

✓

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Thursday, 1st October 1981

The pound remained extremely buoyant today despite the dollar's continuing firmness. Interest rates were the dominant factor on either side of the Atlantic but a report of Iranian bombing of Kuwaiti oil depots this morning tended to weaken the oil importers and lend strength to the dollar. Widespread demand for sterling was seen following the 2% increase in Clearing Bank base rates. The ERI rose by over 1% for the second successive day to close at 88.5.

The pound recovered to close at 1.8115 yesterday in New York where the dollar was otherwise little changed. This morning sterling opened at 1.8117 and gained three-quarters of a cent fairly rapidly on some good Antipodean buying interest in the Far East. These levels proved the parameters for much of the morning with two-way commercial business in evidence. Sterling was a little over 1.82 when the first increase in base rate was declared. Substantial demand ensued and the pound was run up to 1.8395 before finding a level around 1.83. The afternoon was relatively quiet. The dollar failed to maintain the added strength derived from the incident in the Middle East, despite continuing tightness in Federal Funds. Sterling oscillated between 1.8277 and 1.8365 before closing at 1.8315. Three-month Euro-dollars, after rising sharply this morning, closed unchanged at 17 13/16%. The sterling deposit was $\frac{1}{8}\%$ harder at 16 $\frac{1}{2}\%$. The forward premium, however, widened slightly to 1 1/16% p.a. so that the covered differential turned modestly in London's favour.

The pound was firmer by $\frac{1}{8}\%$ in Switzerland (3.61), $\frac{1}{8}\%$ in both France (10.20 $\frac{1}{2}$) and Germany (4.25 $\frac{1}{2}$). The dollar was little changed in Switzerland (1.9710), where liquidity was tight and the Swiss swapped in \$700mn., but somewhat better against the deutschemark (2.3245) and French franc (5.5710). In EMS, the deutschemark finished at -79 on the index of divergence and the Belgian franc (38.09) closed 2 3/16% distant from the deutschemark. The lira dropped out of the narrow band. The Italians sold \$147mn., the Belgians \$49mn. (in deutschemarks), the Danes \$20mn., the Irish \$13mn., and the Germans \$9mn. Elsewhere the Swedes sold \$25mn. and the yen eased to 232.77.

Gold was bid up on the news from the Middle East but was restrained from advancing too far by the rising cost of carry. Fixings were \$435.25 and \$436.75.

Operations:	Market	+ \$14mn.
	Iran	+ 10
	Bangladesh	- 18
	Nepal	- 6
	Sundries	+ 12
		<hr/>
		+ \$12mn.

JGH 1st October 1981.

JGH