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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Monday, 28th September 1981

A very active day in sterling saw good two-way business and some shift in sentiment from sheer pessimism at the outset to a position of some open-minded neutrality by the close. The dollar meanwhile remained quite firm, though the outlook continued to be clouded by a number of short-term technical factors. Sterling's ERI closed unchanged at 86.4, after 85.9 this morning.

The pound closed much weaker at 1.7730 on Friday in New York where the dollar was a good deal stronger. This morning the Far East took the dollar much higher but, with the aid of official support, sterling fell no lower than 1.7675 and opened in London at 1.7685. The early exchanges saw profit-taking in the dollar and the pound, after touching 1.7680, advanced to 1.7735. Firmer Euro-dollars, however, brought a recovery for the dollar and sterling relapsed to 1.7645 before the official hand re-established some stability around 1.77. Early this afternoon the dollar pushed ahead again and the pound came back to 1.7675 but, with one major bank reducing Prime Rate by $\frac{1}{2}\%$ to 19%, the dollar soon eased and sterling moved up. Short-covering then began and, with a nimble official presence maintained to ensure that no easy profits were to be had, the pound was traded up in short order to 1.7910. Europe's bears were eventually baled out by their American cousins who, taking their own view on the currency, sold sterling heavily. The pound retraced its steps to close in London at 1.7820 and trade on down to 1.7775. Later, however, these same American professionals found themselves no less exposed. In their own thinner market, short-covering proved extremely difficult and, with the official watchdog still alert in the usually ductile twilight hour, the pound rebounded with little difficulty to 1.7950. Three-month Euro-dollars - firmer by $\frac{1}{2}\%$ at one stage at 18 $\frac{3}{8}\%$ - closed 5/16% better at 17 11/16%. Comparable sterling deposits, too, were $\frac{1}{2}\%$ firmer before finishing at 16 9/16% for a net gain of 11/16%. The forward premium narrowed by $\frac{1}{2}\%$, however, to 1 1/16% p.a. so that the covered differential turned fractionally against London.

The pound lost $\frac{1}{2}\%$ in Zurich (3.52 $\frac{1}{2}\%$), was a touch firmer in Paris (9.99 $\frac{1}{2}\%$), $\frac{1}{2}\%$ better in Frankfurt (4.17 $\frac{1}{2}\%$). The Swiss franc (1.9790) remained relatively firm on end-quarter considerations, advancing to 0.84 $\frac{1}{2}$ on the deutschemark. The Swiss swapped in \$217mn. The deutschemark touched 2.3617 this morning before closing $\frac{1}{8}\%$ softer overall at 2.3405. The Bundesbank sold \$17mn. at the fixing. The French franc (5.61 $\frac{1}{2}$) typically improved from 2.40 $\frac{1}{2}$ to 2.39 $\frac{1}{2}$ on the DM as positions were unwound after another uneventful weekend. The lira (1188) finished 2 $\frac{1}{2}\%$ from the deutschemark, the Belgian franc (38.25) only 1 $\frac{1}{2}\%$ adrift. The Dutch sold \$19mn. and the Irish \$13mn. The yen closed 1 $\frac{1}{2}\%$ easier at 232.27.

The precious metals wilted before the burgeoning dollar, with silver still setting the pace. Having already shed \$20 on Friday in New York, where it closed at \$431, gold was sold again in Europe this morning and was fixed at \$427.50. The rout continued into the afternoon and the metal was traded down to \$420 before fixing at \$421.50. As sterling's recovery led the dollar down, however, gold was bid up to \$425 by London's close, and, when the pound surged again, the metal was dealt up to \$431 again in New York.

Operations:	Market	-	\$91mn.
	Government	-	30
	Kenya	-	5
	Interest	+	33
	IDA	+	6
		-	\$87mn.
	Overnight	-	\$15mn.

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