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FOREIGN EXCHANGE AND GOLD MARKETS

18th September - 1st October (noon)

The foreign exchange markets have been active and volatile with, at first, speculation of an EMS realignment and, more recently, the sharp falls in world stock and bond markets causing great uncertainty. The demoralisation in the US bond market has precipitated a further rise in US long-term interest rates but short rates have changed relatively little as Federal Funds have for the most part been below 15%. Prime rates have moved down to 19½% (with one major bank at 19%).

For much of the period sterling has been under heavy pressure, particularly against the Continental currencies and the £/DM rate fell to 4.08½ on 21st September. The improvement resulting from the first 2% increase in base rates on 14th September was rapidly eroded as operators took a pessimistic view about the prospects for the economy and the differential between UK and US interest rates started to widen again. We provided some support on most days, culminating in \$106mn. on 28th September when widespread selling was encountered. This intervention helped to steady the market and in calmer conditions sterling started to move up on 29th-30th September, helped by rising sterling interest rates. News of the 2% increase in base rates today caused sterling to rise rapidly and it peaked at 1.8395, before ending firm at 1.8305. Over the period the ERI rose 0.9 to 88.6, after a new low of 85.7 on 24th September.

Markets were disappointed when the Fed reduced the surcharge on the discount rate by only 1% (21st September) and at the modest budget cuts announced by President Reagan in his television address on 24th September. The dollar, which had earlier been falling, recovered sharply as US interest rates moved up. EMS was under enormous pressure on 18th September when a realignment was considered

imminent and the bulk of the intervention shown overleaf took place on that day. Since then it has rarely been stretched. The Belgian franc remains the weakest currency with the deutschemark at the top.

The gold market has been rather nervous. The price fell sharply from the \$450 level as stock market confidence collapsed, bottoming around \$420 on the 28th September. Since then there has been a cautious recovery aided by reports today that Iranian planes have attacked Kuwaiti oil installations.

A table showing main exchange rates and intervention is attached.

1st October 1981.

TRS

MAIN EXCHANGE RATES

	<u>17th September</u>	<u>1st October</u>
	<u>close</u>	<u>noon</u>
E/\$	1.8477	1.8305
E/DM	4.19 $\frac{1}{8}$	4.26 $\frac{7}{8}$
E/SF	3.59	3.62 $\frac{3}{4}$
E/FF	10.06 $\frac{3}{4}$	10.22 $\frac{7}{8}$
ERI	87.7	88.6
\$/DM	2.2685	2.3320
\$/SF	1.9430	1.9820
\$/FF	5.45	5.5880
\$/Yen	225.50	233.27
Gold	\$459	\$435.25

Intervention abroad (main items)

(18-30 September only)  
(\$mns.)

France	- 1,322	(o/w \$120mn. in DM)
Ireland	- 300	(o/w \$93mn. in £)
Belgium	- 264	
Italy	- 240	
Denmark	- 140	
Sweden	+ 200	
Germany	+ 177	

EEA Transactions

(18-30 September only)

-\$263mn. (of which Market -358)

RESERVES

September's reserves figures will be published at 2.30 p.m. on Friday. The result for September is a fall of \$815mn. 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.