

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 21st September 1981

Higher interest rates and the intensification of Exchange Controls brought some comfort to the French franc this morning and EMS was rather more relaxed in consequence. All this, however, did little to prevent a further appreciation of the deutschemark and a weakening of the dollar. The pound was soft and again met ready sellers this morning but sentiment was later turned by a sharp increase in sterling deposit rates and by some forceful support for the dollar in Frankfurt. The ERI fell from 87.0 to 86.7 after a new low 86.3 at mid-day.

The pound closed at 1.8390 against a softer dollar in New York on Friday. This morning, with the dollar ceding ground on the Continent from the outset, the pound opened uncertainly at 1.8365, after selling in the Far East, and was marked up to 1.8440 on the early exchanges. After an hour the familiar marauders from London and Continental Europe came in to sell sterling for deutschemarks and the rate fell quickly to 1.83. The tide was turned, however, by the official hand, both in London and more significantly in Frankfurt, where the Bundesbank acted forcefully to slow the decline of the dollar. Sharply higher inter-bank sterling rates were also very supportive at this juncture. Sterling had crested 1.84 again by late morning and even attracted commercial buying of pounds for deutschemarks from Germany and some modest Central Bank interest. The early afternoon repeated this morning's pattern with Americans returning to sell both dollar and pound. Once again the Bundesbank stepped in to stop the rot and, with sterling on an upbeat, several major US banks began a round of Prime Rate cuts (by $\frac{1}{2}\%$ to $1\frac{1}{2}\%$), causing a softer dollar and a comfortable close for the pound, which touched 1.8495 before finishing at 1.8450. Later still, sterling was traded up at 1.8540. Three-month Euro-dollars were $\frac{1}{2}\%$ easier at $17\frac{1}{2}\%$, sterling deposits $\frac{1}{2}\%$ firmer at $15\frac{1}{2}\%$. The forward premium narrowed by only $7/16\%$, however, to $1\frac{13}{16}\%$ p.a. and the covered differential thus moved to around $\frac{1}{2}\%$ in London's favour.

The pound fell to $4.08\frac{1}{2}$ (a new, recent low) against the deutschemark before closing $\frac{1}{2}\%$ easier on balance at $4.12\frac{1}{2}$. Sterling lost 1% to the Swiss franc ($3.53\frac{1}{2}$) and $1\frac{1}{2}\%$ to the recuperant French franc ($9.78\frac{1}{2}$). The deutschemark firmed against the dollar to 2.2370 (after 2.2265), the Swiss franc to 1.9160. The French franc ($5.30\frac{1}{2}$) opened sharply better against the deutschemark at 2.36 $\frac{1}{2}$ (2.40 on Friday) but eased over the morning to 2.38 before recovering to close at 2.37 $\frac{1}{2}$. Late in the day, the French took in \$50mn. Their franc finished in third place in EMS, $\frac{1}{2}\%$ from the DM. The lira (1134 $\frac{1}{2}$) ended the day only $2\frac{1}{2}\%$ from the DM, and thus at the bottom of the band. The Belgian franc was $1\frac{1}{2}\%$ distant and the punt $1\frac{1}{2}\%$ adrift. The Bundesbank bought \$150mn. and the Belgians regained \$10mn. and \$31mn. of deutschemarks. The Irish, however, sold \$11mn., sterling worth \$11mn. and \$8mn.-worth of deutschemarks and the Danes spent \$22mn. Elsewhere the Swedes took in \$42mn. and the yen firmed to 225.05.

Gold was strongly bid in the Far East this morning as the dollar eased and the first fixing set a level of \$459.25. After two unsuccessful attempts to break \$460, the metal finally scaled that peak this afternoon, fixing at \$463 $\frac{1}{2}$ and trading on to \$467.

Operations:	Market	-	\$36mn.
	India	+	7
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		-	\$29mn.
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