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SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Wednesday, 7th October 1981

The dollar resumed its downward path today as Euro-dollars were substantially easier for the third successive day and Federal Funds re-opened at yesterday's unusually low closing level. Sterling began comfortably, was sold in Europe for deutschemarks, but rebounded forcefully this afternoon on American demand. The ERI rose from 88.4, after 88.6 this morning.

The pound recovered to 1.8485 yesterday in New York, faring rather better than most as the dollar declined. Federal Funds closed at 12½% even after the Federal Reserve's earlier execution of matched sales with funds at 13½%. This morning the dollar continued softer from the outset as Euro-dollar deposits were well offered. Sterling opened at 1.8545 and, after touching 1.8525, ran up strongly to 1.8607. Two-way interest was detected from the Middle East. At the higher levels, the pound fetched over DM 4.15 and this attracted professional sellers. The pound fell quickly to 1.8525 and the dollar's decline accelerated. Sterling recovered gradually, consolidating around DM 4.12 and thereafter being pulled up by the deutschemark until it crested 1.86 again late this morning. Americans, thought to be notoriously short of sterling, showed their keener appetite for pounds from an early hour. The dollar was certainly weaker, Federal Funds having quickly eased to 12½%, but sterling outpaced the Continentals as it forged ahead to 1.8675 in mid-afternoon. Some modest upturn in Federal Funds sufficed to put the dollar back on course and the pound dipped to 1.8595 before closing on a rising note at 1.8620. Later in the twilight hour sterling was marked up suddenly to 1.8690. The Chicago IMM, it was said, saw a chart point around 1.87 which would trigger a clutch of stop-loss buying orders. Moments later the pound was quoted around 1.88 and sterling was last seen dealt at 1.8780 in New York. The three-month forward premium remained around parity. The differentials fell to ¼% in London's favour as Euro-dollars closed 3/16% softer at 16% while the sterling deposit was ¾% easier at 16½%.

Overall the pound lost ¼% in Paris (10.37½), ½% in Frankfurt (4.13½) and ¾% in Zurich (3.49½). The dollar eased by around 1½% on the Continent. The Federal Reserve again drained funds, today at 12½%, but the benefit of this was offset by a reduction to 16% in Chemical Bank's broker loan rate. The Dutch guilder (2.4577) replaced the deutschemark (2.2212) at the tail of EMS. The French franc (5.5720) held pole position for most of the day but the Danish crown (7.1350) had regained hegemony by London's close. The band was then almost fully stretched. The Dutch sold a few Danish kroner and \$47mn.-worth of French francs. The Bundesbank spent \$80mn. and \$29mn.-worth of French francs. The Italians yet again suffered heavy losses and shelled out \$136mn. Elsewhere the Swedes sold \$27mn., the Norwegians took in \$30mn. The Swiss franc was 1.8765 (and 0.84½ to the DM) but the yen advanced rather more slowly to 228.65.

Gold rebounded again to \$455 in New York yesterday before closing there at \$451½. The Far East sold the metal and neither Europe nor North America could develop a decided trend. The price stayed relatively steady, with fixings at \$445 and \$445.50, but there was no inclination for any further advance, despite the easier dollar.

Operations:	Market	+ \$4mn.
	British Gas	+ 20
	(PSB G'teed)	
	Interest	+ 10
	Malta	- 6
	Sundries	+ 2
		+ \$30mn.
	Overnight	+ \$6mn.

*JGH*  
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