at 1.8347 yesterday in New York where the dollar maintained the sharply higher levels achieved in London's twilight hour. This morning both dollar and pound began a touch softer and sterling, which opened at 1.8302, declined to 1.8232 as the dollar regained its New York closing levels. From then on the dollar began to recede, as money flowed into Germany from all quarters, and sterling started to advance. The later morning saw a few UK corporate entities selling pounds for deutschemarks and in mid-afternoon Americans, too, decided to offload some sterling. Nonetheless with the dollar touching its low point shortly before the close, the pound rose as far as 1.8430 before reverting to close at 1.8320. Three-month sterling deposits were markedly firmer at 15½% while Euro-dollars were just a shade softer at 17½%. The forward premium narrowed appropriately to 2¼% p.a., thus preserving a small intrinsic discount.

Sterling was easier by ½% in Zurich (3.57¼), ¾% in Frankfurt (4.15%) and nearly 1% in Paris (9.97¼). The dollar closed at 1.9495, 2.2682 and 5.44¼ respectively in these centres. At the final concertation, the deutschemark stood at -80 on the EMS index of divergence. By London's close, the lira (1154¼) was 2¼% distant from the deutschemark, the Irish punt (1.5965) 2¼% adrift and the Belgian franc (37.17) only 2¼%. The French defied the market by holding their franc between 1¼% and 2% from the deutschemark, preferring rather to take the pressure by intervention. They sold \$909mn. and \$147mn.-worth of deutschemarks (bringing their total support for the week to \$2.1bn. of exchange). The Belgians sold their usual pot-pourri worth \$365mn., making over \$½bn. on the week. The Italians spent \$181mn. and \$29mn. of deutschemarks (\$400mn. on the week) while the Danes lost \$114mn. and \$24mn.-worth of deutschemarks (bringing their week's total also to nearly \$400mn.). The Irish let go \$50mn., \$15mn.-worth of deutschemarks and sterling worth \$28mn. (making a total of \$136mn. in all this week). For their part the Bundesbank bought \$16mn.-worth of Belgian francs and \$70mn. (making \$200mn. in sum this week). Elsewhere the Swedes took back \$63mn., bringing their reflux to \$0.9bn. since Monday's devaluation. The yen, like sterling, was ignored and closed nearly ½% easier at 226.47.

Gold was traded back to \$441 in New York yesterday as silver crashed through \$10 in the wake of the GSA sales announcement. This morning, however, it bounced back in the Far East, despite silver's continuing weakness and traded steadily, if somewhat uncertainly, through the European day. Fixings were \$446¼ and \$447.

Operations:	Market	-	\$14mn.
	IBRD	+	5
	Sundries	+	3
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- \$6mn.

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