

SECRET

THE DEPUTY GOVERNOR

FOREIGN EXCHANGE AND GOLD MARKETS

Friday, 9th October 1981

Sterling scaled new heights this morning only to attract the attentions of commercial sellers who eventually diminished its stature somewhat. The dollar meanwhile continued softer, partly in response to sterling's strength, but partly on growing expectations of some further easing in US interest rates. Sterling's ERI fell from 89.8 to 89.4, having posted 90.0 this morning.

The pound met persistent demand in the United States yesterday, initially from the IMM in Chicago and latterly from a clutch of small commercial interests. It closed there at 1.9057 against a generally weaker dollar. This morning the dollar's softer trend was continued. The pound opened at 1.9057 and was quickly swept up to around 1.91 on good demand from the Middle East. A pause followed and sterling consolidated before advancing strongly to 1.9187 as sizeable short positions were closed in London and Switzerland. Increasingly, however, their influence was countered by commercial sellers. Some of these were large. One multinational had as much as £200mn. to offer. Sterling had retreated to 1.9050 by mid-day, the reduction in Chase Manhattan's sterling base rate proving a further depressant. Americans began as they had finished and the pound touched 1.9145 again. The commercial giants had the final say, however, and sterling ended the day weighed down by their volume. The pound was dealt down to 1.8980 before closing at 1.9005. The forward premium widened to  $\frac{1}{2}\%$  p.a. as three-month sterling deposits eased to 15  $11\frac{1}{16}\%$ , while comparable Euro-dollar deposits were unchanged at 16 $\frac{1}{2}\%$ . There was thus a small adverse covered differential.

The pound shed  $\frac{3}{8}\%$  in Germany (4.16 $\frac{1}{2}\%$ ),  $\frac{1}{4}\%$  in France (10.44 $\frac{1}{2}\%$ ), 1 $\frac{1}{2}\%$  in Switzerland (3.49 $\frac{1}{2}\%$ ). The dollar eased in these places to 2.19, 5.4965 and 1.8410 respectively. EMS was around 2% wide for most of the day between the French franc and Dutch florin (2.4225). By London's close, however, the Danish krone (7.0275) had regained front place and the band was fully-stretched. The French bought \$76mn., the Italians sold \$84mn., the Irish spent \$7mn. Elsewhere, the Swedes lost \$20mn. The yen firmed to 226.72.

Gold made further gains on the declining dollar though once more somewhat reluctantly. Fixings were \$452.25 and \$453.50.

Operations:	Market	+	\$35mn.
	Interest	+	16
	Sundries	+	<u>3</u>
		+	<u>\$54mn.</u>

*JGM* 9th October 1981.

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