

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 30th September 1981

The Bank's operations in the money markets today gave renewed strength to the pound, although any lasting improvement was halted, for the moment at least, by the abnormally high level of Federal Funds over the end of the quarter. Similarly, the dollar gained respite from the exalted cost of borrowing, having been sold in Europe earlier in the day. The market was again somewhat inhibited by the imminent approach of "same-day" settlement. Sterling's ERI rose from 86.4 to 87.4.

The pound closed quietly in New York at 1.7920, with the dollar generally firmer following the uptick in Federal Funds beyond 15%. Once again, however, sterling showed great resistance to the 1.79 level. This morning the pound opened at 1.7930, dipped to 1.7912, then advanced to 1.7995 as the dollar was sold on the Continent. The dollar's recovery, as Euro-dollars firmed, brought a relapse to 1.7932 but, once the dollar came off best levels and inter-bank sterling rates were seen to be hardening, the pound advanced to crest 1.80 by mid-day. Volume had so far been minimal, although one useful commercial buying order was noted. The Bank's money market intervention met with an almost immediate response and, with the dollar still steady, the pound climbed without faltering to 1.81. The dollar then weakened elsewhere in sympathy but, with good demand for pounds from both Europeans and the dawn patrol in New York, the rate continued on up to 1.8235. Federal Funds opened 1% firmer at 16½% and before long were quoted 16½%-16¾%. The dollar turned in its tracks. Sterling was marked back to 1.8067 before closing at 1.8105. Little selling pressure was seen at that stage but, after the close, American professionals sold pounds in some size and the rate fell quickly to 1.8010 before settling around 1.8030. Three-month Euro-dollars gained ½% to 17½%, sterling deposits added ¼% at 16¾%. The forward premium widened by ¼% to 1% p.a., maintaining a modest adverse covered differential.

The pound was firmer by 1½% in Zurich (3.56¾), 1½% in Frankfurt (4.19¾) and 1¾% in Paris (10.06¾). The dollar scored modest gains in these centres, closing respectively at 1.9705, 2.3190 and 5.5585. EMS finished fully-stretched between the deutschemark and Belgian franc (38.05), with the former at -79 on the index of divergence. Despite that, the Bundesbank sold \$9mn. at their fixing. The Dutch, too, sold \$10mn., the Irish \$6mn. and \$4mn.-worth of sterling, and the Belgians \$19mn.-worth of deutschemarks. The Italians took in \$75mn. The yen closed a touch easier at 232.20.

Gold failed to maintain yesterday's better levels but traded steadily through today, fixing at \$426.50 and \$428.75. Despite the dollar's late strength, the precious metals remained fairly resilient and, led by silver, gold edged higher to close around \$430.

Operations:	Market	-	\$14mn.
	Eire	-	54
		-	\$68mn.

The result for September is a fall of \$815mn. in the reserves to a level of \$23,696mn., after net public sector debt repayments of \$138mn. The overbought forward position was reduced by \$52mn. to a level of \$1,212mn.

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