

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Tuesday, 29th September 1981

Dealing as they were for the first day of October (the date which sees the introduction of the long-awaited "same-day funds" settlement in New York) the exchanges were much less active today as treasurers fought shy of testing the new system. The dollar weakened, following publication of a huge US trade deficit, but regained some of its losses when the bond market turned in another dispiriting performance. Sterling was, for the most part, comfortable but tended, as the dollar weakened, to lose ground on the Continent. Nonetheless the ERI closed unchanged at 86.4.

The pound was bid up to 1.8060 in New York yesterday, as the bears scrambled for cover, before closing at 1.8020 against a generally easier dollar. This morning the dollar's softer trend continued. Sterling opened at 1.7997 and ran up to 1.8080 in the first hour only to relapse to starting levels as the dollar steadied. Towards mid-day the dollar gained ground and sterling suffered more than most, dipping to 1.7905 on more than one occasion. Each time, however, there seemed to be good support for the pound from the market itself at around that level. Early Americans sold the dollar again and the pound was marked up to 1.8025. With the bond market weaker, however, the dollar recovered once more and sterling fell to 1.7910 - again attracting adequate support - before closing at 1.7942. Three-month Euro-dollars were a shade softer at 17 9/16%, the sterling deposit a fraction firmer at 16 3/8%. The forward premium narrowed accordingly to 3/8% p.a., thus preserving a small intrinsic discount.

The pound lost 3/8% in Germany (4.14%) and 1/8% in France (9.92%) but was unchanged in Switzerland (3.52%), where the Swiss franc (1.9652) lost the benefit of the quarter-end and eased to 0.85 against the deutschemark. The latter firmed to 2.3112 (after 2.2965) and finished at -75 on the EMS index of divergence. The Belgian franc (37.86) closed 2 1/8% distant at the bottom of the band. Only the Irish intervened to sell \$22mn. and pounds worth \$11mn. The yen edged up reluctantly to 231.90.

Gold consolidated yesterday's strong rally in New York and was fixed today at \$432.50 and \$431.75. Late in the day the metal advanced further to \$435.

Operations: Market - \$20mn.

JGH 29th September 1981.

JGH