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THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 23rd September 1981

The dollar continued firm today, while never quite regaining the lofty levels achieved in New York yesterday. Sterling remained extremely steady against the deutschemark today, while ceding ground to the stronger dollar. The ERI fell as a result from 87.3 to 86.8.

The pound closed at 1.8275 in New York yesterday, the dollar finishing at the day's best levels following the Federal Reserve's draining operation and the Treasury's announcing of two new issues. Further impetus was given by new orders for durable goods, which, while declining by 2½% in August, yet cloaked a 2¾% increase in orders for non-defence related items. This morning, the dollar opened easier and advanced progressively throughout the day. Sterling mirrored these movements, for the most part, opening at 1.8322 and trading through the morning between 1.8270 and 1.8332. Two-way business was observed, with a Central Bank seller matched by some good demand on oil company account. The dawn patrol in New York bid heavily for dollars and the pound receded to 1.8212 but with Federal Funds opening at 14% and tending easier, the dollar relapsed and sterling recovered to 1.83. Finally, Chicago moved in to buy the dollar and the pound retraced its steps to close at 1.8235. Later still, in a very thin market, Chicago drove the dollar well beyond even yesterday's levels and sterling was traded down to 1.8080. After technical adjustment, three-month Euro-dollars were ¼% harder at 16½%, sterling deposits ¾% better at 15¾%. The forward premium narrowed by 3/16% to 1¾% p.a. and the covered differential remained substantially in London's favour.

The pound gave up ¼% in Germany (4.16½), ¾% in France (9.90¼) and ½% in Switzerland (3.55½). The dollar closed at 2.2840 (later 2.3040) against the deutschemark, 5.43 (later 5.48) against the French franc and 1.9490 (later 1.9650) against the Swiss franc. EMS was relatively comfortable, the lira (1156¾) finishing 2% below the deutschemark and the punt (1.5982) 1¾% adrift. The Italians took in \$4mn. and the Belgians bought \$25mn.-worth of deutschemarks. The Irish spent \$26mn., \$6mn.-worth of deutschemarks and the sterling equivalent of \$13mn. Elsewhere, the Swedes took in \$20mn. The yen eased only to 227.17.

Gold drifted back over the day in response to the stronger dollar with fixings at \$458 and \$456.50.

Operations:	Market	+ \$2mn.
	PSB G'teed:	
	British Rail + 33	
	N.W.C. + 10	+ 43
	BIS	+ 9
	I.D.A.	+ 6
	Sundries	+ 2
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		+ \$62mn.
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	Overnight	- \$23mn.
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