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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 22nd September 1981

The reduction in the Federal Reserve's surcharge on the Discount Rate by 1% (instead of the widely expected 2%) was cause for a stronger dollar this morning and the trend was reinforced when Lambsdorff declared that the Germans were not seeking a revaluation of the deutschemark within EMS. Sterling was again largely ignored and, while remaining comfortable against the dollar, regained some lost ground on the Continent. Softer Federal Funds brought the dollar lower this afternoon but late in the day, the Federal Reserve's execution of matched sales turned the dollar back up towards the day's best levels. Sterling's ERI rose from 86.7 to 87.3.

The pound closed lower at 1.8390 yesterday in New York where the dollar was generally better following news of the reduction in the Discount Rate surcharge. This trend was continued this morning with the dollar forging ahead from the outset. The pound opened at 1.8412 but, having dipped to 1.8345, recovered again to 1.8442 before settling down around 1.8375. Some profit-taking in the dollar gave Lambsdorff time to play his hand and the dollar was carried on up to best levels by early afternoon. Sterling, however, was never worse than 1.8337 and, when Federal Funds opened below 15% and traded down to 14½%, the dollar backed off and sterling advanced to 1.8425 before closing at 1.8415. Later, the Federal Reserve intervened to drain funds from the domestic market with money at 14½%. At the same time the Treasury announced new 7 and 20 year bond issues and the coupon market sold off. The dollar rebounded on all this and sterling retreated to 1.83. The three-month forward premium was unchanged at 1 13/16% p.a. Three-month Euro-dollars, however, were 7/16% easier at 16 11/16% while comparable sterling deposits lost only 3/16% at 15 5/16%. Sterling's intrinsic premium thus rose substantially to nearly ½%.

The pound regained 1% in Zurich (3.57½), 1½% in Frankfurt (4.17½) and 1½% in Paris (9.93½), where the French franc (5.3950), still comfortable in EMS, was held back by official purchases of deutschemarks worth \$55mn. EMS was quite relaxed for much of the day but, by London's close, the lira (1153) had fallen back to 2½% distance from the deutschemark (2.2660), while the Belgian franc (37.15) was 2 3/16% adrift. The Belgians took back \$11mn-worth of deutschemarks. The Irish sold a cocktail worth \$25mn. Elsewhere, the Swedes took in \$20mn. The Swiss franc (1.9395) moved in lockstep with the deutschemark. The yen eased to 226.22.

Gold was bid up to \$470 in Hong Kong this morning only to ease as the dollar strengthened. Fixings were \$460½ and \$462 and the close a little uncertain around \$460.

Operations:	Market	-	\$1mn.
	BIS	+	50
	Malawi	+	10
	India	+	7
	Interest	+	5
	Bangladesh	-	9
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		+	\$62mn.
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